



**Worldwide  
Corporate Tax Guide  
2018**

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## Preface

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Governments worldwide continue to reform their tax codes at a historically rapid rate. Taxpayers need a current guide, such as the *Worldwide Corporate Tax Guide*, in such a shifting tax landscape, especially if they are contemplating new markets.

The content is straightforward. Chapter by chapter, from Afghanistan to Zimbabwe, we summarize corporate tax systems in 165 jurisdictions. The content is current on 1 January 2018, with exceptions noted.

Each chapter begins with contact information for the key people in that jurisdiction's EY offices. Symbols precede the names of individuals who hold the following functions:

- ★ National director of the listed tax specialty
- ◆ Director of the listed specialty in the local office

We then lay out the facts about the jurisdiction's corporate taxes, beginning with an at-a-glance summary. With some variation, the topics covered are taxes on corporate income and gains, determination of trading income, other significant taxes, miscellaneous matters (including foreign-exchange controls, debt-to-equity rules, transfer pricing, controlled foreign companies and anti-avoidance legislation) and treaty withholding tax rates.

At the back of the guide, you will find a list of the names and codes for all national currencies and a list of contacts for other jurisdictions.

For many years, the *Worldwide Corporate Tax Guide* has been published annually along with two companion guides on broad-based taxes: the *Worldwide Personal Tax and Immigration Guide* and the *Worldwide VAT, GST and Sales Tax Guide*. In recent years, those three have been joined by additional tax guides on more-specific topics, including the *Worldwide Estate and Inheritance Tax Guide*, the *Worldwide Transfer Pricing Reference Guide*, the *Global Oil and Gas Tax Guide*, the *Worldwide R&D Incentives Reference Guide*, the *Worldwide Digital Tax Guide* and the *Worldwide Capital and Fixed Assets Guide*.

Each of the guides represents thousands of hours of tax research. They are available free online along with timely *Global Tax Alerts* and other great publications on ey.com or in our EY Global Tax Guides app for tablets.

You can keep up with the latest updates at [ey.com/GlobalTaxGuides](http://ey.com/GlobalTaxGuides), and find out more about the app at [ey.com/TaxGuidesApp](http://ey.com/TaxGuidesApp).

EY  
April 2018

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This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

**About EY's Tax Services**

Your business will only succeed if you build it on a strong foundation and grow it in a sustainable way. At EY, we believe that managing your tax obligations responsibly and proactively can make a critical difference. Our 50,000 talented tax professionals, in more than 150 countries, give you technical knowledge, business experience, consistency and an unwavering commitment to quality service — wherever you are and whatever tax services you need.

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## EY's Global Tax Desk Network

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EY has over the last 30 years made a significant investment in building a Global Tax Desk Network. It consists of a highly integrated team of more than 200 professionals spanning approximately 45 countries. The purpose of the Tax Desk Network is to enable home-country tax experience to be integrated within other jurisdictions and provide services across several of our tax disciplines from hubs in the United States, Brazil, Europe, and Asia-Pacific and China. The Global Tax Desk Network offers clients a tremendous resource – accessible, timely and integrated tax-planning advice on cross-border investments, providing them worldwide with a forum for information and idea exchange as well as offering cross-disciplinary tax workshops for multinationals. Our Global Tax Desk Network can be contacted at the numbers listed below.

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# Afghanistan

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## A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Business Receipts Tax Rate (%)	4/5/10 (a)
Withholding Tax (%) (b)	
Dividends	20 (b)
Interest	20 (b)
Royalties from Patents, Know-how, etc.	20 (b)
Commissions	20 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (c)

- (a) This tax is imposed on total gross revenue before deductions. It is a deductible expense in computing taxable income.
- (b) This withholding tax is considered a final settlement of the tax liability.
- (c) Losses can be generally carried forward in equal proportions to each of the following three years. Unrestricted loss carryforwards are allowed for specified companies.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies that are resident in Afghanistan are subject to tax on their worldwide income. Tax is levied on the total amount of income earned during the tax period.

**Tax rates.** The corporate income tax rate is 20%.

Certain types of income are subject to final withholding taxes. For information regarding these taxes, see *Withholding taxes*.

**Business receipts tax.** Business receipts tax (BRT) is imposed at various rates on total gross revenue before deductions. BRT is a deductible expense in computing taxable income for the same tax

year. BRT is imposed at rates of 4%, 5% or 10% of the gross receipts, depending on the nature of the business and/or category of the receipt.

In addition, importers of goods are subject to advance BRT at a rate of 4% at the time of import. The Customs Office collects the BRT. This tax is treated as an advance payment against the eventual BRT of the importer based on its receipts from the sale of goods.

The BRT return must be filed and BRT must be paid on a quarterly basis within 15 days after the end of the quarter.

BRT does not apply to the following categories of income:

- Interest income
- Fees earned from banking transactions
- Proceeds of futures contracts whether settled in cash or otherwise
- Insurance or reinsurance premiums
- Distributions received by shareholders with respect to their interests in the company
- Exports of goods and services
- Salaries, dividends, royalties and other payments that are subject to withholding tax
- Income received from the rent or lease of residential property to a natural person if the tenant uses the property for residential purposes for more than six months of the tax year
- Income of persons not having a business license that are taxed at fixed rates (see *Fixed tax scheme*)

**Fixed tax scheme.** For certain categories of income and persons, the Afghanistan Income Tax Law (AITL) provides for a fixed tax scheme under which taxpayers are required to pay a fixed tax during the year instead of income tax and BRT. The fixed tax applies to income received by importers and contractors that do not hold a business license in Afghanistan for the supply of goods and services, transporters, entertainers and natural persons deriving business income below certain limits. The amount of the tax varies, depending on the category of income and the person deriving the income.

**Tax incentives.** Some of the significant tax incentives available in Afghanistan are described in the following paragraphs.

Income derived from the operation of aircraft under the flag of a foreign country and income derived by the aircraft's staff is exempt from tax if the foreign country grants a similar exemption to aircraft under the flag of Afghanistan and the aircraft's staff.

Organizations that are established under the laws of Afghanistan and operate exclusively for educational, cultural, literary, scientific or charitable purposes are exempt from income tax.

Income derived from agricultural or livestock production is not subject to income tax.

Grants, gifts and awards of the state, foreign governments, international organizations, or nonprofit organizations for contributions to science, art, literature, social progress or international understanding are exempt from income tax.

Scholarships, fellowships and grants for professional and technical training are exempt from income tax.

The above incentives are subject to a private ruling obtained from the Ministry of Finance (MoF) of the Government of Afghanistan.

**Capital gains and losses.** Gains arising from the sale, exchange or transfer of capital assets, including depreciable assets, shares of stock and trades or businesses, are included in taxable income. However, gains derived from the sale or transfer of movable or immovable property acquired by inheritance are not included in taxable income.

Legal persons transferring movable or immovable property must pay a 1% tax on the amount received or receivable with respect to the transfer of ownership of such property. The tax paid may be used as a credit against tax payable when the tax return is filed.

Losses incurred on the sale or exchange of capital assets used in a trade or business are deductible from the taxable income in the tax year of the sale or exchange if the gain from such sale or exchange would have been taxable.

Losses incurred on the sale or exchange of shares of stock may be offset only against gains from the sale or exchange of shares of stock in the same year. If the gains exceed the losses from such transactions, the excess is taxable. However, if the losses exceed the gains, the excess is not deductible.

### Administration

*Standard tax year and special tax years or periods.* Afghanistan follows a period of 12 months of the solar year as its tax year (that is, 21 or 22 December in a calendar year to 20 or 21 December of the following calendar year). If a legal person wishes to use a 12-month period other than the solar period as its tax year, it may apply to the MoF in writing and provide the reasons for the change. The MoF may grant such application if it is justifiable and if it fulfills the criteria provided in the income tax manual.

*Annual income tax return.* The income tax return, together with the balance sheet, must be filed within three months following the end of the tax year (that is, by 20 March of the next tax year).

*Withholding taxes.* A withholding tax is an interim tax payment that may or may not be the final tax liability. Amounts withheld that are not final taxes are credited against the eventual tax liability of the taxpayer for the relevant year.

The following are the rates of significant withholding taxes under the Afghanistan income tax law.

Type of payment	Rate (%)
Rent for immovable property used for commercial, industrial and other economic purposes	10/15 (a)
Salaries and wages	2/10/20 (b)
Payments for imports by importers that have a business license	2 (c)
Payments for imports by importers that do not have a business license	3 (d)

Type of payment	Rate (%)
Payment of advance BRT at import stage	4 (e)
Payments for the providing of goods, material, construction and services under contracts to government agencies, municipalities, state entities, private entities and other persons	
To persons having a business license	2 (f)
To persons not having a business license	7 (g)
Dividends	20 (g)
Interest	20 (g)
Royalties	20 (g)
Prizes	20 (g)
Rewards	20 (g)

- (a) The rate depends on the monthly rent.  
 (b) The rate depends on the monthly salary.  
 (c) The tax is calculated based on the assessed value of the imported goods including customs duty and is collected by the customs office where the customs duty is paid. This is treated as a tax credit against the tax liability for the year. See the discussion of the BRT in *Business Receipts Tax*.  
 (d) This 3% tax paid at the import stage on the total cost including customs duties. It is a fixed tax in lieu of an income tax.  
 (e) This advance BRT may be credited against the quarterly or annual BRT liability.  
 (f) This is an advance tax that may be credited against the ultimate annual corporate tax liability.  
 (g) This is a final withholding tax.

**Interest and penalties.** A legal person that fails to file a tax return by the due date without reasonable cause is subject to additional income tax of AFN100 per day (effective from 23 September 2013).

In addition, if a person fails to pay the tax by the due date, penalties may be imposed at a rate of 0.1% per day of the tax that is delayed or defaulted. If no tax is paid, an additional tax of 10% may be imposed in addition to the 0.1% penalty.

A person that is determined to have evaded income tax may be required to pay the income tax due and the following additional tax:

- In the first instance, additional tax of double the evaded tax
- In the second instance, additional tax of double the evaded tax and termination of the person's business activity by order of the court

A person that fails to withhold tax from payments without reasonable cause may also be subject to additional tax of 10% of the tax liability in addition to disallowance of the expense for the purpose of computation of taxable income.

**Dividends.** A company paying a dividend must withhold tax at a rate of 20% of the gross amount. Dividends are regarded as Afghanistan-source if they are received from resident companies operating in Afghanistan.

If a branch in Afghanistan of a nonresident person pays or incurs an amount to the head office or any person connected to the nonresident person, that amount is also treated as a dividend.

Dividends paid in cash, from which tax has been deducted at source, are allowed as deductions for the computation of taxable

income of the payers of the dividends. However, such deductions are not allowed to branch offices in Afghanistan making payments of dividends to their head offices and other affiliates.

Dividends paid in the form of securities for shares or loans of a similar nature are not deductible from the income of corporations or limited liability companies.

**Foreign tax credit.** If a resident person derives income from more than one foreign country, proportionate foreign tax credit is allowed against income from each country.

### **C. Determination of taxable income**

**General.** Taxable income of natural and legal persons equals the total of all receipts less those exemptions and deductions authorized under the law. The determination of taxable income is generally based on the company's financial statements, subject to certain adjustments for the exclusion of exempt income and unallowable expenses.

Business expenses incurred during a tax year or in one of the preceding three tax years are deductible for purposes of calculating taxable income.

**Inventories.** Inventory for a tax year is valued at the lower of cost or market value of the inventory on hand at the end of the year. All taxpayers engaged in manufacturing, trading or other businesses must value inventories in accordance with the method prescribed by the MoF.

**Tax depreciation.** Depreciation of movable and immovable property (except agricultural land) used in a trade or business or held for the production of income is allowed as an expense. The total depreciation deductions for property may not exceed the cost of the property to the taxpayer.

A person is not entitled to claim depreciation for that part of the cost of an asset that corresponds to a payment for which the person failed to withhold tax.

Enterprises registered under the Law on Domestic and Foreign Private Investment in Afghanistan are entitled to a deduction for the depreciation of buildings and other depreciable assets over the following time periods:

- Buildings: four years
- Other depreciable assets: two years

Depreciation is calculated using the straight-line method, in equal proportions. However, if a depreciable asset is held by the enterprise for less than half of the year, depreciation is calculated and deducted for half of the year. If a depreciable asset is held for more than half of the year, depreciation is calculated and allowed for one year.

Net operating losses incurred by a taxpayer on account of depreciation may be carried forward by the enterprise until such loss is fully offset. However, to claim such offset, the enterprise must be an approved enterprise under the Law on Domestic and Foreign Private Investment.



Depreciation and expenditure that relate to a period covered by a tax exemption or to a period before an enterprise becomes an approved enterprise for the first time cannot be included in the calculation of a net operating loss.

**Relief for losses.** A corporation or limited liability company that incurs a net operating loss in a tax year may deduct the loss from its taxable income of the following three years in equal proportions.

A net operating loss from activities to generate income from a source outside Afghanistan may only be carried forward and deducted from taxable income from such activities and may not be deducted from taxable income from a source in Afghanistan.

Net operating losses incurred by approved enterprises in a tax year based on legal and accounting records may be carried forward as a deduction from taxable income in each subsequent year until the loss is fully set off.

#### **D. Other significant taxes**

Afghanistan currently does not impose value-added tax or goods and services tax.

The Afghanistan government has imposed a telecom service fee at a rate of 10% of the amount recharged on all types of telephone service users.

Customs duties apply to the import of goods.

#### **E. Miscellaneous matters**

**Foreign-exchange controls.** In general, remittances in foreign currency are regulated and are required to be converted to afghanis (AFN) at the established rate of the Da Afghanistan Bank, which is the central bank of Afghanistan. In certain cases in which the Da Afghanistan Bank does not trade for a particular currency, the currency is first converted into US dollars and then into afghanis.

**Anti-avoidance rules.** All transactions between connected persons are expected to be carried out at an arm's length. If transactions are not conducted on an arm's-length basis, the tax authorities may determine the arm's-length standard under prescribed methodologies. These methods are similar to the methods as available under the commentary to the Organisation for Economic Co-operation and Development model convention.

If a person enters into any transaction or arrangement with the intent to cause reduction of liability to pay tax, the MoF may disregard such transaction or arrangement and assess all persons affected by the transaction or arrangement as if the disregarded transaction or arrangement had not taken place.

#### **F. US and North Atlantic Treaty Organization agreements**

On 30 September 2014, Afghanistan signed a Bilateral Security Agreement with the government of the United States and a Status of Force Agreement for North Atlantic Treaty Organization (NATO) forces. These agreements, which entered into force on

1 January 2015, replaced all previous agreements applicable until 31 December 2014 (including the bilateral agreement between Afghanistan and the United States in the form of Diplomatic Notes exchanged between the countries and the Military and Technical Assistance Agreement entered into with International Security Assistance Forces) and amended the previously offered exemptions for NATO foreign and local contractors and subcontractors.

Exemptions available under these agreements are subject to private rulings obtained from the MoF. In addition, the agreements generally do not provide exemptions from the obligation to withhold tax from all payments to employees (local nationals and other individuals not covered by the exemptions), vendors, suppliers, service providers, lessors of premises and other persons, as required under the local tax laws.

# Albania

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## A. At a glance

Corporate Profits Tax Rate (%)	15
Capital Gains Tax Rate (%)	15
Branch Tax Rate (%)	15
Withholding Tax (%)	
Dividends	15
Interest	15
Royalties from Patents, Know-how, etc.	15
Rent	15
Technical Services	15
Management Services	15
Financial Services	15
Insurance Services	15
Participation in Management and Administration Bodies	15
Construction, Installation or Assembly Projects and their Supervision	15
Payments for Entertainment, Artistic or Sporting Events	15
Gambling Gains	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

## B. Taxes on corporate income and gains

**Corporate income tax.** Albanian companies are companies that are incorporated in Albania or have their place of effective

management in Albania. They are subject to corporate income tax on their worldwide income. Foreign companies are subject to tax on profits generated from activities performed through a permanent establishment in the country and on income from Albanian sources.

**Rates of corporate tax.** The corporate income tax rate is 15% for taxpayers with annual turnover exceeding ALL8 million (approximately EUR58,000).

Small businesses (taxpayers with annual turnover ranging from ALL5 million to ALL8 million (approximately EUR36,000 to EUR58,000) are subject to a reduced profit tax rate of 5%. Simplified profit tax of ALL0 applies to micro-businesses with annual turnover below ALL5 million (approximately EUR36,000).

**Tax incentives.** Tax incentives in Albania are described below.

Effective from 1 January 2018, the corporate income tax rate is 5% for software production and development companies.

Investment in and operation of internationally recognized 4- or 5-star hotels and resorts that are awarded a special status by the Council of Ministers are exempt from corporate income tax for a 10-year period starting from the commencement of the economic activity, but no later than 3 years from the award of the special status. This exemption applies until December 2024 to 4- or 5-star hotels and resorts that are awarded a special status.

**Capital gains and losses.** Capital gains derived from the disposal of assets, including shares, are subject to tax at the standard rate of 15%. Capital losses are deductible for tax purposes.

Capital gains derived by a foreign company from the sale of domestic shares are taxed if the gains are attributable to a local permanent establishment or if the buyer of the shares is a domestic entity.

**Administration.** The tax year is the calendar year.

Taxpayers subject to corporate income tax make advance payments of corporate income tax on a quarterly basis. The payments must be made by 30 March for January through March, by 30 June for April through June, by 30 September for July through September and by 30 December for October through December. However, taxpayers may opt to make monthly advance payments of corporate income tax by the 15th day of each month. Newly established companies involved in production activities are not required to make quarterly advance payments for either a period of six months or the period until the end of the fiscal year, whichever is shorter.

The advance payments for January through March are calculated based on the corporate income tax of the tax year before the preceding tax year. The advance payments for April through December are calculated based on the corporate income tax of the preceding tax year. The tax rate for the calculation of the advance payment is 15%. If the company demonstrates to the tax authorities that the taxable income in the current year will be substantially lower than the taxable income of the reference period, the tax authorities may decide to decrease the advance

payments. If the tax authorities approve the taxpayer's request for the reduction of the corporate advance payments and at year-end the corporate tax liability exceeds the amount of advance payments by more than 10%, default interest is applied to the difference. If the tax authorities determine that the taxable income of the current year will be increased by more than 10%, compared with the taxable income realized in the reference period, they may decide to increase the advance payments. Companies that generated losses in the reference years make advance payments based on their taxable profit projections for the current year.

By 31 March, companies must file the annual tax return and pay the corporate tax due for the tax year less advance payments made. A 10 February deadline applies to taxpayers subject to the reduced profit tax regime.

Taxpayers subject to a reduced profit tax regime make advance payments of profit tax (see *Rates of corporate tax*) on a quarterly basis. The payments must be made by 20 April for January through March, by 20 July for April through June, by 20 October for July through September and by 20 December for October through December. Taxpayers with turnover of ALL5 million to ALL8 million are provided with tax stamps for each payment made during the year (total of four). Taxpayers must place the tax stamps in the upper corner of their National Business Centre (Tax Identification Number) certificate.

Companies not complying with the filing and payment deadlines described above are subject to interest and penalties. Late tax payments are subject to interest at a rate of 120% of the interbanking loan interest rate published by Bank of Albania. The interest is not deductible for corporate income tax purposes. Late tax payments and inaccurate tax return filings are charged with a penalty of 0.06% of the amount of the unpaid tax liability and contribution for each day of delay, capped at 21.9%. In addition, a penalty of ALL10,000 for taxpayers subject to corporate income tax or ALL5,000 for other taxpayers can be assessed if the tax return is not filed by the due date. If the unreported tax liability results from tax evasion, the penalty is 100% of the unpaid liability.

**Dividends.** Dividends paid by Albanian companies to resident and nonresident individuals and to foreign entities are subject to withholding tax at a rate of 15% unless the rate is reduced under an applicable double tax treaty (see Section F). Dividends received by Albanian companies are exempt from tax.

**Foreign tax relief.** Foreign direct tax on income and gains of an Albanian resident company may be credited against the corporate tax on the same profits. The foreign tax relief cannot exceed the Albanian corporate income tax charged on the same profits. If a company receives income from a country with which Albania has entered into a double tax treaty, other forms of foreign tax relief may apply, as stipulated in the provisions of the treaty.

### **C. Determination of trading income**

**General.** The assessment is based on the financial statements prepared in accordance with the local standards or International Financial Reporting Standards (IFRS), subject to certain

adjustments for tax purposes as specified in the Albanian Tax Code and other supplementary legal acts.

All necessary and reasonable expenses incurred for the business activity that are properly documented are deductible, except for the following:

- In-kind compensation.
- Wages and salaries not paid through the banking system.
- Write-off of debts if all legal means for their collection have not been exhausted.
- Expenses for cross-border technical services and consultancy and management fees if the corresponding withholding tax has not been paid by 20 January of the year following the year in which the service is provided, regardless of whether the payment of the invoice is made. In case of tax treaty protection, the restriction above does not apply, and the provisions of the applicable treaty apply.

Other types of expenses may be deducted up to a ceiling. These expenses include, but are not limited to, the following:

- Representative and entertainment expenses are deductible up to 0.3% of annual turnover.
- Production waste and losses, including losses from impairment, are deductible to the extent provided by the relevant legislation.
- Sponsorships are generally deductible up to 3% of the income before tax and up to 5% for media-related sponsorships.
- Per diems are deductible up to ALL3,000 per day for traveling inside Albania and up to EUR60 per day for traveling abroad.
- Interest is deductible only to the extent that the rate does not exceed the average interest rate published by Bank of Albania and that the amount of the debt does not exceed four times the equity. Effective from 1 January 2018, for related-party loans, the net interest expense balance (that is, the difference between the interest expenses and interest revenues, exceeding 30% of earnings before interest, tax, depreciation and amortization [EBITDA]) is not deductible for the tax period. Such interest not deductible in the current period can be carried forward to future tax periods, provided that a change of 50% in the entity's ownership does not occur. Such limitation does not apply to banks, other financial institutions that are not banks, insurance companies and leasing companies.
- Costs of improvements and maintenance are fully deductible in the year in which they are incurred to the extent that they do not exceed 15% of the remaining value of the asset.
- Expenses settled in cash are tax deductible if they do not exceed ALL150,000 (approximately EUR1,090).
- Voluntary pension contributions made by employers in favor of their employees to professional pension plans are tax deductible up to an amount of ALL250,000 (approximately EUR1,816) per year.

**Inventories.** The inventory valuation rules stipulated in the accounting law also apply for tax purposes. Inventory is valued at historical cost, which is determined by using the weighted average, first-in, first-out (FIFO) or other specified methods. The method must be applied consistently. Changes in the method must be reflected in the books of the company.

**Provisions.** Companies may not deduct provisions, except for certain levels of special reserves specified by regulations regarding insurance companies and provisions of financial service companies created in compliance with International Financial Reporting Standards and certified by external auditors.

**Tax depreciation.** Buildings are depreciated separately for tax purposes using the declining-balance method at a rate of 5%. If the remaining value of the assets at the beginning of a tax period is less than 3% of their historic acquisition cost, the entire remaining balance is recognized as a tax-deductible expense in that tax period.

Intangible assets are depreciated using the straight-line method at a rate of 15%.

Other assets are depreciated in groups, using the declining-balance method. The applicable rates are 25% for computers, information systems and software, and 20% for all other fixed assets. If the remaining value of the assets at the beginning of a tax period is less than 10% of their historic acquisition cost, the entire remaining balance is recognized as a tax-deductible expense in that tax period.

**Relief for losses.** Losses may be carried forward for three consecutive years. However, if a change of 50% in the entity's ownership occurs, the remaining losses are forfeited. Loss carrybacks are not allowed.

**Groups of companies.** Each company forming part of a group must file a separate return. The law does not provide for consolidated tax returns or other group relief.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax; exempt supplies include leases of land, supplies of buildings (optional) and financial services	
Standard rate	20%
Reduced rate for certain accommodation services	6%
Exports of goods and supplies of services relating to international transportation	0%
Real estate property tax	
Buildings (rates effective from 1 April 2018)	
Buildings used for business purposes; rate applied to value of building	0.2%
Buildings under construction; rate applied to value of the construction surface of buildings that have not been completed as per the time frame stipulated in the construction permit received	0.06%
Agricultural land	ALL700 to ALL5,600 per hectare
Plots of land	ALL0.14 to ALL20 per square meter

Nature of tax	Rate
Social security contributions, on monthly salary up to ALL105,850; paid by	
Employer	15%
Employee	9.5%
Health insurance contributions on monthly gross salary; paid by	
Employer	1.7%
Employee	1.7%
Excise duties imposed on specified goods (tobacco products, coffee, alcoholic beverages, petrol, diesel, fuel, kerosene and lubricants); the tax is calculated as a specific amount per unit	Various
Consumption tax for petrol, gas, oil and coal	ALL27 per liter

## E. Miscellaneous matters

**Foreign-exchange controls.** Albania has a free foreign-exchange market. The Albanian currency, the lek (ALL), is fully convertible internally.

Residents and nonresidents may open foreign-currency accounts in Albanian banks or foreign banks authorized to operate in Albania. Residents may also open accounts in banks located abroad. All entities must properly document all of their money transfers to comply with the regulations of Bank of Albania. No limits are imposed on the amount of foreign currency that may be brought into Albania. Hard-currency earnings may be repatriated after the deduction of any withholding tax.

**Transfer pricing.** Albanian transfer-pricing rules were introduced in June 2014 and are aligned with the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines of 2010. Under these rules, taxpayers engaged in controlled transactions are required to maintain transfer-pricing documentation, which must be submitted within 30 days following the tax authorities' request. Failure to prepare transfer-pricing documentation is not sanctioned with penalties, but fulfilling the requirement protects the taxpayer from the assessment of penalties in the event of transfer-pricing-related audit adjustments. Such penalties equal 0.06% of the amount of the unpaid liability for each day of delay, capped at 21.9% (equivalent of 365 days).

Only cross-border and controlled transactions are subject to the transfer-pricing rules. Consequently, domestic transactions are not subject to the rules. Controlled transactions are transactions between related parties, dealings between a permanent establishment and its head office, and transactions with an entity resident in a tax-haven jurisdiction. Two persons are considered related parties if either one of them participates directly or indirectly in the management, control or capital of the other, or the same person(s) participate(s) directly or indirectly in the management, control or capital of the two parties; that is, the same person owns 50% or more of the share capital of the other person or effectively controls the business decisions of the other person.

The transfer-pricing rules refer to the application of the most appropriate method among the OECD transfer-pricing methods,



which are comparable uncontrolled price, resale price, cost-plus, transactional net margin and profit-split. If it can be proved that none of the approved methods can be reasonably applied, taxpayers are allowed to use other more appropriate methods.

Taxpayers are required to submit by 31 March of the following year a Controlled Transaction Notice, which lists the intercompany transactions and the transfer-pricing methods applied to these transactions, if their controlled transactions, including loan balances, exceed in aggregate ALL50 million (approximately EUR363,000).

Failure to timely submit the Controlled Transaction Notice subjects the taxpayer to a penalty of ALL10,000 (approximately EUR70) for each month of delay.

**Debt-to-equity rules.** Albanian tax law includes thin-capitalization rules with respect to the deduction of interest on loans, which apply if the debt-to-equity ratio exceeds 4:1. The ratio applies to all debts owed to related and unrelated parties as well as to loans obtained from financial institutions. However, the limitation does not apply to banks and insurance and leasing companies. Effective from 1 January 2018, for related-party loans, the net interest expense balance (that is, the difference between the interest expenses and interest revenues, exceeding 30% of EBITDA) is not deductible. Such interest not deductible in the current period can be carried forward to future tax periods, provided that a change of 50% in the entity's ownership does not occur.

## F. Treaty withholding tax rates

The rates of withholding tax in Albania's tax treaties are described in the following table.

	Dividends %	Interest %	Royalties %
Austria	5/15 (a)	5 (b)	5
Belgium	5/15 (a)	5	5
Bosnia and Herzegovina	5/10 (a)	10	10
Bulgaria	5/15 (a)	10	10
China (mainland)	10	10	10
Croatia	10	10	10
Czech Republic	5/15 (a)	5	10
Egypt	10	10	10
Estonia	5/10 (f)	5 (b)	5
France	5/15 (a)	10	5
Germany	5/15 (a)	5 (b)	5
Greece	5	5	5
Hungary	5/10 (a)	0	5
Iceland	5/10 (a)	10 (b)	10
Ireland	5/10 (a)	7 (b)	7
Italy	10	5 (b)	5
Korea (South)	5/10 (a)	10 (b)	10
Kosovo	15	10	10
Kuwait	0/5/10 (g)	10	10
Latvia	5/10 (a)	5/10 (b)	5
Macedonia	10	10	10
Malaysia	5/15 (a)	10	10
Malta	5/15 (a)	5	5

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Moldova	5/10 (a)	5	10
Montenegro	5/15 (a)	10	10
Netherlands	0/5/15 (c)	5/10 (d)	10
Norway	5/15 (a)	10	10
Poland	5/10 (a)	10	5
Qatar	0/5 (h)	0/5 (b)	6
Romania	10/15 (a)	10 (b)	15
Russian Federation	10	10	10
Serbia	5/15 (a)	10	10
Singapore	5	5 (b)	5
Slovenia	5/10 (a)	7 (b)	7
Spain	0/5/10 (e)	6 (b)	15
Sweden	5/15 (a)	5	5
Switzerland	5/15 (a)	5	5
Turkey	5/15 (a)	10 (b)	10
United Arab Emirates	0/5/10 (g)	0	5
United Kingdom	5/15 (i)	6 (b)	0
Non-treaty jurisdictions	15	15	15

- (a) The lower rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer. The higher rate applies to other dividends.
- (b) Interest on government and central bank loans is exempt from withholding tax.
- (c) The 0% rate applies if the beneficial owner of the dividends is a company that holds at least 50% of the payer and that has invested at least USD250,000 in the capital of the payer. The 5% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the payer. The 15% rate applies to other dividends.
- (d) The 5% rate applies to interest paid on loans granted by banks or other financial institutions. The 10% rate applies in all other cases.
- (e) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 75% of the capital of the payer. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the payer. The 10% rate applies to other dividends.
- (f) The lower rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the payer. The higher rate applies to other dividends.
- (g) The 0% rate applies if the beneficial owner of the dividends is a government, a government institution or an agency of the other contracting state. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the payer. The 10% rate applies to other dividends.
- (h) The 0% rate applies if the beneficial owner of the dividend is a government, a government institution or an agency of the other contracting state. The 5% rate applies to other dividends.
- (i) The 5% rate applies if the beneficial owner of the dividend is a company that holds directly at least 25% of the capital of the payer or is a pension scheme. The 10% rate applies to other dividends.

Albania has signed tax treaties with India and Luxembourg, but these treaties have not yet entered into force.

# Algeria

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## A. At a glance

Corporate Income Tax Rate (%)	19/23/26 (a)
Capital Gains Tax Rate (%)	15/20 (b)
Branch Tax Rate (%)	19/23/26 (a)
Withholding Tax (%)	
Dividends	15
Interest	10
Royalties from Patents, Know-How, etc.	24
Foreign Services	24
Fees for Technical Assistance and Other Remuneration for Services	24
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

(a) For details regarding these rates, see Section B.

(b) The higher rate applies to payments to nonresident individuals or companies.

## B. Taxes on corporate income and gains

**Corporate income tax.** The following companies are subject to corporate income tax (Impôt sur le Bénéfice des Sociétés, or IBS):

- Resident companies (those incorporated in Algeria)
- Nonresident companies that have a permanent establishment in Algeria

In general, IBS is levied on income realized in Algeria, which includes the following:

- Income derived from trading activities carried out by companies
- Income of representative agents of companies
- Income of companies that do not have an establishment or a representative agent but realize a complete cycle of commercial activities

**Tax rates.** The following are the IBS rates:

- 19% for companies carrying out production activities
- 23% for companies engaged in the construction sector and tourism
- 26% for companies carrying out other activities, such as importation and resale in the same condition

If a company engages in more than one of the above activities, it should prepare an analytical accounting so that it can apply the appropriate rate to each activity.

**Tax incentives.** Law No. 16-09 relating to the development of investments, which amended Law 01-03, provides for different levels of investment incentives applicable to national and foreign investments made in the production of goods and services, and investments made within the framework of the granting of a license and/or a concession.

For purposes of the above law, investments include the following:

- Acquisition of assets included in the creation of new activities, capacity of production extension, rehabilitation and restructuring
- Participation in the share capital of an Algerian company

Before the investments are made, they must be registered with the National Agency for Investment Development (Agence Nationale pour le Développement des Investissements, or ANDI) to benefit from the incentives discussed below. Investments of DZD5 billion or more, as well as those that serve particular interest of the national economy are subject to the prior decision of the National Investment Council.

The advantages granted by the ANDI to investors depend on the investment's structure, as provided by Law 16-09.

*Common advantages for all eligible investments.* The advantages described below apply to national and foreign investments made in the activities of production of goods and services as well as investments made within the framework of the granting of a license and/or a concession.

For investment projects in northern areas, during the setting up of their investments, companies may benefit from the following advantages:

- Exemption from customs duties on imported equipment directly involved in the investment setup
- Exemption from value-added tax (VAT) on goods and services directly involved in the investment setup
- Exemption from property transfer tax and land publication fees on all property acquisitions made within the framework of the registered investment
- Exemption from registration duties, land publication fees and state-owned property remuneration, for granted built and unbuilt property assigned to the investment setup
- Ninety percent deduction on the annual rental fee amount set by the government property authority for the investment setup period
- Exemption from land tax on real estate within the framework of the investment for a period of 10 years from the acquisition date
- Exemption from registration duties on acts of incorporation and capital increases

When operating in northern areas, companies may be granted the following advantages for three years:

- IBS exemption
- Tax on professional activity (see Section D) exemption
- 50% deduction on the annual rental fee amount set by the state property department

For investment projects in southern areas (the highlands and areas whose development requires a particular contribution of the state), during the setting up of their investments, companies may benefit from the following advantages:

- Exemption from customs duties on imported goods directly involved in the investment setup.
- Exemption from VAT on goods and services directly involved in the investment setup, whether they are imported or purchased on the local market.
- Exemption from transfer tax payable on real estate acquisitions made within the framework of the investment.
- Exemption from registration fees, land advertisement tax and the state-owned property remuneration on built and unbuilt properties granted for the investment projects' setup. This benefit applies for the minimum duration of the granted concession.
- Partial or total support by the state, after the ANDI's assessment of expenditures concerning infrastructure works needed for the setup of the investment.
- Exemption from land tax on real estate within the framework of the investment for a period of 10 years from the acquisition date.
- Exemption from registration duties on acts of incorporations and capital increases.
- Reduction of the annual rental fee amount set by the state property department, on the land concession for the investment projects' setup, in the following amounts:
  - A symbolic dinar per square meter is paid for a period of 10 years and 50% of the annual rental fee amount is paid beyond this period for investments located in localities within the highlands and other areas whose development requires a special contribution of the state.
  - A symbolic dinar per square meter is paid for a period of 15 years and 50% of the annual rental fee amount is paid beyond this period for investment projects implemented in the regions of the south.

During the investment exploitation period in southern areas, companies may be granted the following advantages for 10 years:

- IBS exemption
- Tax on professional activity (see Section D) exemption
- Fifty percent deduction on the annual rental fee amount set by the state property department

*Additional advantages for privileged and jobs-creating activities.* Particular tax and financial incentives are available under legislation for tourist, industrial and agricultural activities, which cannot be cumulated with the advantages of Law No. 16-09 provisions. The investor benefits from the most advantageous incentive measure.

For investments that are set up in areas to be promoted and that are generating more than 100 permanent jobs, the duration of the tax exemption during the investment exploitation period is five years.

*Exceptional advantages to investments serving a particular interest of the national economy.* The following advantages are available to investments serving a particular interest of the national economy during the investment setup period:

- All the common advantages for the setup period
- Granting, according to the legislation in force, of exemptions or reduction of customs duties, taxes and other impositions with fiscal character and subsidies, aids or financial supports, and benefiting from any facilitation measures likely to be introduced
- After the National Investment Council agreement is signed, the possibility of the setup period advantages being transferred from the investor to contracting parties in charge of the investment setup for the investor

The following advantages are available to investments serving a particular interest of the national economy during the investment-exploitation period:

- Extension for a period of up to 10 years, of the duration of the common advantages granted during the exploitation period
- Granting of a duty-free purchase scheme for goods and materials used in the production of goods benefiting from the VAT exemption
- Granting for a period not exceeding five years exemptions or reductions of duties and taxes, including VAT, applied on the prices of goods produced within the framework of emerging industrial activities

**Capital gains.** Capital gains are included in ordinary income and taxed at the applicable IBS rate.

Capital gains derived from the sale of fixed assets are taxed differently, depending on whether they are short-term capital gains (on assets held for three years or less) or long-term capital gains (on assets held for more than three years).

The following percentages of capital gains derived from the partial or total sale of assets within the framework of industrial, commercial, agriculture or professional activities are included in taxable profits:

- 35% of long-term capital gains
- 70% of short-term capital gains

Capital gains derived from the sale of shares realized by nationals are taxed at a rate of 15%.

Unless otherwise provided by a double tax treaty, nonresident individuals and companies that derive capital gains from the sale of shares of an Algerian entity are subject to a final withholding tax at a rate of 20%.

**Administration.** An annual tax return must be filed with the tax administration within four months after the end of the financial year. Foreign companies carrying out activities in Algeria through a permanent establishment are subject to the same filing

obligations as companies incorporated in Algeria. These obligations include the filing of an annual corporate tax return (IBS return, named G4 form or G4 Bis form), by 30 April of each year.

The IBS is generally paid in three down payments from 20 February to 20 March, from 20 May to 20 June and from 20 October to 20 November of the year following the financial year, if profit has been realized and used for the base of tax calculation. The amount of each down payment is equal to 30% of the IBS due on profits realized during the last closed financial year.

Permanent establishments of foreign companies must make an IBS down payment equal to 0.5% of the amounts billed every month. When filing the annual IBS return, these IBS down payments are offset against the IBS due.

Certain listed documents must be attached to the IBS return, including the balance sheet and a summary of the profit-and-loss account.

Taxes withheld at source and those paid in cash must be declared on a monthly tax return ("G 50" form). These taxes include the following:

- Personal income tax (Impôt sur le Revenu Global, or IRG)
- Withholding tax due on passive income and remuneration paid to nonresident service suppliers
- TAP
- IBS down payments
- VAT

This form must be filed within 20 days following the end of the month of payment of the relevant remuneration together with the payment of the related taxes.

**Dividends.** Dividends paid are subject to a 15% withholding tax, subject to double tax treaties.

**Royalties.** Unless otherwise provided by double tax treaties, a 24% withholding tax is imposed on royalties and remuneration for services paid to nonresident entities.

For contracts relating to the use of computer software, a tax allowance at a rate of 80% is applicable on the amount of the royalties. Consequently, the effective rate of the withholding tax is 4.8%.

A tax allowance at a rate of 60% is applied to the amount of the rent amount paid under an international leasing contract. As a result, the effective rate of the withholding tax is 9.6%.

For royalties benefiting from allowances, VAT must be paid in addition to withholding tax.

**Foreign tax relief.** The Algerian Direct Tax Code does not provide for foreign tax relief.

### **C. Determination of taxable income**

**General.** The computation of taxable income is based on financial statements prepared according to generally accepted accounting principles, provided they are not incompatible with the provisions of the Algerian Direct Tax Code.

Taxable income is determined on the basis of profits and losses. Taxable income includes operating income and “extraordinary income,” such as capital gains, gains from the revaluation of business assets and subventions, subject to certain exclusions and business incentives.

In the determination of taxable income, any expenditure that is wholly, exclusively and necessarily incurred for the purposes of the exploitation of the business and the generation of income is deductible from gross income.

Financial expenses related to overseas loans, royalties, technical assistance fees and other fees payable in foreign currencies may be deducted for tax purposes during only the financial year of their effective payment.

Certain expenses are not deductible for tax purposes, including the following:

- Expenses, costs and rents of any type that are not directly assigned to operations (for example, premises leased for accommodation of members of the company’s management)
- Fines, interest on late payments and penalties, interest and increases in duties as a result of defaults or insufficiencies in tax returns or payments
- Gifts (except those for advertisements, the value of which does not exceed DZD500 per beneficiary)
- Subsidies or donations except those made to humanitarian organizations or associations or those made to nonprofit research organizations up to DZD1 million
- Restaurant, hotel and entertainment expenses not directly linked to the business
- Expenses paid in cash in the case of an invoice exceeding DZD300,000

**Inventories.** Inventories are valued at cost in accordance with the new Algerian accounting and financial system.

**Provisions.** Provisions are generally deductible for income tax purposes if they satisfy the following conditions:

- They are established for losses or charges that are clearly identified and likely to occur.
- They are recorded both in the books and financial statements.
- They are listed on the statement of reserves attached to the annual tax return.

Reserves or the portion of them that are not used in accordance with their intended purposes or no longer have a purpose in the following financial year must be added back to the income in such financial year. Abusive establishment of provisions may result in the provisions being added back to taxable income and related penalties applied.

**Depreciation.** Under the Algerian Direct Tax Code, depreciation of fixed assets must be calculated in accordance with the following:

- Generally accepted limits
- Applicable practices for each type of industry, business or operations
- Rules provided in tax laws with respect to the depreciation system



The following are the three depreciation methods:

- Straight-line method
- Progressive method
- Declining-balance method

The straight-line method is the standard method, while progressive or declining-balance methods may alternatively be used on election.

Under the Algerian Direct Tax Code, the basis of computation of deductible depreciation is limited for private passenger-type vehicles to a purchase value of DZD1 million. This cap of DZD1 million does not apply if such vehicles constitute the main object of the company's activities.

**Relief for losses.** Tax losses may be carried forward four years. They cannot be carried back.

**Groups of companies.** Under the Algerian Direct Tax Code, related companies subject to IBS may elect to form a tax-consolidated group. The parent company must make the election for this regime for a four-year period and the election must be accepted by the affiliated companies.

The group tax consolidation regime is based on the consolidation of the balance sheets of the related companies with the parent company.

A tax consolidation group may consist of an Algerian parent company and Algerian subsidiaries in which the parent company owns directly at least 90% of the capital if both of the following conditions are satisfied:

- The capital of the parent company is not owned partially or totally by the subsidiaries.
- 90% or more of the parent company is not owned by another company eligible to be a parent company.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
VAT; standard rate	19
Tax on professional activity	
General rates	1/2
Transport by pipeline of hydrocarbons	3
Apprenticeship tax	1
Training tax	1
Social security contributions; paid by	
Employer	26
Employees	9
Registration duties	
On sales of shares in stock companies and private limited companies	2.5
On sales of goodwill	5

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Algeria is the dinar (DZD).

Foreign-exchange regulations in Algeria are based on the principle of non-convertibility of Algerian dinars outside Algeria.

Payments or transfers made with respect to regular transactions within the meaning of Algerian regulations (including foreign-trade transactions involving goods and services) are free, provided that certain conditions are fulfilled (particularly the bank domiciliation [the procedure under which a local party registers a contract with a local bank] and the delivery of a transfer certificate by the tax authorities). Algerian accredited intermediary banks must operate these transactions.

Dividends, profits and net proceeds from investments or the liquidation of investments can also be freely transferred outside Algeria, subject to compliance with certain requirements (particularly, the delivery of a transfer certificate by the tax authorities).

The realization of foreign investments, directly or in partnership, except for share capital, must be financed through Algerian financing institutions.

Foreign loans from foreign banks are prohibited in Algeria. However, an exception is provided for foreign financing through a current-account contribution by a foreign shareholder. Executive Decree No. 13-320 of 26 September 2013 determines the terms and conditions for a current-account contribution by a foreign shareholder.

Nonresidents may open bank accounts in Algerian dinars and/or in foreign currencies at Algerian accredited intermediary banks. These bank accounts are subject to specific conditions on opening and operation.

**Transfer pricing.** Under the Algerian tax rules, for Algerian taxpayers that are owned or controlled by an enterprise located in Algeria or outside Algeria or that own or control an enterprise located in Algeria or outside Algeria, the income indirectly transferred to the related enterprise, either through an increase or decrease of purchase or sale price or through any other means, may be added back to the Algerian taxpayer's taxable income. In the absence of any relevant information for the reassessment of tax, the taxable income is determined by comparison with income of similar enterprises that are regularly operated.

*Transfer-pricing documentation requirements.* On request of the tax authorities, in the framework of a tax audit, enterprises or companies operating in Algeria and undertaking cross-border and domestic transactions with related parties must provide supporting documentation relating to their transfer-pricing policies. Failure to answer or providing an insufficient answer triggers a 25% penalty per fiscal year calculated on the basis of the transfer-pricing reassessments resulting from the tax audit.

In addition, certain Algerian-based taxpayers (mainly companies belonging to foreign international groups, legal entities or businesses operating in the hydrocarbon industry) must file transfer-pricing documentation with their annual tax returns to the tax authorities. The lack of documentation or insufficient documentation at the time of the tax return filing triggers a DZD2 million tax penalty, and in the case of a tax audit, an additional penalty of 25% of deemed transferred profits applies.

**F. Treaty withholding tax rates**

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Austria	5/15 (a)	0/10	10
Bahrain	0	0	0
Belgium	15	0/15 (e)	5/15
Bosnia and Herzegovina	10	10	12
Bulgaria	10	10	10
Canada	15	0/15 (e)	15
China (mainland)	5/10 (b)	7	10
Egypt	10	5	10
France	5/15 (a)	12 (e)	5/12
Germany	5/15 (a)	10	10
Indonesia	15	15	15
Iran	5	0/5	5
Italy	15	15	5/15
Jordan	15	0/15 (e)	15
Korea (South)	5/15 (b)	10	2/10
Kuwait	0	0	15
Lebanon	15	0/10	10
Oman	5/10 (d)	0/5	10
Portugal	10/15 (b)	15	10
Romania	15	15	15
Russian Federation	5/15 (b)	0/15 (e)	15
Saudi Arabia	0	— (f)	7
South Africa	10/15 (b)	10	10
Spain	5/15 (a)	5	7/14
Switzerland	5/15 (c)	0/10	10
Syria	15	10	18
Turkey	12	10	10
Ukraine	5/15 (b)	0/10	10
United Arab Emirates	0	0	10
United Kingdom	5/15 (b)	7	10
Yemen	10	10	10
Non-treaty jurisdictions	15	10	24

- (a) The 5% rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 10% of the capital of the payer of the dividends. The higher rate applies to other dividends.
- (b) The lower rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 25% of the capital of the payer of the dividends.
- (c) The lower rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 20% of the capital of the payer of the dividends.
- (d) The lower rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 15% of the capital of the payer of the dividends.
- (e) The Algerian domestic rate of 10% applies if the rate under the treaty is higher.
- (f) The treaty does not include an article regarding interest.

# Angola

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## A. At a glance

Corporate Income Tax Rate (%)	30 (a)(b)
Capital Gains Tax Rate (%)	30 (c)
Branch Tax Rate (%)	30 (a)(b)
Withholding Tax (%)	
Dividends	10 (d)
Interest	10/15 (e)
Royalties	10
Payments for Services	6.5 (f)
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (g)

- (a) Income from certain activities, such as agriculture, forestry and cattle raising, is subject to tax at a rate of 15%. Mining activities are subject to tax at a rate of 25%. Oil and gas companies are subject to Oil Income Tax rather than Industrial Tax (corporate income tax). See Section B.
- (b) Tax exemptions or tax reductions are available under the Private Investment Law as well as specific legislation for micro, small- and medium-sized companies. For details, see Section B.

- (c) Gains derived from the sale of securities that are not subject to corporate income tax or personal income tax are subject to tax at a rate of 10%. If such gains are derived from treasury bills, treasury bonds and titles issued by the Angolan Central Bank (Banco Nacional de Angola, or BNA) with a maturity of at least three years or from shares of listed companies, a 50% tax relief may apply.
- (d) Certain dividends are exempt from tax (see Section B). A 5% rate applies to dividends paid by listed companies during a five-year period beginning on 19 November 2014.
- (e) In general, interest is subject to a 15% rate. However, certain interest, such as interest on shareholders loans, corporate bonds, bank deposits, treasury bills, treasury bonds and titles issued by the BNA is subject to a 10% rate. Interest on treasury bills and treasury bonds and titles issued by the BNA is subject to a reduced rate of 5% if the maturity is at least three years.
- (f) Some exceptions exist.
- (g) Mining companies may carry forward losses for seven years, up to a limit of 50% of the turnover.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies carrying out industrial and commercial activities in Angola are subject to Industrial Tax (corporate income tax).

An Angolan company, which is a company that has its head office or effective place of management and control in Angola, is subject to Industrial Tax on its worldwide profits.

Foreign entities with a permanent establishment in Angola are subject to Industrial Tax only on profits imputed to the permanent establishment. The tax law provides a force of attraction principle for permanent establishments.

All companies, regardless of whether they have a permanent establishment in Angola, are subject to Industrial Withholding Tax on services supplied to entities established in Angola for tax purposes (for details, see *Rates of corporate tax*).

Industrial Tax taxpayers are classified into the following two groups of taxation:

- Group A: Companies with a share capital exceeding AOA2 million and with turnover exceeding AOA500 million, as well as permanent establishments of nonresident companies, public companies, associations and foundations.
- Group B: Companies with a share capital not exceeding AOA2 million and with turnover not exceeding AOA500 million. As a general rule, companies that do not fall into Group A are classified by default into Group B, unless a specific request is made.

**Rates of corporate tax.** The standard Industrial Tax rate is 30%.

Income from certain activities, such as agriculture, forestry and cattle raising, is subject to a reduced tax rate of 15%.

Notwithstanding the above, the Private Investment Law (Law No. 14/15 of 11 August), establishes that a private investment project may be granted tax benefits through the reduction of Industrial Tax, Investment Income Tax and Urban Property Transfer Tax rates. The granting of tax benefits depends on the following factors:

- Jobs created for Angolan nationals
- Investment amount (a minimum of USD1 million is required)

- Investment location (investment zone)
- Production to be exported
- Shareholding by Angolan investors
- National added value

For this purpose, Angola is now divided into the following two economic zones:

- Zone A: Province of Luanda, head municipalities of Benguela and Huíla, and municipality of Lobito (in the province of Benguela)
- Zone B: Provinces of Bengo, Bié, Cabinda, Cuando Cubango, Cuanza-Norte, Cuanza-Sul, Cunene, Huambo, Lunda-Norte, Lunda-Sul, Malanje, Moxico, Namibe, Uíje and Zaire, and the remaining municipalities of Benguela and Huíla

The granting of the above benefits is subject to a case-by-case analysis. However, the period of such benefits is defined through specific criteria.

Micro, small- and medium-sized companies covered by special legislation can benefit from the following reductions of the Industrial Tax rate:

- Micro companies: payment of a special tax at a rate of 2% on gross sales for the first two to five years of activity, depending on the localization
- Small- and medium-sized companies: tax rate reduction between 10% and 50% for the first two to five years of activity, depending on the localization

Micro, small- and medium-sized industrial companies benefit from an exemption from consumption tax on raw materials. This exemption also applies to productive industries in general, provided that specific criteria are met. Micro companies also benefit from a stamp duty exemption.

All companies, regardless of whether they have a permanent establishment in Angola, are subject to withholding tax on payments received for services rendered. The withholding tax applies regardless of whether the services are rendered in or outside Angola. The rate of the withholding tax is 6.5%.

The following services are excluded from withholding tax:

- Teaching and similar services
- Health services
- Services for which the amount paid does not exceed AOA20,000
- Passenger transportation services
- Lease of machinery and equipment subject to Investment Income Tax

A similar exclusion applies to financial and insurance intermediation services, hotel and similar services, and telecommunication services, if the service provider has a taxable presence in Angola. For local service providers, withholding tax does not apply to documented recharges between related parties. Payments for raw materials, parts and other materials are also excluded from the withholding tax base if the service provider has a taxable presence in Angola.

The payer must withhold the tax from each payment and remit the withholding tax to the Angolan government. The tax withheld is

considered to be a payment on account if the recipient has a residence, head office or permanent establishment in Angola. Excess withholding tax can be carried forward for five years. Otherwise, the tax is final.

Income from oil and gas extraction is subject to Oil Income Tax at a total rate of 50% (under production-sharing agreements) or 65.75% (under other types of joint ventures). Angolan companies benefit from a reduced Oil Income Tax rate equivalent to that of Industrial Tax. In addition, companies engaged in exploration for and production of oil, gas and similar products must pay Oil Production Tax at a total rate of 20%. Oil Transaction Tax and a Surface Surcharge may also be levied at rates of 70% and USD300 per square kilometer, respectively. Oil Production Tax and Oil Transaction Tax are not payable under production-sharing agreements.

Contracts, such as production-sharing agreements, between oil and gas companies and the Angolan government generally override the Oil Production Tax and Oil Transaction Tax and may set forth different taxes and applicable rates.

Additional taxes and charges apply within the oil and gas and mining industries. Also, specific tax rules apply to the liquefied natural gas project, including withholding tax exemptions on certain interest, dividends, royalties and services income.

**Capital gains.** Capital gains on profits derived from the sale of fixed assets are subject to Industrial Tax at the regular tax rate of 30%. Capital gains on shares or other instruments generating investment income that is not taxable for Industrial Tax or personal income tax purposes are subject to Investment Income Tax at a rate of 10%.

However, a 50% relief is available for capital gains derived from listed shares or from corporate bonds, other securities, treasury bonds, treasury bills and BNA securities, if they are negotiated in a regulated market and if their maturity is of at least three years.

**Administration.** The tax year is the calendar year.

All companies engaging in activities in Angola must register with the tax department to obtain a taxpayer number.

Companies, including foreign companies with a permanent establishment in Angola, must file an annual corporate income tax return, together with their financial statements and other documentation, by the end of April (Group B taxpayers) or May (Group A taxpayers) of the following year.

Companies must make an advance payment of Industrial Tax in July or August of the tax year, depending on the type of taxpayer. The advance payment corresponds to 2% of the turnover derived from the sale of goods and services (not subject to Industrial Withholding Tax) during the first six months of the tax year.

Penalties are imposed for a failure to file tax returns and other required documents. If, on the final assessment, the tax authorities determine that a further payment is required and that the taxpayer is at fault, a penalty of up to 35% and compensatory interest at a rate of 1% per month or fraction of a month is imposed, in

addition to the unpaid tax. Late payment interest also applies to non-payment of the above tax debt.

**Dividends.** Companies are not subject to Industrial Tax on the gross amount of dividends received.

A 10% Investment Income Tax, which is withheld at source, is imposed on dividends.

The Investment Income Tax Code contains a participation exemption measure. Under this measure, the 10% withholding tax exemption applies to dividends received by Angolan parent companies from Angolan subsidiaries, subject to minimum 25% and one-year holding requirements.

**Foreign tax relief.** In general, no relief is granted for foreign taxes paid by Angolan taxpayers.

### **C. Determination of trading income**

**General.** Taxable income is the income reported in companies' financial statements, subject to certain adjustments. Expenses considered indispensable in the production of income and the maintenance of a production unit are deductible. The following expenses, among others, are not deductible and are added back to taxable income for Industrial Tax purposes:

- Provisions and depreciation deemed to be unlawful, excessive or unauthorized by the tax authorities
- Bad or irrecoverable debts
- Representation expenses, such as travel expenses, deemed to be unreasonable by the tax authorities
- Interest on shareholders loans
- Angolan personal income tax, social security contributions due from the employer, Investment Income Tax and Urban Property Tax
- Costs associated with rented property
- Costs related to previous years
- Donations not covered by the Law of Patronage
- Non-documented expenses and improperly documented expenses
- Confidential expenses (an expense is considered a confidential expense if no valid documentation legally supports the expense and if its nature, function or origin are not materially justifiable)
- Fines and penalties

Rental income subject to Urban Property Tax and income subject to Investment Income Tax is excluded from the computation of the Industrial Tax base.

**Stand-alone tax for certain expenses that are nondeductible for Industrial Tax purposes.** Certain expenses that are nondeductible for Industrial Tax purposes are subject to a stand-alone tax, effective from 2017. This tax applies to improperly documented expenses (2%), non-documented expenses (4%), confidential expenses (30%, or 50% in certain situations) and donations not made in accordance with the Law of Patronage (15%).

**Inventories.** Inventories may be valued by any currently acceptable method provided that the method is consistently applied and is based on documented purchase prices.



**Provisions.** Provisions for the following items are allowable:

- Bad debts up to 4% (for the annual allowance regarding the booking of a new provision or the increasing of a previous balance) or 10% (accumulated balance) of clients' receivables, if, among other requirements, such credits have been legally claimed and are due for more than six months and if steps to collect the claim have been undertaken
- Provisions imposed by the public regulatory authorities of financial, insurance and gambling businesses
- Litigation processes regarding facts underlying the litigation claims that would represent costs of that year
- Depreciation in the value of inventory, provided that it does not exceed 0.5% to 3% in the current year (depending on the nature of the activity), up to a limit that can vary between 2.5% and 12% of the value of the inventory

**Tax depreciation.** Depreciation rates are provided in the law. The following are some of the applicable rates.

Asset	Rate (%)
Vehicles	16.67 to 25
Office buildings	4
Industrial buildings	4 or 6
Machinery, equipment and devices	12.5 to 33.33
Furniture	8.33 to 50

These rates may vary depending on the industry sector.

**Relief for losses.** Companies may carry forward tax losses for three years. This period is increased to seven years for mining companies (up to a limit of 50% of the turnover). No carryback is allowed.

**Groups of companies.** The Large Taxpayers Statute entered into force in October 2013. It establishes that Angolan Large Taxpayers that are integrated in a group of companies may be taxed on the sum of the taxable results obtained by the entities included in the group. For such purpose, a special request through a specific official form (Modelo 5), still pending approval, must be submitted to the tax authorities by the end of February following the tax year for which the application of this special regime is requested. The Chief of the Large Taxpayer's Tax Office must expressly approve this request and, accordingly, the application of the group taxation regime.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Training levy, on oil and gas exploration and production companies and their subcontractors	
Production companies and companies engaged in refining and processing of petroleum	USD0.15 per barrel
Companies owning a prospecting license	USD100,000 a year
Exploration companies	USD300,000 a year

Nature of tax	Rate
Subcontractors under a contract with a term exceeding one year (levied on annual gross income) and entities engaged in the storage, transport, distribution and trading of petroleum (levied on revenue derived from such activities)	0.5%
Stamp duty	
On the amount of receipts	1%
On the acquisition of real estate	0.3%
On leasing and subleasing of real estate	0.1%/0.4%
On company's capital	0.1%
On guarantees	0.1% to 0.3%
On financing	0.1% to 0.5%
On financial leasing of real estate	0.3%
On leasing of movable property	0.4%
On imports	1%
On certain exports	0.5%
Consumption tax; rate varies according to type of good and service	2% to 80%
Custom duties on imports	2% to 50%
Customs emoluments	2%
Urban Property Tax; imposed on 60% of the gross rent	25%
Urban Property Transfer Tax	2%
Social security contributions, on salaries and additional remuneration; the contributions are not payable by expatriates working in Angola if they make contributions to the social security scheme or a similar scheme in their home countries; paid by	
Employer	8%
Employee	3%
Special Contribution on Invisible Exchange Transactions; applicable to payments for services provided by nonresident entities under technical assistance or management contracts	10%

## E. Miscellaneous matters

**Foreign-exchange controls.** The Ministry of Economy, together with the BNA, supervises all foreign-exchange operations. Commercial banks usually act as intermediaries of companies to obtain clearance from the BNA.

The BNA issued Bank Order No. 13/13, of 31 July 2013, which was published in the *Official Gazette* of 6 August 2013. This order sets out the new foreign-exchange procedures to be adopted with respect to current invisible operations. Notwithstanding the foreign exchange integrated reporting system (SINOC), to simplify the monitoring procedures regarding the current invisible operations, the order establishes the following new thresholds for transactions that do not require prior approval by the BNA:

- Transactions amounting up to AOA300 million (approximately USD1,800,000) or the equivalent in another currency carried out by oil and gas service providers
- Other transactions up to AOA100 million (approximately USD605,000) or the equivalent in another currency

Operations with a value exceeding the above mentioned thresholds must be cleared in advance by the BNA. No thresholds are provided regarding the transfer of salaries.

In general, repatriation of profits is allowed for approved foreign-investment projects if certain requirements are met. In certain cases, a time schedule for repatriation of profits may be imposed.

However, the oil and gas sector is subject to a specific foreign-exchange control regime, which aims primarily to establish uniform treatment in this sector by replacing the multiple exchange regimes that have been applied to oil and gas upstream companies operating in Angola, thereby providing fair treatment to all investors.

These foreign-exchange control rules cover the trade of goods, current invisible operations (according to the Angolan National Bank Instructive, these operations are services, royalties, interest, travel costs and salaries) and capital movements arising from the prospecting, exploration, evaluation, development and production of crude oil and natural gas.

For purposes of the rules, exchange operations encompass the following:

- Purchase and sale of foreign currency
- Opening of foreign currency bank accounts in Angola by resident or nonresident entities and the transactions carried out through these bank accounts
- Opening of national currency bank accounts in Angola by nonresident entities and the transactions carried out through these bank accounts
- Settlement of all transactions of goods, current invisible operations and capital movements

**Thin-capitalization rules.** No thin-capitalization rules are in effect in Angola. However, interest on shareholders' loans is not deductible for Industrial Tax purposes.

**Anti-avoidance legislation.** The arm's-length principle applies in Angola. Consequently, the tax authorities may adjust the taxable income derived from transactions between related parties.

**Related-party transactions.** The Large Taxpayers Statute contains specific rules governing "special relations" between taxpayers, which entered into force in October 2013. Under this regime, a special relationship is deemed to occur if one entity exercises, directly or indirectly, a significant influence on the management decisions of another entity. The law also establishes that a Large Taxpayer that has annual turnover exceeding AOA7 billion (approximately USD42 million) at date of closing the accounts must prepare and submit a transfer-pricing file to the Angolan tax authorities. This transfer-pricing file, which must be prepared on an annual basis, must detail the relationships and prices established by the Large Taxpayers with the companies and entities with which they have "special relations." The transfer-pricing file must be submitted by the end of the sixth month following the year-end to which the file relates. With respect to the economic analysis of the transactions, the new regime provides for the application of the following methods only:

- Comparable uncontrolled price method

- Resale-minus method
- Cost-plus method

**Invoice requirements.** Effective from 1 December 2013, new requirements are imposed with respect to the keeping and archiving invoices or equivalent documents by individuals or legal entities with their domicile, registered office, effective management or permanent establishment in Angola.

**Tax-neutrality regime for mergers and demergers.** A tax-neutrality regime for mergers and demergers has been introduced for Industrial Tax purposes at the level of the merged or spun-off companies, but not at the level of the respective shareholders. However, this regime applies only to companies that are classified as Large Taxpayers in the Large Taxpayers Statute (see *Groups of companies* in Section C).

## **F. Tax treaties**

Angola does not have any tax treaties in force.

Angola has entered into an agreement with Portugal on the reciprocal promotion and protection of investments. However, this agreement does not provide any specific tax benefits.

# Argentina

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**A. At a glance**

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	0/15/30 (b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	0/7/35 (c)
Interest	15.05/35 (d)
Royalties from Patents, Know-how, etc.	21/28/31.5 (d)
Branch Remittance Tax	0/7/35 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) A Tax on Minimum Presumed Income is payable to the extent that it exceeds regular corporate income tax for the year. For details, see Section B. The corporate income tax rate is 30% for fiscal years starting 1 January 2018 to 31 December 2019, and 25% for fiscal years starting 1 January 2020 and onward.
- (b) The 15% rate generally applies to capital gains derived by foreign residents from sales of shares, quotas and other participations in entities. Capital gains derived by foreign residents from listed shares and corporate and government bonds, under certain circumstances, can benefit from an exemption. Argentine corporate residents are subject to the regular 30% corporate rate.

- (c) A 7% dividend withholding tax rate applies to dividends paid out of profits accrued during fiscal years starting from 1 January 2018 to 31 December 2019. The rate will be 13% for dividends paid out of profits accrued in fiscal years starting from 1 January 2020 and onward. The above-mentioned rates apply to distributions made to resident individuals or foreign investors, while distributions to resident corporate taxpayers are not subject to withholding. A 0% dividend withholding tax rate generally applies to dividends paid out of profits accrued during fiscal years that started before 1 January 2018; however, in these cases, a 35% withholding tax (known as “equalization tax”) is triggered if the distribution exceeds the after-tax accumulated taxable income of the taxpayer.
- (d) These are final withholding taxes imposed on nonresidents only. For details concerning the rates, see Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are taxed on worldwide income. Any profits, including capital gains, are taxable. Companies incorporated in Argentina and branches of foreign companies are considered to be resident companies.

**Rates of corporate tax.** Corporate tax is payable at a rate of 30%.

**Tax on Minimum Presumed Income.** The Tax on Minimum Presumed Income (TMPI) is imposed on resident companies and branches of foreign companies. The TMPI is payable to the extent it exceeds regular corporate income tax for the year.

The tax base for the TMPI is the resident company’s or branch’s worldwide assets at the end of the tax year. Certain specified assets are excluded from the calculation of the tax base.

The standard rate of TMPI is 1%, but special rates apply to certain types of companies.

TMPI that is paid may offset regular income tax in the following 10 tax years.

Under Law 27,260, TMPI will be eliminated for fiscal years beginning on or after 1 January 2019.

**Capital gains.** Capital gains derived by tax-resident companies are included in taxable income and taxed at the regular corporate tax rate. Capital gains derived by foreign residents from the sale, exchange, barter or disposal of unlisted shares, quotas, participations in entities and titles are subject to a 15% tax. This tax may be calculated on actual net income or on 90% presumed income, thereby resulting in an effective 13.5% tax on the sale price.

Capital gains derived by foreign residents from the transfer of listed shares are covered by an exemption, to the extent that the investor is not resident in, and the funds do not arise from, “non-cooperating” jurisdictions.

**Administration.** The tax year for a company is its accounting year. Companies are required to make 10 advance payments of corporate income tax. The first payment is equal to 25% of the preceding year’s tax and the other payments are each equal to 8.33% of such tax. The payments are due monthly beginning in the sixth month after the end of the accounting year. The due dates depend on the company’s taxpayer registration number.

Under certain circumstances, advance payments of TMPI (see *Tax on Minimum Presumed Income*) may be required.

Companies must file their tax returns and pay any balance due by a specified date in the fifth month after their accounting year. If the payment is late, interest is charged.

**Dividends.** The dividend withholding tax rates are 7% for profits accrued during fiscal years starting from 1 January 2018 to 31 December 2019, and 13% for profits accrued in fiscal years starting from 1 January 2020 and onward. The above-mentioned rates apply to distributions made to resident individuals or foreign investors, while distributions to resident corporate taxpayers are not subject to withholding tax. A 0% dividend withholding tax rate generally applies for profits accrued during fiscal years that started before 1 January 2018; however, in these cases, a 35% withholding tax (known as “equalization tax”) is triggered if the distribution exceeds the after-tax accumulated taxable income of the taxpayer.

**Withholding taxes on interest and royalties.** Final withholding taxes are imposed on interest and royalties paid to nonresidents.

A withholding tax rate of 15.05% applies to the following types of interest payments:

- Interest on loans obtained by Argentine financial entities.
- Interest on loans granted by foreign financial entities located in the following jurisdictions:
  - Jurisdictions not considered to be low- or no-tax jurisdictions under Argentine rules
  - Jurisdictions that have signed exchange-of-information agreements with Argentina and have internal rules providing that no banking, stock market or other secrecy regulations can be applied to requests for information by the Argentine tax authorities
- Interest on loans for the importation of movable assets, except automobiles, if the loan is granted by the supplier of the goods.
- Under certain conditions, interest on investments in Argentine financial entities.

The withholding tax rate for all other interest payments to nonresidents is 35%.

The general withholding tax rate for royalties is 31.5%. If certain requirements are satisfied, a 21% rate may apply to technical assistance payments and a 28% rate may apply to certain royalties.

**Foreign tax relief.** Resident companies may credit foreign income taxes against their Argentine tax liability, up to the amount of the increase in that liability resulting from the inclusion of foreign-source income in the tax base.

Direct and indirect foreign tax credits are available. To qualify for an indirect foreign tax credit, an Argentine company must own directly at least 25% of a first-tier subsidiary’s shares. In addition, for a foreign tax credit regarding a second-tier subsidiary, an Argentine company must have an indirect ownership interest of at least 15%. The credit does not apply below the second tier.

### C. Determination of trading income

**General.** Tax is applied to taxable income, which is the accounting profit earned in the tax period after adjustments provided for by the tax law. Exemptions are usually insignificant.



Expenses are deductible to the extent incurred in producing taxable income, subject to certain restrictions and limitations, including, among others, those applicable to the following:

- Representation expenses
- Directors' fees
- Royalties for patents and trademarks paid to nonresidents

Depreciation, rental payments and all other automobile expenses, such as license fees, insurance, fuel and maintenance, are also deductible, subject to certain restrictions. In general, certain limitations apply to the deductibility of interest payments to foreign related entities (see Section E).

Any expense incurred by an Argentine company in favor of a foreign related party that is deemed Argentine-source income for the recipient of the payment can be deducted for tax purposes in the year of accrual only if the payment is made by the date when the income tax return for that year is due. Otherwise, such expenses must be deducted in the year of payment. This limitation also applies to expenses paid to individuals or entities located in "non-cooperating" or "low- or no-tax" jurisdictions, regardless of whether they are related parties.

**Foreign-exchange losses.** Foreign-currency gains and losses arising from customary business transactions are normally treated as business income or expenses for the year in which the exchange fluctuation occurs. In the case of debts with related parties, foreign-exchange losses are subject to the same deduction restrictions as interest.

**Inventories.** Stock is valued according to procedures established by the tax law, which result in values nearly equal to its market value or replacement cost at the end of the tax period, depending on the type of goods.

**Provisions.** A provision for bad debts is allowed. However, it must be computed according to rules prescribed by the tax law.

**Depreciation.** Tangible assets may be depreciated using the straight-line method over the assets' expected lives. A method based on effective use may also be acceptable. In general, buildings are depreciated at an annual rate of 2%. However, a higher rate may be acceptable if it is established that, because of the materials used to construct the building, the expected useful life is less than 50 years. The law does not specify rates for movable assets. Intangible property may be depreciated only if it has a limited life based on its characteristics. Certain assets, such as goodwill and trade names, may not be depreciated.

**Inflationary adjustment.** Adjustment for inflation is allowed in accordance with the following rules:

- Inflation adjustment of new acquisitions and investments carried out from 1 January 2018 and onward
- Application of an integral inflation adjustment mechanism for fiscal years beginning on or after 1 January 2018 if the variation of the Internal Wholesale Price Index supplied by the National Institute of Statistics and Censuses is higher than 100% for the 36-month period before the end of the fiscal period

**Revaluation option.** Argentine-resident individuals and companies have the option to re-evaluate for tax purposes their assets located in Argentina that generate taxable income. The revaluation option applies for the first fiscal period that ends after 30 December 2017 (for example, for fiscal periods ending on 31 December, the revaluation option applies to the year-end of 31 December 2017).

The new tax value of the assets is determined by applying a “revaluation factor,” to the tax value originally determined in each year or period of the asset’s acquisition or construction. In the case of immovable or movable property qualifying as fixed assets, the value may be determined by an independent appraiser under certain conditions.

In addition, the law imposes a one-time special tax on the amount of the revaluation. The applicable rate varies depending on the assets revalued. The following are the rates:

- Real estate (regarded as capital assets): 8%
- Real estate (regarded as inventories): 15%
- Shares, quotas and other participations in Argentine companies owned by resident individuals: 5%
- All other assets (except inventories and cars, which may not be revalued): 10%

**Relief for losses.** Tax losses may be carried forward for five tax periods. Losses resulting from sales of shares or from foreign-source activities may offset only the same type of income. Loss carrybacks are not permitted.

Except for hedge transactions, losses resulting from the rights contained in derivative instruments or contracts may offset only the net income generated by such rights during the fiscal year in which the losses were incurred or in the following five fiscal years. For this purpose, a transaction or contract involving derivatives is considered a hedge transaction if its purpose is to reduce the impact of future fluctuations in market prices or fees on the results of the primary economic activities of the hedging company.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on goods delivered and services rendered in Argentina, on services rendered outside Argentina that are used or exploited in Argentina, and on imports	
Standard rate	21
Other rates	2.5/5/10.5/27
Tax on financial transactions; generally imposed on debits and credits with respect to checking accounts; a portion of the tax may be creditable against other taxes	
General rate	0.6
Other rates	0.05/0.075/0.1/ 0.25/0.5/1.2

Nature of tax	Rate (%)
Various local taxes on gross receipts, real estate and other items	Various
Social security taxes (including medical care contributions), on monthly salaries; paid by employer; a portion may be creditable against VAT; the creditable portion varies depending on where the employees render services (the rates of the social security taxes will gradually converge to 19.5% in 2022; the creditability will be gradually reduced to 0% in 2022)	23.5/26.7
Export duties; general rate; other rates apply to certain exports (oil, grains and others)	0
Tax on personal assets; imposed on all legal persons and individuals domiciled abroad holding ownership interests in Argentine companies; tax is calculated based on the equity value of the Argentine company; tax is paid by the Argentine company, but the company may recover the tax paid from the foreign shareholder	0.25

## E. Miscellaneous matters

**Foreign-exchange controls.** Since December 2015, the Executive Branch and the Central Bank have issued regulations to provide flexibility for the foreign-exchange controls to simplify the access to the Argentine foreign-exchange market.

**Interest deductibility limitation.** Under general principles, transactions between related parties must be made on an arm's-length basis.

The Argentine income tax law establishes a limit for the deduction of interest arising from financial loans granted by related parties. The limit equals 30% of earnings before interest, taxes, depreciation and amortization (EBITDA) or a certain amount to be determined by the Executive Branch, whichever is higher. The limit each year is increased by the amount unused (if applicable) in the prior three years. In addition, if certain interest was not deductible in a given year due to the application of the limitation, it can be carried forward for five fiscal years. For this purpose, interest includes foreign-exchange differences.

The law provides exemptions from the deduction limit for certain situations (for example, the interest is derived on loans obtained by Argentine banks and financial trusts or the beneficiary of the interest has been subject to tax on such income in accordance with the Argentine income tax law). In addition, the limitation does not apply to situations in which it is proved that the ratio of interest to EBITDA of the Argentine borrower is equal to or lower than the same ratio for its economic group with respect to debt with unrelated lenders for the same fiscal year.

**Transfer pricing.** The Argentine law includes transfer-pricing rules that generally apply to transactions between related parties. In addition, transactions between unrelated parties may also be

subject to these rules. Transactions with entities and individuals located in “non-cooperating” or “low- or no-tax” jurisdictions are deemed to be not carried out at arm’s length.

In addition, the Argentine law includes rules on analyzing transactions involving the import or export of goods with the participation of a foreign intermediary that is not the actual importer at destination or exporter at origin, respectively, if at least one of the foreign parties involved (that is, the intermediary, importer or exporter) is a related party. In these cases, the law requires proof that the foreign intermediary’s remuneration is in line with the risks it assumes, the functions it carries out and the assets involved.

The law provides for the following transfer-pricing methods:

- Comparable uncontrolled price method
- Resale price method
- Cost-plus method
- Profit-split method
- Transactional net margin method

For exports of goods with known prices and with the intervention of an intermediary that is related, or located in “non-cooperating” or “low- or no-tax” jurisdictions, the income tax law requires the Argentine exporter to file the agreements supporting the transactions with the federal tax authorities (Administración Federal de Ingresos Públicos, or AFIP). If the agreements are not filed, the Argentine-source income from the export is determined considering the known prices on the date the goods are loaded into the transportation vehicle, with appropriate comparability adjustments, if applicable.

## F. Treaty withholding tax rates

Some of Argentina’s tax treaties establish maximum tax rates lower than those under general tax law. To benefit from a reduced treaty withholding tax rate, certain formal requirements must be met. The following table shows the lower of the treaty rate and the rate under domestic tax law.

	<b>Dividends (a)</b> %	<b>Interest (c)</b> %	<b>Royalties (c)</b> %
Australia	10/15 (b)	0/12	10/15
Belgium	10/15 (b)	0/12	3/5/10/15 (d)
Bolivia	35	15.05/35	21/28/31.5 (f)
Brazil	35	15.05/35	21/28/31.5 (f)
Canada	10/15 (b)	0/12.5	3/5/10/15 (d)
Chile	10/15 (b)	4/12/15	3/10/15
Denmark	10/15 (b)	0/12	3/5/10/15 (d)
Finland	10/15 (b)	0/15	3/5/10/15 (d)
France	15	15.05/20	18
Germany	15	10/15	15
Italy	15	15.05/20	10/18 (e)
Mexico	10/15 (b)	0/12	10/15
Netherlands	10/15 (b)	0/12	3/5/10/15 (d)
Norway	10/15 (b)	0/12	3/5/10/15 (d)
Russian Federation	10/15 (b)	15	15
Spain	10/15 (b)	0/12	3/5/10/15 (d)

	<b>Dividends (a)</b> %	<b>Interest (c)</b> %	<b>Royalties (c)</b> %
Sweden	10/15 (b)	0/12	3/5/10/15 (d)
Switzerland	10/15 (b)	0/12	3/5/10/15 (d)
United Kingdom	10/15 (b)	0/12	3/5/10/15 (d)
Uruguay	35	15.05/35	21/28/31.5 (f)
Non-treaty jurisdictions	35	15.05/35 (f)	21/28/31.5 (f)

- (a) The rates shown in the table apply only if the corresponding domestic withholding rate is higher than the tax treaty rate. According to the domestic law, the dividend withholding tax rate is 7% for profits accrued during fiscal years starting from 1 January 2018 to 31 December 2019. A 0% dividend withholding tax rate generally applies for profits accrued during previous fiscal years; however, in these cases, a 35% withholding tax (known as “equalization tax”) may be triggered if the distribution exceeds the after-tax accumulated taxable income of the taxpayer.
- (b) These treaties establish maximum rates of 10% or 15%. The 10% rate applies if the beneficial owner of the dividend is a company that controls, directly or indirectly, at least 25% of the voting power of the payer. The 15% rate applies to other cases.
- (c) The rates listed are the lower of the treaty or statutory rates. For details concerning the domestic rates, see Section B.
- (d) In general, the rates apply to the following categories of payments:
- 3% for the use of, or right to use, news
  - 5% for the use of, or right to use, copyrights of literary, dramatic, musical or other artistic works (but not royalties with respect to motion picture films and works on film or videotape or other means of production for use in connection with television)
  - 10% for the use of, or right to use, industrial, commercial or scientific equipment or patents, trademarks, designs, models, secret formulas or processes, or for the use of or information concerning scientific experience, including payments for the rendering of technical assistance
  - 15% for other royalties
- These categories may differ slightly from treaty to treaty.
- (e) The 10% rate applies to royalties for the use of, or right to use, copyrights of literary, artistic or scientific works. The 18% rate applies to other royalties.
- (f) For details concerning these rates, see Section B.

# Armenia

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*Because of the rapidly changing economic situation in Armenia, changes are expected to be made to the tax law of Armenia. As a result, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Permanent Establishment Tax Rate (%)	20
Withholding Tax (%)	
Dividends	10
Interest	10
Royalties	10
Insurance Compensation, Reinsurance Payments and Income Received from Freight	5
Income from the Lease of Property, Capital Gains on Property (except Securities) and Other Passive Income	10
Capital Gains on Securities	0
Income from Rendering of Services	20
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident and nonresident entities pay corporate income tax in Armenia. Resident organizations are organizations that are state registered in Armenia. Nonresident organizations are organizations established in foreign countries. Resident entities are taxed on their worldwide income, which consists of income received from sources in and outside Armenia. Nonresident entities are taxed on Armenian-source income only.

Income earned through a permanent establishment in Armenia, net of tax-deductible expenses, is taxed at the regular corporate income tax rate of 20%. A permanent establishment is defined as a fixed place of business activities in Armenia recognized by the

tax authorities through which the enterprise wholly or partly carries on its business. It generally includes organizations or natural persons who represent foreign legal entities conducting commercial activities in Armenia. Domestic tax law and double tax treaties list activities that do not result in a taxable permanent establishment. Foreign legal entities deriving income from the source in Armenia without a permanent establishment are subject to withholding tax on their Armenian-source income at a rate of 5%, 10% or 20% (see the withholding tax rates in Section A).

Armenian law allows foreign investment in various forms, including investment through wholly or partially foreign-owned subsidiaries, share participations in joint stock companies and joint ventures with Armenian legal entities and citizens, permanent establishments and other types of presence.

**Tax rates.** The regular corporate income tax rate is 20%. For investment funds, the corporate income tax rate is 0.01% of net assets.

The profits of resident taxpayers and/or groups of resident taxpayers that are implementing a government-approved exportation program are taxed at a rate of 5% or 2%, if the turnover of goods exported, services provided and works performed for nonresidents outside Armenia exceeds AMD40 billion or AMD50 billion, respectively, during the reporting year and if the following additional conditions are met:

- None of taxpayers from the group is engaged in the extraction of metallic mineral resources and/or the processing thereof, the processing and/or realization of precious stones, the manufacturing and/or realization of jewelry and precious metals, or the production and/or realization of goods that are subject to excise tax.
- Taxpayers of the group have received foreign currency equivalent to at least AMD40 billion in their bank accounts in Armenian resident banks from their operations in the exportation program during the reporting year.
- Taxpayers of the group have not received any income from the delivery of goods, performing of works or provision of services in Armenia during the reporting year.

Profits of resident taxpayers and/or groups of resident taxpayers that are implementing a government-approved program are taxed at a rate of 5% if they carry out an activity in the field of construction or installation exclusively outside Armenia.

**Capital gains.** No separate capital gains tax is imposed in Armenia. Realized capital gains are included in taxable income and are subject to tax at the regular corporate income tax rate.

Realized capital losses can be carried forward together with other losses and be offset against taxable income of future tax years.

**Administration.** The tax year is the calendar year.

Both Armenian and foreign legal entities conducting business activities in Armenia through a permanent establishment must make advance payments of corporate income tax during the year. They must make quarterly advance payments, in the amount of 20% of the actual amount of the corporate income tax for the

preceding year, by the 20th day of the last month of the quarter. Both Armenian and foreign legal entities conducting business activities in Armenia through a permanent establishment can make quarterly advance payments of corporate income tax in the amount of 2% of revenues from the provision of goods and rendering of services during the preceding quarter, if they had submitted an application to tax authorities to choose the alternative method for making advance payments of corporate income tax before 20 March of the current tax year.

If the total sum of advance payments exceeds the tax due for the tax year and if the taxpayer applies for a refund, the excess is refunded to the taxpayer. However, in practice, refunds are rare, and accordingly, taxpayers apply overpayments against future tax liabilities.

The annual corporate income tax calculation must be filed and submitted to the Tax Inspectorate by 20 April of the year following the tax year. The corporate income tax must be paid to the state budget by 20 April of the year following the tax year.

Fines are charged on late tax payments at a rate of 0.075% of the tax due for each day of delay, up to a maximum of 730 days. If the taxpayer fails to submit the corporate income tax declaration to the Tax Inspectorate by the due date, a penalty equal to 5% of the total amount of calculated tax is imposed on the taxpayer for each 15-day period. The total amount of the penalties cannot exceed the total amount of the principal tax liability. For the underreporting of taxable income, a penalty equal to 50% of the underreported amount is assessed to the taxpayer.

**Dividends.** Dividend withholding tax at a rate of 10% is imposed on dividends paid from Armenian sources to nonresident legal entities.

Dividends are considered to be paid on the date of the shareholders' decision on distribution of dividends from the reporting year's net profit. This rule applies to dividends attributable to periods after 1 January 2017.

Dividends paid to individuals who are citizens of Armenia are subject to 5% personal income tax. Dividends paid to individuals who are foreign citizens are subject to 10% personal income tax. These taxes are withheld at source.

Dividends paid to resident legal entities are not subject to withholding tax. Dividends received by resident taxpayers from participations in the equity of other legal entities or enterprises that do not have the status of a legal entity are not subject to tax.

**Interest.** Interest withholding tax at a rate of 10% is imposed on interest paid from Armenian sources to individuals and nonresident legal entities. Armenian legal entities receiving interest payments include such payments in their taxable income and are subject to tax on these payments at the normal corporate income tax rate.

**Foreign tax relief.** The amount of corporate income tax withheld from Armenian residents in foreign countries in accordance with the laws of the foreign countries is credited against the corporate



income tax payable in Armenia. However, the amount of the credit may not exceed the amount of the corporate income tax payable in Armenia on the income received in the foreign country. If the amount of the credit exceeds the corporate income tax liability for the tax year, the excess amount may be credited against the corporate income tax in subsequent tax years.

### C. Determination of taxable income

**General.** Taxable income is defined as a positive difference between gross income of the taxpayer and all deductions allowed by the law.

Gross income comprises all revenues of the taxpayer received in the reporting year, except for revenues that are not treated as income according to the law. Gross income includes the following:

- Trading income
- Capital gains
- Income from financial activities
- Gratuitously received assets and income from discounts or remissions of liabilities
- Other items of income

Income received in foreign currency is converted into drams at the daily exchange rate determined by the Central Bank of Armenia for the date of receipt of the income.

Deductible expenses include all documentary supported expenses. However, certain expenses are nondeductible or partially nondeductible for tax purposes.

Nondeductible expenses include, among others, the following:

- Fines, penalties and other proprietary sanctions transferred to the state and municipal budgets
- Assets provided, works performed and services provided free of charge and remitted (forgiven) debts
- Depreciation expenses of fixed assets owned by the taxpayer that are provided under finance leases
- Expenses related to the obtaining of income that is deductible from gross income
- Amount of value-added tax (VAT), excise tax and environmental tax that is offset (deducted) in accordance with the procedure established by the Republic of Armenia Tax Code
- The amount of VAT and excise tax calculated and paid in accordance with the procedure established by the Republic of Armenia Tax Code for goods delivered, works performed or services provided free of charge or at a substantially lower value
- For taxpayers other than banks and credit organizations, interest paid on loans and borrowings if such borrowings or loans are provided by the taxpayers to third parties free of interest
- Payments made by taxpayers for leased assets if the assets are provided by them to third parties for free-of-charge use

Partially nondeductible expenses include, among others, the following:

- Expenses for business trips outside Armenia that exceed 5% of the gross income for the tax year. The limit of 5% is not taken into account in the tax year of registration.

- Representative expenses exceeding 0.5% (but not more than AMD5 million) of the gross income for the tax year. The limit of 0.5% is not taken into account in the tax year of registration.
- Fees paid by the taxpayer for management services received from nonresident companies and individuals not having a permanent establishment in Armenia, exceeding 2% of the taxpayer's gross income for the reporting year. This measure does not apply to management services rendered to resident companies by their nonresident founders if the companies are engaged in innovative activities in the information technology and computer technique fields, as well as management services rendered to resident companies within the framework of international credit agreements.
- Payments made by the employer for an employee that are within the terms of voluntary pension insurance in accordance with the legislation and that exceed 7.5% of the employee's remuneration.
- Amounts of financial aid, food provided to individuals, costs for organization of social and cultural events and similar expenses, exceeding 0.25% of the taxable income for the tax year.
- Interest paid on loans and borrowings to the extent that it exceeds twice the bank interest rate defined by the Central Bank of Armenia (currently the deduction is limited to a rate of 24%).
- For taxpayers other than banks and credit organizations, the amount of interest payable on borrowings from entities other than banks and credit organizations in excess of twice the positive amount of equity on the last day of the tax year.
- For banks and credit organizations, the amount of interest payable on borrowings from entities other than banks and credit organizations in excess of nine times the positive amount of equity on the last day of the tax year.
- For taxpayers other than banks and credit organizations, the part of interest paid on loans and borrowings that exceeds the amount of interest on loans and borrowings received by them from lending the same amount to other taxpayers.
- The part of payments made by taxpayers for leased assets that exceeds the payments received by them for providing the same assets to other taxpayers under subleases.

To calculate taxable income, the taxpayer must account for income and expenses on an accrual basis. Income and expenses are accounted for, respectively, from the moment of the acquisition of the right to receive such income or to recognize the expenses, regardless of the actual period of the deriving of such income or the making of such payments.

**Inventories.** Inventories are valued at acquisition cost. Costs for storage and transportation must be included in the value of inventory. The first-in, first-out (FIFO) method may be used to value inventory.

**Provisions.** Bad debts are deductible in accordance with the procedure established by the government of Armenia. Banks, lending organizations, investment companies and insurance companies may deduct bad debts in accordance with the procedure established jointly by the authorized body of the government of Armenia and the Central Bank of Armenia.

In addition, the gross income of banks, lending organizations, stock funds, investment companies or insurance companies may be reduced by a reserve for possible losses in accordance with the procedure established jointly by the authorized body of the government of Armenia and the Central Bank of Armenia.

**Tax depreciation.** Depreciation (amortization) allowances for fixed and intangible assets are deductible for tax purposes in accordance with the terms and conditions provided by the Republic of Armenia Tax Code.

The annual amount of depreciation (amortization) allowances of fixed and intangible assets is calculated by dividing the acquisition cost or revalued cost (the revaluation is carried out according to the procedure established by the law) of fixed and intangible assets by the number of years in the depreciation period for the appropriate group of fixed assets or for intangible assets. The following are the minimum depreciation periods.

Group	Assets	Minimum depreciation period (years)
1	Buildings and constructions of hotels, boarding houses, rest homes, sanitariums and educational institutions	10
2	Other buildings, constructions and transmission devices	20
3	Production equipment	5
4	Robot equipment and assembly lines	3
5	Calculating and communication devices and computers	1
6	Other fixed assets, including growing cattle, perennial plants, and investments intended for improving the land	8

For purposes of the determination of taxable income, taxpayers may choose a depreciation period for fixed assets other than the periods mentioned in the above table, but the chosen period may not be less than one of the above-mentioned periods for the appropriate group.

Fixed and intangible assets with a value up to AMD50,000 are depreciated in the tax year of their acquisition.

Intangible assets are amortized over their useful economic lives. If it is impossible to determine the useful life of an intangible asset, the minimum amortization period for the asset is set at 10 years, but it may not exceed the period of the taxpayer's activity.

Under the law, land cannot be depreciated.

**Relief for losses.** Enterprises may carry forward a loss incurred in a tax year to the following five years. Losses may not be carried back.

**Groups of companies.** Armenian law does not contain any measures allowing members of a group to offset profits and losses.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); imposed on the delivery of goods and rendering of services, free or partially free consumption, the importation of goods through the "Release for Domestic Consumption" customs procedure and the importation of goods from the Eurasian Economic Union, with the exception of cases specified by law; reverse-charge VAT is imposed on entrepreneurial activities subject to VAT that are performed in Armenia by foreign entities (including the import of goods to be used by such entities)	0/20
Excise tax; imposed on certain goods (tobacco products, alcoholic beverages, petrol, diesel fuel and motor oils imported or produced in Armenia as well as natural gas filled in gas stations); the tax is calculated as a specified amount per unit or as a certain percentage of the price of goods subject to excise tax	Various
Real estate tax; generally imposed at local (municipal) level	
Buildings and constructions; tax base is cadastral value	0.1 to 1
Land; tax base is cadastral value or calculated net income	0.5 to 1
Vehicles tax; tax base is traction-motor power	Various

## E. Foreign-exchange controls

The Armenian currency is the dram (AMD). The dram is a non-convertible currency outside Armenia. Enterprises may buy or sell foreign currencies through specialized entities in Armenia (banks, branches of foreign banks operating in Armenia, credit organizations, payment and settlement organizations, foreign-currency dealers and brokers licensed by the Central Bank of Armenia, foreign-currency exchange offices and foreign-currency auction organizers).

Armenia does not impose restrictive currency-control regulations. Individuals and enterprises may open bank accounts abroad without any restriction if they declare such accounts with the tax authorities. In general, all transactions performed in Armenia between resident legal entities or individuals must be performed in Armenian drams. Transactions between resident legal entities or private entrepreneurs and nonresident legal entities or private entrepreneurs may be conducted in other currencies.

## F. Treaty withholding tax rates

Armenia has entered into tax treaties with 46 countries. The following table lists the withholding tax rates under these treaties. In general, if the withholding tax rate provided in a treaty exceeds the rate provided by the Republic of Armenia Tax Code, the domestic rate applies.

	<b>Dividends</b>	<b>Interest (1)</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Austria	5/15 (a)	0/10 (v)	5
Belarus	10/15 (b)	10	10
Belgium	5/15 (a)	0/10 (v)	8
Bulgaria	5/10 (c)	10	10
Canada	5/15 (d)	10	10
Czech Republic	10	5/10 (e)	5/10 (f)
China (mainland)	5/10 (g)	10	10
Croatia	0/10 (h)	10	5
Cyprus	0/5 (x)	5	5
Estonia	5/15 (i)	10	10
Finland	5/15 (i)	5	5/10 (j)
France	5/15 (k)	0/10 (v)	5/10 (l)
Georgia	5/10 (g)	10	5
Germany	15	5	0
Greece	10	10	5
Hungary	5/10 (g)	10	5
India	10	10	10
Indonesia	10/15 (d)	0/10 (q)	10
Iran	10/15 (m)	10	5
Ireland	0/5/15 (bb)	5/10 (cc)	5
Italy	5/10 (n)	0/10 (w)	7
Kazakhstan	10	10	10
Kuwait	5	5	10
Latvia	5/15 (i)	10	10
Lebanon	5/10 (g)	8	5
Lithuania	5/15 (i)	10	10
Luxembourg	5/15 (a)	10	5
Moldova	5/15 (o)	10	10
Netherlands	5/10 (p)	0/5 (v)	5
Poland	10	5	10
Qatar	5/10 (q)	5	5
Romania	5/10 (r)	10	10
Russian Federation	5/10 (s)	0	0
Serbia	8	8	8
Slovak Republic	5/10 (dd)	10	5
Slovenia	5/10 (g)	10	5
Spain	0/10 (y)	5	5/10 (z)
Sweden	0/5/15 (ee)	5	5
Switzerland	5/15 (t)	0/10 (v)	5
Syria	10	10	12
Tajikistan	10	10	10
Thailand	10	10	10
Turkmenistan	5/15 (u)	10	10
Ukraine	5/15 (u)	10	0
United Arab Emirates	3	0	5
United Kingdom	0/5/10/15 (aa)	5	5
Non-treaty jurisdictions	10	10	10

- (1) In several treaties, a 0% rate applies to interest paid to governmental entities, political or administrative-territorial subdivisions, local authorities, central banks or financial institutions owned or controlled by the government. This provision is not reflected in the rates shown in the table.
- (a) The 5% rate applies if the actual owner of the dividends is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends. The 15% rate applies in all other cases.

- (b) The 10% rate applies if the actual owner of the dividends is a company (other than a partnership) that directly holds at least 30% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (c) The 5% rate applies if the actual owner of the dividends is a company that has invested in the payer more than USD40,000 (or the equivalent amount in Armenian currency). The 10% rate applies in all other cases.
- (d) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the company paying the dividends and if the capital invested by the beneficial owner exceeds USD100,000 (or the equivalent amount in Armenian currency) on the date of declaration of the dividends. The 15% rate applies in all other cases.
- (e) The 5% rate applies to interest on loans or credits granted by banks.
- (f) The 5% rate applies to royalties for the use of, or the right of use, literary, artistic or scientific works, including television or radio content (films and compact discs). The 10% rate applies in all other cases.
- (g) The 5% rate applies if the actual owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital (assets) of the company paying the dividends. The 10% rate applies in all other cases.
- (h) The 0% rate applies if the actual owner of the dividends is a company that directly or indirectly holds at least 25% of the capital of the company paying the dividends for a minimum period of two years before the payment of the dividends and if the dividends are not subject to tax in Croatia. The 10% rate applies in all other cases.
- (i) The 5% rate applies if the actual owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the assets of the company paying the dividends. The 15% rate applies in all other cases.
- (j) The 5% rate applies to the royalties for the use of, or the right of use, computer software, patents, trademarks, designs or models, plans or secret formulas or processes, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies in all other cases.
- (k) The 5% rate applies if the actual owner of the dividends is a company that directly or indirectly holds at least 10% of the assets of the company paying the dividends. The 15% rate applies in all other cases.
- (l) The 5% rate applies to the royalties for the use of, or the right to use, copyrights. The 10% rate applies in all other cases.
- (m) The 10% rate applies if the actual owner of the dividends is a company (other than a partnership) that owns at least 25% of the assets of the company paying the dividends. The 15% rate applies in all other cases.
- (n) The 5% rate applies if the actual owner of the dividends is a company that directly holds at least 10% of the capital of the company paying the dividends for a minimum period of 12 months before the date of declaration of the dividends and if the capital invested by the beneficial owner exceeds USD100,000 or the equivalent amount in Armenian currency. The 10% rate applies in all other cases.
- (o) The 5% rate applies if the actual owner of the dividends is a company (other than a partnership) that holds at least 25% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (p) The 5% rate applies if the actual owner of the dividends is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends. The 15% rate applies to dividends in all other cases.
- (q) The 5% rate applies if the capital invested by the actual owner of the dividends exceeds USD100,000. The 10% rate applies in all other cases.
- (r) The 5% rate applies if the actual owner of the dividends is a company that directly holds at least 25% of the assets of the company paying the dividends. The 10% rate applies in all other cases.
- (s) The 5% rate applies if the actual owner of the dividends is a company that directly holds at least 25% of the share capital of the company paying the dividends. The 10% rate applies in all other cases.
- (t) The 5% rate applies if the actual owner is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends and if the capital invested by the beneficial owner exceeds CHF200,000 (or the equivalent amount in Armenian currency) on the date of receipt of the dividends. The 15% rate applies in all other cases.
- (u) The 5% rate applies if the actual owner of the dividends is a company that owns at least 25% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (v) The 0% rate applies to interest connected to sales on credit of industrial, commercial or scientific equipment or business assets, and to interest on loans granted by banking enterprises.
- (w) The 0% rate applies to the interest on loans granted by banking enterprises.

- (x) The 0% rate applies if the capital invested by the actual owner of the dividends exceeds EUR150,000. The 5% rate applies in all other cases.
- (y) The 0% rate applies if all of the following conditions are satisfied:
- The beneficial owner of the dividends is a resident of the other contracting state.
  - The beneficial owner of the dividends has held, directly or indirectly, at least 25% of the capital of the company paying the dividends for at least two years before the date of such payment.
  - Such dividends are not liable to profit tax in the other contracting state.
- (z) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or films or tapes used for radio or television broadcasting. The 10% rate applies in all other cases.
- (aa) The 0% rate applies if the beneficial owner of the dividends is a pension scheme. The 5% rate applies if the beneficial owner of the dividends satisfies all of the following conditions:
- It is a company that is a resident of the other contracting state.
  - It holds, directly or indirectly, at least 25% of the share capital of the company paying the dividends at the date of payment of the dividends.
  - It has invested at least GBP1 million (or the equivalent amount in any other currency) in the share capital of the company paying the dividends at the date of payment of the dividends.
- The 15% rate applies if dividends are paid out of income (including gains) derived directly or indirectly from immovable property within the meaning of Article 6 by an investment vehicle that distributes most of this income annually and if such vehicle's income from this immovable property is exempted from tax. The 10% rate applies in all other cases.
- (bb) The 0% rate applies if the beneficial owner is a company (other than a partnership) that satisfies the following conditions:
- It holds directly at least 25% of the capital of the company paying the dividends.
  - It owned the holding for a period of at least two years before it made the claim for the 0% rate.
  - In the contracting state in which the company is resident, the company is relieved from tax on dividends by an exemption or would, but for this measure in the tax treaty, be entirely relieved by a credit for tax paid with respect to dividends paid by the company paying the dividends.
- The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (cc) The 5% rate applies if interest is paid with respect to loans granted by banking enterprises. The 10% rate applies in all other cases.
- (dd) The 5% rate applies if the actual owner of the dividends is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (ee) The 0% rate applies if the beneficial owner is a company (other than a partnership) that satisfies the following conditions:
- It holds at least 25% of the capital or the voting power of the company paying the dividends.
  - It has owned the holding for a period of at least two years before it made the claim.
  - The dividends are exempt from tax in its hands.
- The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds at least 10% of the capital or the voting power of the company paying the dividends. The 15% rate applies in all other cases.

# Aruba

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## A. At a glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	0/5/10 (a)
Interest	0
Royalties from Patents, Know-how, etc.	0
Foreign-Exchange Commission	1.3 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) The 0% rate applies to dividends paid to resident holding companies. The 5% rate applies to dividends paid to nonresident publicly traded companies and to dividends paid on qualifying shareholdings under applicable tax treaties. The 10% rate applies in all other circumstances.
- (b) A foreign-exchange commission is imposed on all payments by residents to nonresidents. The commission is withheld by banks on behalf of the Central Bank of Aruba.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax is levied on resident and nonresident entities. A domestic entity is an entity that is established in Aruba or incorporated under Aruban law.

Tax is levied on total profits earned from all sources during the company's accounting period. "Profit" means the total of net gains, under any name or in any form. Branches of foreign entities are taxed on Aruban-source income, such as profits earned through a permanent establishment.

*Permanent establishment.* A permanent establishment is deemed to exist in Aruba in the case of the following:



- A permanent representative in Aruba.
- A foreign enterprise that builds, installs, maintains, cleans or repairs capital assets on Aruba for more than 30 days. These 30 days include, among others, days spent on the technical preparation and cleaning up of the site.

**Rate of corporate income tax.** The corporate income tax rate is 25%.

**Special tax regimes for certain companies.** Special tax regimes available for certain companies in Aruba are described below.

*Free-Zone Companies.* Companies operating in the free zone are subject to corporate income tax at a rate of 2% on profits derived from their qualifying activities and to a free-zone facility charge of up to 0.75% on their annual gross turnover. The free zone is a defined territory in which no import duties are levied if the goods are not imported for use in the domestic market. In addition, the following benefits are available to free-zone companies:

- Free-zone companies are not subject to turnover tax with respect to the delivery of goods outside Aruba and the rendering of services to persons outside Aruba.
- Free-zone companies could be exempted from the foreign-exchange commission on request.
- A 0% dividend withholding tax rate applies.

*Imputation Payment Companies.* Imputation Payment Companies (IPCs) were subject to the regular corporate tax rate (see *Rates of corporate income tax*). Under the IPC regime, part of the corporate income tax paid by a company was remitted to its shareholders in the form of an imputation payment. The IPC regime was available to all companies conducting qualifying activities such as hotel, financing, licensing or investment activities. The IPC regime was abolished as of 2016. However, existing IPCs can continue making use of this regime until 2026.

*Special Purpose Companies.* Special Purpose Companies (SPCs) were introduced as of 2016. In principle, qualifying SPCs are subject to a corporate income tax rate of 10%. However, for companies performing qualifying hotel operations, the applicable corporate tax rate can be 10%, 12% or 15%. In addition, SPCs are exempt from dividend withholding tax. SPCs may engage only in the following qualifying activities (in some cases, they must meet certain additional requirements):

- Hotel operations
- Aviation operations
- Shipping operations
- Generation of sustainable energy
- Activities that enhance the knowledge economy
- Scientific activities
- Developing, acquiring, holding, maintaining and licensing intellectual and industrial rights, similar rights and usage rights
- Insuring special entrepreneurial risks (activities of captive insurance companies)
- Financing that is different from the financing offered by credit institutions
- Making portfolio investments (other than in real estate)
- Holding of shares and participation rights

*Aruba Exempt Companies.* An Aruba Exempt Company is exempt from corporate income tax and withholding tax on dividends paid if it performs one of the following activities:

- Financing (if the company does not qualify as a credit institution)
- Investing, other than in real estate
- Holding of shares and participation rights
- Licensing of intellectual and industrial rights, similar rights and usage rights

**Fiscal transparency.** Aruban limited liability companies can opt for fiscal transparency for Aruban corporate income tax and dividend withholding tax purposes within one month after incorporation. If fiscal transparency is granted, the limited liability company is treated as a partnership for Aruba income tax, corporate income tax and dividend withholding tax purposes; that is, only the partners can be taxed in Aruba on Aruban-source income.

It is also possible to obtain an advance ruling from the local tax authorities on the treatment of the local presence.

**Branch profits tax.** Branches of foreign companies are taxed at the same rate as resident companies. No additional withholding taxes are imposed on remittances of profits.

**Capital gains.** Capital gains are taxed as ordinary income. However, certain capital gains are exempt from corporate income tax under the participation exemption (see *Participation exemption*).

**Administration.** In principle, the corporate income tax return for the preceding accounting period must be filed and the corresponding corporate income tax due must be simultaneously paid within five months after the end of the accounting period.

**Dividends.** A 10% withholding tax is imposed on dividends distributed to nonresidents. The rate is reduced to 5% for dividends distributed to publicly traded companies. A 0% rate applies to dividends distributed to resident companies that qualify for the benefits of the participation exemption.

The Tax Regulation for the Kingdom of the Netherlands provides for special dividend withholding tax rates (see Section E).

**Participation exemption.** Aruban resident companies are exempt from corporate income tax on dividends and capital gains derived from shares with respect to qualifying participations. A qualifying foreign participation must satisfy both of the following conditions:

- The shares must not be held as inventory or as a portfolio investment.
- The participation must be subject to a tax on profits.

**Foreign tax relief.** Foreign tax relief is available through the Tax Regulation for the Kingdom of the Netherlands. Foreign tax relief is also available under the state decree for the avoidance of double taxation.

### C. Determination of trading income

**General.** Commercial profits must be calculated in accordance with “sound business practice” and generally accepted accounting standards.

**Inventories.** Inventories are generally valued using the historical-cost, first-in, first-out (FIFO) or weighted average methods.

**Depreciation.** Depreciation may be calculated by the straight-line, declining-balance or flexible methods.

## D. Miscellaneous matters

**Foreign-exchange controls.** The Central Bank of Aruba regulates the foreign-exchange market and carries out the necessary transactions as executor of exchange policy. Remittances abroad require an exchange license issued by the Central Bank of Aruba.

**Debt-to-equity rules.** Aruba does not impose a debt-to-equity ratio.

**Controlled foreign companies.** Aruba does not have specific controlled foreign company legislation. However, numerous measures limit tax deductions related to intercompany transactions that are not at arm's length and intercompany transactions with low-taxed entities.

**Transfer pricing.** If a company or individual participates, directly or indirectly, in the management, supervision or the capital of two or more corporate entities, the conditions that apply to the supply of goods and the rendering of services between these related entities must be at arm's length. These conditions are similar to the conditions that would have applied in transactions with unrelated parties. Information to substantiate arm's-length transactions must include, among other items, the following:

- The agreement between the entities
- Transfer-pricing method that was chosen and why it was chosen
- How the consideration was determined

## E. Tax treaties

Provisions for double tax relief are included in the Tax Regulation for the Kingdom of the Netherlands. These provisions avoid double taxation between the countries of the Kingdom of the Netherlands (Aruba, Curaçao, the Netherlands [including Bonaire, Sint Eustatius and Saba; these islands are known as the BES-Islands] and Sint Maarten) regarding taxes on income, capital and other items.

Under the Tax Regulation for the Kingdom of the Netherlands, the general withholding tax rate of 10% on dividend distributions from an entity resident in Aruba may be reduced to the following rates:

- 7.5% if the recipient of the dividends is a company that has capital divided in shares and that has a share interest in the nominal paid-up capital of the Aruba entity of at least 25%
- 5% if such recipient of the dividends is also subject to tax on profit at a rate of at least 5.5%

Effective from 10 October 2010, the Netherlands Antilles (which consisted of five island territories in the Caribbean Sea) was dissolved as a country. As a result, the island territories of Curaçao and St. Maarten became autonomous countries within the Dutch Kingdom. The island territories of Bonaire, St. Eustatius and Saba (BES-Islands) have become a part of the Netherlands as extraordinary overseas municipalities.

The Tax Regulation for the Kingdom of the Netherlands remains in place until bilateral tax treaties have been concluded between the countries in the Dutch Kingdom.

Aruba has entered into tax information exchange agreements with Antigua and Barbuda, Argentina, Australia, the Bahamas, Bermuda, the British Virgin Islands, Canada, the Cayman Islands, Denmark, the Faroe Islands, Finland, France, Greenland, Grenada, Iceland, Mexico, Norway, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Spain, Sweden, the United Kingdom and the United States.

Aruba is recognized by the Organisation for Economic Co-operation and Development as a jurisdiction that has substantially implemented the internationally agreed tax standard and, as such, is white listed.

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*Australia is reforming its tax system through various tax reviews and government reform initiatives. As a result, various tax settings are changing over time. Because of these developments, readers should obtain updated information before engaging in transactions.*

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**A. At a glance**

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (a)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	
Franked	0 (b)

Unfranked	30 (c)
Conduit Foreign Income	0 (d)
Interest	
General	10 (e)
Interest Paid by Australian Branch of Foreign Bank to Parent	5 (f)
Interest (Debentures, State and Federal Bonds and Offshore Banking Units)	0 (g)
Royalties from Patents, Know-how, etc.	30 (h)
Construction and Related Activities	5 (i)
Fund Payments from Managed Investment Trusts	15 (j)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Indefinite

- (a) From 1 July 2017, a 27.5% company tax rate applies to companies with less than AUD25 million of turnover. The corporate income tax rate will progressively decrease to 25% by 2026 for companies with less than AUD50 million of turnover.
- (b) Franking of dividends is explained in Section B.
- (c) This is a final tax that is imposed on payments to nonresidents only. A reduced rate (in recent treaties, reduced rates typically are 0%, 5% or 15%, depending on the level of ownership) applies to residents in treaty countries.
- (d) An exemption from dividend withholding tax applies to the part of the unfranked dividends that is declared in the distribution statement to be conduit foreign income.
- (e) In general, this is a final withholding tax that is imposed on payments to nonresidents only. However, withholding tax is imposed in certain circumstances on interest paid to residents carrying on business overseas through a permanent establishment (branch). Modern Australian tax treaties exempt government and unrelated financial institutions from withholding tax.
- (f) Interest paid by an Australian branch of a foreign bank to its parent is subject to a rate of 5% on the notional interest rate based on the London Interbank Offered Rate (LIBOR).
- (g) Unilateral exemptions from interest withholding tax are provided for certain publicly offered debentures, for state and federal government bonds and for offshore borrowing by offshore banking units.
- (h) In general, this is a final withholding tax imposed on royalties paid to nonresidents. A reduced rate may apply to residents of treaty countries (the rate is 5% in recent treaties).
- (i) The filing of an Australian tax return to obtain a refund may be required if this withholding results in an overpayment of tax. A variation of the rate to mitigate the adverse cash flow impact is available to certain taxpayers that have previously filed tax returns in Australia.
- (j) Managed investment trusts that hold only energy-efficient commercial buildings constructed on or after 1 July 2012 may be eligible for a 10% withholding tax rate.

## B. Taxes on corporate income and gains

**Corporate income tax.** An Australian resident corporation is subject to income tax on its non-exempt worldwide income. A non-resident corporation is subject to Australian tax only on Australian-source income.

Corporations incorporated in Australia are residents of Australia for income tax purposes, as are corporations carrying on business in Australia with either their central management and control in Australia or their voting power controlled by Australian residents.

Draft guidelines from the Australian Taxation Office (ATO) cover the application of the central management control test of

company residency for foreign-incorporated companies. Factors including the high-level decision-making process of the boards, virtual decision-making and required evidence of the decision-making will be taken into account in considering the residency position.

For corporations, capital gains are taxed at the relevant corporate income tax rate.

Income of nonresident corporations from Australian sources is similarly taxable if it is not subject to withholding tax or treaty protection. However, a nonresident corporation not operating in Australia through a permanent establishment is generally subject to tax only on Australian-source passive income, such as rent, interest, royalties and dividends.

**Rates of corporate tax.** The base tax rate for resident corporations is 30%, but it is being progressively reduced over several years.

A 27.5% rate (reduction of 2.5%) applies for the 2016-17 and 2017-18 income years for eligible small business entities (entities that carry on a business and have an aggregate turnover of less than AUD10 million for 2016-17 or AUD25 million for 2017-18 [thereafter, AUD50 million]). A phased step-down to 25% by 2026-27 applies to companies with turnover up to AUD50 million. Enacted supplementary amendments limit the corporate tax rate reductions (that is, for the 2017-18 through 2023-24 income years to companies with no more than 80% passive income). Under proposed legislation, the turnover threshold to qualify for the lower corporate tax rate would be progressively raised to cover all companies by 2023-24.

**Resource taxation.** The Petroleum Resource Rent Tax (PRRT) is imposed at a rate of 40% on project profits from the extraction of non-renewable petroleum resources.

Before 1 July 2012, PRRT applied only to offshore projects (that is, companies undertaking petroleum activities in Commonwealth waters, excluding projects located in the North West Shelf and certain areas within the Australian/East Timor Joint Petroleum Development Area [JPDA]). From 1 July 2012, PRRT applies to all projects, including onshore petroleum projects and projects in the North West Shelf, but still excluding projects in the JPDA. Transitional measures apply to pre-existing projects.

The government initiated a review into the PRRT, crude oil excise and associated Commonwealth royalties, with an interim report being issued in 2017. The Australian Treasury subsequently requested further consultation on the PRRT design options and issues in the interim report.

An Exploration Development Initiative (EDI) may allow mineral exploration companies undertaking greenfield minerals exploration (very broadly, companies with no assessable income from extracting minerals) in Australia to issue tax credits to shareholders for a portion of eligible exploration costs for the 2015-16 to 2017-18 income years. However, tax credits available for issuance by all eligible companies in Australia are capped at AUD40 million for the 2017 income year. A bill before parliament introduces a replacement for the EDI. This is the Junior

Mineral Exploration Incentive, with a total value of the proposed tax incentive of AUD100 million for the 2018 to 2021 income years in the form of a refundable tax offset or franking credits for investors subscribing for new shares in these companies.

The cost of exploration rights and information first used for exploration (for costs before 14 May 2013) was immediately deductible if the price paid reflected the value of resources already discovered. Costs of acquiring exploration rights or information first used for exploration that are not eligible for an immediate deduction are depreciated over the lesser of 15 years or the effective life of the mine. Further rules were enacted to confirm the immediate deduction for farm-out arrangements, and also to clarify the treatment of interest realignments in joint venture common developments.

**Carbon-pricing mechanism.** Effective from 1 July 2014, the previous carbon-pricing mechanism was replaced by a Direct Action Plan.

### Capital gains

*Income and capital gains.* Australia's tax law distinguishes income (revenue) gains and losses from capital gains and losses, using principles from case law. Broadly, capital gains and losses are not assessable or deductible under the ordinary income tax rules.

However, the capital gains tax (CGT) provisions in the tax law may apply. The CGT provisions apply to gains and losses from designated CGT events. For corporations, capital gains are taxed at the relevant corporate income tax rate. Designated CGT events include disposals of assets, grants of options and leases, and events arising from the tax-consolidation rules (see Section C).

For CGT purposes, capital gains are calculated by identifying the capital proceeds (money received or receivable or the market value of property received or receivable) with respect to the CGT event and deducting the cost base. CGT gains are reduced by amounts that are otherwise assessable.

Special rules apply to assets acquired before 20 September 1985.

*CGT deferrals or rollovers.* CGT rollover relief may be elected for various transfers, restructures and takeovers, including scrip takeovers. The effect of the relief is the deferral of taxation until a subsequent disposal or CGT event, if further rollover relief is not available. Transfers within a tax-consolidated group are ignored for tax purposes (see Section C).

Capital losses are deductible only from taxable capital gains; they are not deductible from ordinary income. However, ordinary or trading losses are deductible from net taxable capital gains.

*Foreign residents and CGT.* Foreign residents are subject to CGT if an asset is "taxable Australian property," which includes broadly the following:

- Taxable Australian real property: real property located in Australia including a leasehold interest in land, or mining and quarrying or prospecting rights, if the minerals, petroleum or quarry materials are located in Australia.



- Indirect Australian real property interest: broadly, a non-portfolio interest in an Australian or foreign entity if more than 50% of the market value of the entity's assets relates to assets that are taxable Australian real property. Integrity rules to prevent the double counting of intercompany assets apply to consolidated and multiple-entry consolidated groups (see *Tax consolidation* in Section C) from 14 May 2013 and to other entities from 13 May 2014. The 2017-18 Federal Budget announced further integrity measures to apply from 9 May 2017 to ensure that foreign tax residents cannot avoid a CGT liability by disaggregating indirect interests in Australian real property.
- The business assets of an Australian permanent establishment.

*12.5% percent non-final withholding to support foreign resident CGT regime.* A non-final 12.5% foreign resident CGT withholding obligation applies with respect to the purchase of certain direct or indirect taxable Australian property from foreign residents, effective from 1 July 2017 (up from 10%). The rules apply to direct real property transactions with a value of AUD750,000 (previously AUD2 million) or more, to certain indirect property transactions including company and trust interests and to options and rights to acquire such property or interests. These rules must be factored into all acquisition and disposal processes and allow for rate variations and declarations in some cases. Australian resident vendors of direct property must provide an ATO clearance certificate to not be subject to withholding.

*Ten percent non-final withholding to support foreign resident CGT regime.* Australia introduced a non-final 10% foreign resident CGT withholding obligation with respect to the purchase of certain direct or indirect taxable Australian property from foreign residents, effective from 1 July 2016. The rules apply to direct real property transactions with a value of AUD2 million or more, to certain indirect property transactions including company and trust interests and to options and rights to acquire such property or interests. These rules must be factored into all acquisition and disposal processes and allow for rate variations and declarations in some cases. Australian resident vendors of direct property must provide an Australian Tax Office (ATO) clearance certificate to not be subject to withholding.

*CGT participation exemption for disposals of shares in foreign companies.* The capital gain or capital loss derived by a company from the disposal of shares in a foreign company may be partly or wholly disregarded to the extent that the foreign company has an underlying active business, if the holder company held a direct voting interest in the foreign company of at least 10% for a period of at least 12 months in the 2 years before the disposal. This participation exemption can also reduce the attributable income arising from the disposal of shares owned by a controlled foreign company in another foreign company (see Section E).

**Venture capital.** Venture capital investment concessions provide a 20% nonrefundable tax offset on investments in eligible innovation companies, capped at AUD200,000 per investor per year and a CGT exemption up to 10 years (provided that investments are held for at least three years).

Investors receive a 10% nonrefundable tax offset on capital invested in Early Stage Venture Capital Limited Partnerships (ESVCLPs) registered on or after 7 December 2015.

In 2017, the government proposed amendments to these measures to ensure that start-up financial technology businesses can also access the venture capital investment tax concessions.

**Administration.** The Australian tax year ends on 30 June. For corporate taxpayers with accounting periods ending on other dates, the tax authorities may agree to use a substituted accounting period (SAP).

In general, companies with an income year-end of 30 June must file an annual income tax return by the following 15 January. Companies granted permission to adopt a SAP must file their returns by the 15th day of the 7th month after the end of their income year.

Under a pay-as-you-go installment system, companies with turnover of AUD20 million or less continue to make quarterly payments of income tax within 21 days after the end of each quarter of the tax year. The amount of each installment is based on the income earned in the quarter. The installment obligations for larger companies with turnover in excess of AUD20 million involve monthly payments.

Some recent developments affecting certain corporate tax entities with respect to public disclosures of their tax positions and their tax-governance processes are outlined below.

*ATO reporting of selected tax data for larger companies.* The ATO is required to publicly report selected tax data for all corporate entities paying Mining Resources Rent Tax and PRRT and selected income tax data for large corporate entities (turnover exceeding AUD100 million [or currently AUD200 million for Australian majority-owned private companies; an opposition bill proposes to reduce the threshold for these companies to AUD100 million]). The ATO reports are made, broadly, in December and cover the data for the tax returns filed in the year ended 30 June of the preceding year. Some companies might want to consider supplementary disclosures in their own communications channels.

*Voluntary Tax Transparency Code.* The Australian government encourages larger companies to adopt a Voluntary Tax Transparency Code (TTC) for income years ending on or after 3 May 2016, to promote public understanding of businesses' compliance with Australia's tax laws. The TTC, developed by the Board of Taxation, is a set of principles and minimum standards to guide disclosure of tax information by businesses. The disclosures vary by companies' size, with larger businesses to consider, in addition to reconciliations of accounting to tax aggregates, their tax policy, strategy, governance, total tax contribution and foreign related-party dealings. Business groups are encouraging companies to consider compliance, and currently more than 120 companies are committed to apply the TTC.

*Some companies to file General Purpose Financial Statements.* Significant companies (global turnover greater than AUD1 billion)

with an Australian presence that do not file General Purpose Financial Statements (GPFS) with the Australian Securities and Investments Commission (ASIC) are required to file GPFS with the ATO for income years commencing from 1 July 2016. The ATO is then required to forward such GPFS to the ASIC.

**Dividends.** Dividends paid by Australian resident companies are franked with an imputation credit (franking credit) to the extent that Australian corporate income tax has been paid by the company on the income being distributed. Tax rules discourage companies from streaming imputation credits to those shareholders that can make the most use of the credits, at the expense of other shareholders.

A company may select its preferred level of franking with reference to its existing and expected franking account surplus and the rate at which it franked earlier distributions. However, under the “benchmark rule” for private companies, all distributions made within a franking period must generally be franked to the same extent.

The franking credit is intended to equal the tax paid by the paying entity. Enacted consequential amendments to the imputation rules for small business entities benefiting from the reduced corporate rate means that these companies must determine whether they frank at 27.5% or 30%, based on the prior year’s turnover.

The consequences of receiving a franked dividend vary depending on the nature of the recipient shareholder.

A New Zealand company may choose to maintain an Australian franking account and attach Australian franking credits to dividends paid to Australian resident shareholders, for Australian company tax paid on that income.

*Resident corporate shareholders.* Franked distributions received by resident companies from other Australian resident companies are effectively received free from tax. A resident company receiving franked distributions grosses up the dividend amount received by the amount of its franking credit, and the grossed-up amount is included in the assessable income of the recipient company. The recipient company is entitled to a tax offset (rebate) equal to the amount of the franking credit on the distribution received that may be used against its own tax payable. In addition, the recipient company is allowed a franking credit in its own franking account, which may be distributed to its own shareholders.

A resident company is subject to tax on unfranked dividends received, but special rules apply for certain income passed to non-resident shareholders (see *Nonresident shareholders: corporate and non-corporate*).

If a company’s entitlement to a tax offset exceeds its tax payable, it can convert the excess franking offset into an equivalent amount of tax loss. The tax loss may then be carried forward indefinitely for deduction in subsequent years.

*Resident individual shareholders.* The shareholder includes the dividend received plus the full imputation credit in assessable income. The imputation credit can be offset against personal tax

assessed in the same year. Excess credits relating to dividends received are refunded to the shareholder.

*Nonresident shareholders: corporate and non-corporate.* Issues relevant to dividends and foreign shareholders include the following:

- Franked dividends paid to nonresidents are free from dividend withholding tax.
- Refunds of imputation credits are not available for nonresidents.
- A deduction may be available if an Australian company wholly owned by a nonresident company receives unfranked non-portfolio dividends (from holdings of at least 10% of the voting power in the company paying the dividends). The deduction equals the amount of any unfranked non-portfolio dividend that the Australian company pays to its nonresident parent. Various conditions must be satisfied, and anti-avoidance rules apply.
- “Conduit foreign income” that flows through Australian companies to foreign investors may also achieve flow-through treatment. Broadly, “conduit foreign income” is foreign-source income earned by an Australian company that is not taxed in Australia. A conduit income distribution that an Australian corporate tax entity makes to a foreign resident is not subject to dividend withholding tax and is not assessable income, to the extent that the entity declares it to be conduit foreign income.

**Foreign tax relief.** Australian residents are subject to Australian tax on their worldwide income, but they may receive a foreign income tax offset (FITO) for foreign taxes paid on foreign-source income included in assessable income. FITOs must be used in the year in which the related foreign-source income is included in assessable income. Otherwise, they are lost without having provided any relief from double taxation. For controlled foreign companies (CFCs; see Section E), a modified system applies.

### C. Determination of trading income

**General.** Taxable income is defined as assessable income less deductions. Assessable income includes ordinary income and statutory income (specifically listed in the tax law as being assessable income). Non-cash business benefits may be included as income in certain circumstances.

Australia’s tax law distinguishes income (revenue) gains and losses from capital gains and losses, using principles from case law. Broadly, capital gains and losses are not assessable or deductible under the ordinary income tax rules; however, the capital gains provisions in the tax law may apply (see Section B).

Broadly, the following types of income are not included in assessable income:

- Profits from foreign branches of Australian companies (other than, broadly, income that would be attributable under the CFC rules, see Section E).
- Amounts paid out of income previously taxed under the CFC rules (see Section E).
- Foreign equity distributions received by Australian corporate entities on participation interests. This covers dividends or non-share dividends received from a foreign company with respect to an interest in a company classified as equity under Australian

tax rules, subject to a 10% participation requirement. Such distributions received through interposed entities, such as trusts and partnerships, may now also be eligible.

*Expenses.* Expenses are deductible to the extent they are incurred in gaining or producing assessable income or are necessarily incurred in carrying on a business for the purpose of gaining or producing assessable income. However, expenses of a capital nature (except business black hole expenditure; see *Five-year deduction for black hole business expenditure*) and those incurred in the production of exempt income are not deductible. Apportionment of expenses having dual purposes is possible.

Fringe benefits tax (see Section D) is deductible. Entertainment expenses are not deductible unless they represent fringe benefits provided to employees. Penalties and fines are not deductible.

Under commercial debt forgiveness rules, the net amount of debts forgiven during an income year reduces the debtor's accumulated revenue tax losses, capital losses, certain undeducted expenditure and cost bases of assets.

**Research and development.** A tax credit system applies for research and development (R&D) expenditure. The incentives apply to companies incorporated in Australia for R&D conducted in Australia. The location of ownership of the resulting intellectual property is not a barrier to a tax concession.

Core and supporting R&D activities must be registered under the new R&D tax credit system. Supporting R&D activities must be directly related to core R&D activities. Activities that result in the production of goods or services are eligible only if they are undertaken for the dominant (or sole) purpose of supporting the core R&D activity (the "dominant purpose" test).

Eligible expenditure in excess of AUD20,000 is prima facie not deductible but gives rise to the following:

- For large companies, nonrefundable tax credits of 38.5% (formerly 40%). Effective from 1 July 2016, R&D expenditure claims are capped at AUD100 million per taxpayer and, for expenditure above AUD100 million, companies can claim a 30% tax offset.
- For companies with group turnover of less than AUD20 million, refundable tax credits of 43.5% (formerly 45%), effective from 1 July 2016.

The above turnover thresholds also apply to local companies conducting foreign-owned R&D.

**Debt and equity classification.** Specific debt-and-equity rules focus on economic substance rather than on legal form. If the debt test is satisfied, a financing arrangement is generally treated as debt, regardless of whether the arrangement could also satisfy the test for equity. The test is complex and extends well beyond an examination of whether a borrower has a non-contingent obligation to repay an amount of principal.

The debt or equity classification affects the taxation of dividends (including the imputation requirements), payments received from nonresident entities, thin-capitalization regime, dividend and interest withholding taxes and related measures.

The tax debt and equity rules will be affected by Australia's adoption of changes recommended under the global Base Erosion and Profit Shifting (BEPS) Action Plan affecting hybrid financing. Exposure draft legislation released in 2017 sets the start date of the proposed Australian hybrid mismatch rules at six months following the date of Royal Assent of the enabling legislation (that is, a potential start date in late 2018).

**Financial arrangements.** Extensive rules deal with the taxation of "financial arrangements" (as defined) for specified taxpayers.

The default methods are accruals and realization methods. These are supplemented by various methods available at a taxpayer's election, using accounting approaches with respect to certain financial arrangements. The elective accounting methods include hedge treatment, fair-value reporting, retranslation for foreign-currency arrangements and, in certain cases, use of the values in financial reports for the financial arrangements.

Individuals are not mandatorily covered by these rules. Superannuation entities must apply the rules if the value of their assets exceeds AUD100 million. Approved deposit-taking institutions or securitization vehicles must apply the rules if their aggregate turnover exceeds AUD20 million. All other entities must apply the rules if either their aggregate turnover exceeds AUD100 million or if the value of their assets exceeds AUD300 million. Taxpayers not covered by the rules can nevertheless elect to apply the rules.

The rules apply to financial arrangements first held in income years beginning on or after 1 July 2010.

**Foreign-exchange gains and losses.** Rules for the tax treatment of foreign-currency gains and losses provide broadly the following:

- Foreign-currency gains and losses are brought to account when realized, regardless of whether an actual conversion into Australian currency occurs.
- Foreign-currency gains and losses generally have a revenue character.
- Specific translation rules apply to payments, receipts, rights and obligations denominated or expressed in a foreign currency.
- Functional-currency rules allow an entity that operates predominantly in a particular foreign currency to determine its income and expenses in that currency, with the net results being translated into Australian currency for the purposes of calculating its Australian income tax liability.

**Inventories.** In determining trading income, inventories may be valued at cost, market-selling value (the current selling value of an article of trading stock in the particular taxpayer's trading market) or replacement price, at the taxpayer's option. The last-in, first-out (LIFO) method may not be used. If the cost method is elected, inventories must be valued using the full-absorption cost method.

**Provisions for future expenditure.** Provisions for amounts not "incurred" during the year, such as leave entitlements of employees, are generally not deductible until payments are made. Similarly, provisions for doubtful trading debts are not deductible until the debt, having been previously brought to account as assessable income, becomes bad and is written off during an income year.

**Capital allowances (depreciation)**

*Uniform capital allowance regime.* Capital allowance rules allow a deduction for the decline in value of a “depreciating asset” held during the year.

A “depreciating asset” is defined as an asset with a limited effective life that may be expected to decline in value over the time it is used. Land, trading stock and intangible assets not specifically included in the regime are not considered to be depreciating assets.

The depreciation rate for a depreciating asset depends on the effective life of the asset. Taxpayers may choose to use either the default effective life determined by the tax authorities or their own reasonable estimate of the effective life. A taxpayer may choose to recalculate the effective life of a depreciating asset if the effective life that was originally selected is no longer accurate as a result of market, technological or other factors.

Taxpayer re-estimation of effective life is not available for certain intangible assets; the law prescribes their effective lives (for example, 15 years for registered designs or 20 years for standard patents). A bill before parliament introduces a choice to allow companies to self-assess the effective life of acquired intangible assets that is currently fixed by statute, for assets acquired from 1 July 2016. Statutory life caps that result in accelerated rates are provided for certain assets used in the oil and gas, petroleum, agricultural, and transport industries, as well as for Australian-registered ships.

Taxpayers may choose the prime cost method (straight-line method) or the double diminishing value method (200% of the straight-line rate) for calculating the tax-deductible depreciation for all depreciating assets except intangible assets. For certain intangible assets, the prime cost method must be used.

The cost of a depreciating asset is generally the amount paid by the taxpayer plus further costs incurred while the taxpayer holds the asset. The depreciable cost of a motor car is subject to a maximum limit of AUD57,581 for the 2017–18 income year.

Pooling of assets may be chosen for pool assets costing more than AUD300 but less than AUD1,000 as well as assets that have been depreciated to less than AUD1,000. The pool balance is depreciable at a rate of 37.5% (18.75% for additions during the year), applying the declining-balance method. If the choice is not exercised, the relevant assets are depreciated on the basis of their respective effective lives.

Software development expenditure may be allocated to a software development pool. Beginning in the year following the year of the expenditure, the expenditure is deductible at a rate of 30% per year for three years, followed by a 10% rate in the final year. This change applies to expenditure incurred in income years beginning on or after 1 July 2015.

*Construction of buildings.* Capital expenditure on the construction of buildings and structural improvements may be eligible for an annual deduction of either 2.5% or 4% of the construction expenditure, depending on the type of structure and the date on which

construction began. The 2.5% rate applies to construction begun after 15 September 1987.

*Disposals of depreciable assets.* For assets other than buildings, if the proceeds received on the disposal of an asset exceed its adjustable value, the excess is included in taxable income. If the proceeds received on the disposal of an asset are less than its adjustable value, a deductible balancing adjustment is allowed.

*Five-year deduction for black hole business expenditure.* Certain types of business expenditure of a capital nature may be deducted under the capital allowance regime to the extent that the expenditure is not taken into account elsewhere in the income tax law and is not expressly nondeductible for tax purposes. This type of expenditure is known as “black hole business expenditure.” The deduction is available on a straight-line basis over five years. Expenditure qualifying for the deduction includes expenditure to establish or alter a business structure, expenditure to raise equity and expenditure in an unsuccessful takeover attempt or takeover defense. However, eligible small business taxpayers may be entitled to an immediate deduction for certain start-up costs incurred in income years beginning on or after 1 July 2015 that would have been otherwise classified as “black hole business expenditure.”

**Relief for losses.** Tax losses may be carried forward indefinitely against assessable income derived during succeeding years. A loss is generated after adding back net exempt income.

To claim a deduction for past losses, companies must satisfy either a continuity of ownership test (more than one-half of voting, dividend and capital rights) or a same business test. A modified continuity of ownership test applies to widely held companies. The modified rules simplify the application of the continuity test by making it unnecessary to trace the ultimate owners of shares held by certain intermediaries and small shareholdings. A bill before parliament introduces an alternative, more flexible “similar business test,” applying with respect to losses incurred in income years beginning on or after 1 July 2015.

Losses are generally not transferable to other group members other than within a tax-consolidated group (see *Tax consolidation*).

*Designated infrastructure projects loss concessions.* Companies that only carry on activities for certain designated infrastructure projects are not required to test the recoupment of losses incurred in the 2012–13 and following income years under the continuity of ownership or same business tests. The losses are also increased by the long-term government bond rate. Projects must be designated by Infrastructure Australia by 30 June 2018, and a cap of AUD25 billion on the value for all projects applies.

**Tax consolidation.** Tax consolidation is available for groups of wholly owned companies and eligible trusts and partnerships that elect to consolidate. Australian resident holding (head) companies and their wholly owned Australian resident subsidiary members of the group are taxed on a consolidated basis. Consolidation is desirable because no grouping concessions (such as the ability to transfer losses to other group members) are otherwise provided.



The head company becomes the taxpayer, and each subsidiary member of the group is treated as if it were a division of the head company. Transactions between members of a consolidated group are generally disregarded for Australian income tax purposes. The head company assumes the income tax liability and the associated income tax compliance obligations of the group.

Tax consolidation is also available for Australian entities that are wholly owned by a single foreign holding company. The resulting group is referred to as a multiple-entry company (MEC) group, which includes the Tier-1 companies (Australian resident companies directly owned by a foreign member of the group) and their wholly owned Australian resident subsidiaries. A Tier-1 company is selected as the head company. The types of entities that may be subsidiary members of an MEC group are generally the same as those for a consolidated group.

The consolidation rules are very significant for merger and acquisition and restructuring transactions. If a tax consolidated group acquires a “joining entity,” the tax cost base of the underlying assets of the joining entity is reset, under complex rules, which can affect the tax treatment of those assets (including the calculation of any tax deductions with respect to such assets). If an entity leaves a consolidated group, the group’s cost base of shares in the leaving entity is reset under specific exit rules. MEC groups are subject to cost base pooling rules to determine the cost base of shares in Tier-1 companies.

The tax-consolidation rules have been subject to various complex ongoing changes affecting ongoing tax positions. Notably, the treatment of rights to future income and residual assets when an entity joins a consolidated group was altered in 2010, and these changes were heavily modified in 2012 (transitional rules preserve aspects of the 2010 changes for some groups).

The government has proposed (not yet legislated as of December 2017) the following further integrity measures for consolidation loopholes affecting acquisitions and divestments:

- Preventing a double benefit from deductible liabilities held by a “joining entity”
- Disregarding deferred tax liabilities from the allocable cost amount calculation
- Removing anomalies when an entity holding securitized assets joins or leaves a consolidated group
- Preventing unintended benefits when a foreign resident ceases to hold membership interests in a joining entity (churning measure)
- Clarifying outcomes when an entity holding financial arrangements leaves a consolidated group (Taxation of Financial Arrangements measure)
- Clarifying treatment of intra-group liabilities when an entity leaves a consolidated group (value-shifting measure)
- Loss-integrity rule for eligible Tier-1 companies that join multiple MEC groups

Assets that are subject to the taxation of financial arrangements rules (see *Financial arrangements*) are subject to separate tax consolidation interaction rules. These complex rules may affect transactions and reorganizations.

**Demergers.** Tax relief is available if eligible company or fixed-trust groups divide into two separately owned entities. The demerging company (or fixed trust) must dispose of at least 80% of its ownership interests in the demerged entity, and the underlying ownership interests must not change as a result of the demerger. The rules provide investors optional CGT rollover relief, as well as dividend exemptions, which are available at the option of the demerging entity. The demerger group is also provided with limited CGT relief.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Goods and services tax	10
Fringe benefits tax on non-cash employee benefits	
From 1 April 2015 (under a Temporary Budget Repair Levy, the highest personal marginal income tax rate applicable for individuals is increased by two percentage points, effective from 1 July 2014 until 30 June 2017; a corresponding increase in the fringe benefits tax rate from 47% to 49% is effective from 1 April 2015 until 31 March 2017)	49
From 1 April 2017	47
Payroll taxes paid by employers (vary by state)	4.75 to 6.85

Customs duty is levied on imports of various products into Australia. Other significant taxes include stamp duty and land tax.

## E. Miscellaneous matters

**General anti-avoidance regime.** Australia's general income tax anti-avoidance regime (GAAR, or Part IVA) complements specific anti-avoidance rules.

Part IVA has been expanded by the following two measures targeting significant multinational businesses:

- The Multinational Anti-Avoidance Law targeting certain schemes for avoidance of Australian permanent establishments
- The Diverted Profits Tax targeting certain international schemes with insufficient economic substance

Part IVA generally applies if, taking into account eight specified matters, it is determined that the dominant purpose of the parties entering into a scheme was to enable the taxpayer to obtain a tax benefit. If the Commissioner of Taxation makes a Part IVA determination, the tax benefit is denied, and significant penalties may be imposed.

**Multinational Anti-Avoidance Law.** The Multinational Anti-Avoidance Law (MAAL) is effective from 1 January 2016. Broadly, the MAAL targets schemes entered into by significant global entities (SGEs) with global turnover greater than AUD1 billion if all of the following apply:

- A foreign entity makes a supply of certain goods or services to an Australian customer.
- Activities are undertaken directly in Australia in connection with the supply by an Australian entity or permanent

establishment that is an associate of or commercially dependent on the foreign entity.

- The foreign entity making the supply derives income, some or all of which is not attributable to an Australian permanent establishment of the foreign entity.
- Taking into account the relevant factors, it can be concluded that a principal purpose of the transaction is the enabling of a relevant taxpayer to obtain an Australian tax benefit and/or reduce tax liabilities arising under foreign law, including some deferrals of foreign taxes. A principal purpose is a lower threshold than the dominant purpose discussed in *General anti-avoidance regime*. Relevant factors include the role of the parties in the value chain and their capacity, staffing and resources to carry out their designated functions (to distinguish the parties from insubstantial parties).

**Diverted Profits Tax.** The Diverted Profits Tax (DPT), which applies for income years beginning on or after 1 July 2017, targets SGEs diverting profits from Australia. Under a potential DPT assessment, tax is payable on the amount of the diverted profits at a penalty rate of 40%. The DPT applies, very broadly, if the following conditions are satisfied:

- The relevant Australian entity or permanent establishment is an SGE for the year of income.
- A scheme exists, and the Australian taxpayer obtains a tax benefit in connection with the scheme (considering reasonable alternative situations).
- A foreign entity that is an associate of the relevant taxpayer entered into the scheme or is otherwise connected to the scheme.
- It is concluded that the scheme (or any part of a scheme) was carried out for a principal purpose of enabling the relevant taxpayer (and/or associate) to obtain a tax benefit, or both to obtain a tax benefit and reduce a foreign tax liability of an associate.

Exclusions apply if it is concluded that one of the following tests applies:

- The relevant Australian entity has income of less than AUD25 million.
- The increase of the foreign tax liability is equal to or exceeds 80% of the tax that would have otherwise been paid in Australia.
- The profit derived by each covered entity reasonably reflects the economic substance of the entity's activities in connection with the scheme.

A limited exclusion applies for some entities that carry on predominately passive activities (for example, managed-investment trusts, pension funds, sovereign-wealth funds and selected collective-investment vehicles). Extensive ATO protocols and approvals are required to be met before the issuance of a DPT assessment.

**Transfer pricing.** Australia's transfer-pricing rules, updated in recent years, include measures to ensure that Australian taxable income associated with cross-border transactions is based on arm's-length prices. Several methods for determining the arm's-length price are available. The ATO provides guidance in a binding tax ruling on the appropriate methods, and taxpayers can enter into Advance Pricing Arrangements.

For transactions with parties entitled to benefit from foreign tax treaties, the law confirms the ATO view that Australia's tax treaties provide a separate and unconstrained transfer pricing taxing power.

The law allows the use of the Organisation for Economic Co-operation and Development (OECD) transfer-pricing guidance material. The updated OECD Transfer Pricing Guidance, agreed to in October 2015, which arises from the OECD BEPS Action Plan, was incorporated into domestic law from 1 July 2016.

Australia's transfer-pricing rules are integrated into the self-assessment regime and require broad and timely documentation. The risk of transfer-pricing adjustments is magnified for companies that are involved in significant intragroup financing arrangements or business restructurings or that have losses or low levels of profits. Significant aspects include the following:

- The onus is on the Public Officer who signs the income tax return to confirm that the actual conditions are in line with arm's-length conditions. If the actual and arm's-length conditions do not align and if a transfer-pricing benefit is received, the taxpayer must adjust taxable income, tax losses or other tax attributes. Penalties apply for a false or misleading statement.
- As a basic rule, the arm's-length conditions should be based on the form and substance of the actual commercial or financial relations. However, documentation must address reconstruction, which refers to situations in which the transactions or arrangements actually entered into are ignored and (in some cases) other transactions or arrangements are substituted.
- Taxpayers are treated as not having a reasonably arguable position with respect to any international related-party transaction that is not appropriately documented at the time of the filing of the tax return. A transfer-pricing adjustment with respect to such undocumented transactions attracts a penalty of at least 25%. The penalties are doubled for income years beginning on or after 1 July 2015 for tax-avoidance and profit-shifting schemes, with respect to groups that have global turnover of greater than AUD1 billion. It is essential that appropriate transfer-pricing documentation be in place to have a reasonably arguable position.
- Adjustments can only be within seven years of the date on which the ATO gives the notice of assessment.

For business income tax returns, the International Dealings Schedule requires detailed disclosures designed to flag potential risk areas.

**Country-by-Country Reporting.** Australia adopted Country-by-Country Reporting (CbCR) to align with recommendations under Action 13 of the OECD BEPS Action Plan, with the enactment of a law and the implementation by the ATO through administrative guidance developed over time. For income years beginning on or after 1 January 2016, certain multinational entities are required to prepare and file the following with the ATO:

- A Country-by-Country Report in line with the OECD standards
- A Master File in line with the OECD standards
- A Local File with requirements that include providing electronic copies of related-party agreements

Guidance on when the ATO may exempt multinationals from any of the requirements is available, but the criteria are strict.

**Increased penalties for SGEs.** Increased penalties for SGEs apply from 1 July 2017. The base penalty amount for late-filing penalties is multiplied by 500 (instead of much lower multipliers for non-SGE companies). These heavy penalties are designed to ensure compliance with new GPFS requirements (see *Requirement for some companies to file General Purpose Financial Statements* in Section B) or documents required for CbCR, but the increased penalties are not limited to new reporting obligations for SGEs and can apply to any ATO approved form required to be filed by a SGE (for example, a tax return or activity statement), subject to ATO discretion to remit penalties. For example, if an SGE files an income tax return up to 28 days late, it may be subject to a late filing penalty of AUD105,000, or up to AUD525,000 if it is more than 112 days late (taking into account the proposed increase of the penalty unit amount from AUD180 to AUD210 from 1 July 2017).

**Debt-to-equity (thin-capitalization) rules.** Thin-capitalization measures apply to the total debt of Australian operations of multinational groups (including foreign and domestic related-party and third-party debt). In addition, the transfer-pricing measures may affect the deductions available for related-party debt.

*Thin-capitalization.* The thin-capitalization measures apply to the following:

- Foreign-controlled Australian entities and foreign entities that either invest directly into Australia or operate a business through an Australian branch (inward investing entities)
- Australian entities that control foreign entities or operate a business through an overseas branch (outward investing entities)

Exceptions to the thin-capitalization rules apply in either of the following circumstances:

- The total debt deductions of the taxpayer are AUD2 million or less for the year of income, effective from income years beginning on or after 1 July 2014.
- Australian assets account for 90% or more of total assets of outward investing entities (that are not also inward investing entities).

Debt deductions are partially denied if the company's adjusted average debt exceeds the maximum allowable debt.

In most cases, the maximum allowable debt is calculated by reference to the safe harbor debt amount. The safe harbor debt amount approximates a debt-to-equity ratio of 1.5:1 (or 60% debt-to-total-assets ratio). Separate methodologies apply to financial institutions or consolidated groups with at least one member classified as a financial entity.

Taxpayers can also determine the maximum allowable debt by reference to an arm's-length debt amount that is based on what amount an independent party would have borrowed from an independent lender. This determination requires the consideration of several factors.

Inward investors can also determine the maximum allowable debt of an Australian entity by reference to the group's worldwide gearing debt amount. The government has announced changes to the thin-capitalization measures to restrict the use of multi-tiered gearing structures involving flow-through entities to create large debt deductions with low withholding taxes. A law is being drafted, to be effective from 1 July 2018, to expand the grouping rules for flow-through entities (for example, trusts and partnerships).

*Transfer pricing.* The transfer-pricing provisions apply to the pricing of related-party debt, even if an arrangement complies with the thin-capitalization rules. The ATO can substitute a hypothetical arm's-length capital structure to set an arm's-length interest rate if the amount of debt is considered not to be arm's length, even if the taxpayer is within the thin-capitalization safe harbor debt levels. The arm's-length interest rate is then applied to the actual amount of debt. ATO guidance on the application of the transfer-pricing rules to related-party loans with zero interest is currently being drafted and expected to be released in early 2018.

**Cross-border related-party financing arrangements.** ATO guidance sets out the ATO's compliance approach with respect to cross-border related-party financing arrangements, which are seen as a high-priority issue. This guidance provides a self-assessment tool for taxpayers to determine their risk profiles, and the taxpayer determination must be disclosed broadly to the ATO. The guidance applies, effective from 1 July 2017, to all related-party financing arrangements on issue (as opposed to newly issued) from that date with potentially open-ended retrospective implications.

**Controlled foreign companies.** A foreign company is a CFC if five or fewer Australian residents hold at least 50% of the company or have de facto control of it, or if a single Australian entity holds a 40% interest in the company, unless it is established that actual control does not exist.

The tainted income of a CFC is attributed to its Australian resident owners, which are required to include such income in their assessable income. In general, the tainted income of a CFC is its passive income and income from certain related-party transactions.

Income is generally not attributable if the CFC passes an active-income test. To pass this test, the CFC's tainted income may not exceed 5% of the CFC's gross turnover.

Whether an amount earned by a CFC is attributable to Australian residents depends on the country in which the CFC is resident. The CFC rules identify "listed countries," which have tax systems that are considered to be closely comparable to the Australian system. The following are the "listed countries":

- Canada
- France
- Germany
- Japan
- New Zealand
- United Kingdom
- United States

All other countries are “unlisted countries.”

Certain amounts are unconditionally attributed regardless of whether the CFC is resident in a listed or unlisted country.

If a CFC resident in a listed country fails the active-income test, its attributable income includes “adjusted tainted income,” which is eligible designated concession income prescribed by the regulations on a country-by-country basis. This income includes items such as income subject to tonnage taxation or concessionally taxed capital gains.

If a CFC resident in an unlisted country fails the active-income test, its attributable income includes all of its adjusted tainted income, such as passive income (including tainted interest, rental or royalty income) and tainted sales or services income.

Income derived by a CFC is exempt from Australian income tax if it is remitted as dividends or non-share dividends made with respect to an interest in the company classified as equity under Australian tax rules to an Australian company.

*Foreign investment fund rules.* Foreign investment fund (FIF) rules dealing with attribution of income related to certain non-controlling interests were repealed and last applied to the 2009–10 income year. The FIF rules were to be replaced by a narrowly defined anti-avoidance measure targeting “interest-like returns in certain foreign entities,” but this project has not progressed.

**Value shifting.** A general value-shifting regime applies to counter certain transactions involving non-arm’s-length dealings between associated entities that depress the value of assets for certain income tax and CGT purposes.

**Withholding taxes.** Interest, dividends and royalties paid to non-residents are subject to Australian withholding tax (also, see Section F for treaty withholding tax rates).

The 10% withholding tax rate on interest is generally the same as the rate prescribed by Australia’s treaties (see Section F). However, modern treaties provide for a 0% rate for government and unrelated financial institutions. The interest paid by an Australian branch of a foreign bank to its parent is subject to a rate of 5% of the notional interest paid by the branch on internal funds of the foreign bank entity; the notional interest is limited by reference to the LIBOR. Unilateral exemptions from interest withholding tax are provided for certain publicly offered debentures, state and federal government bonds and offshore borrowing by offshore banking units. The ATO has expressed concerns about financing arrangements involving related-party foreign currency-denominated financing with related-party cross-currency interest rate swaps to reduce withholding taxes.

For dividends paid, the withholding tax rate of 30% applies only to the unfranked portion of the dividend. A reduced rate applies if dividends are paid to residents of treaty countries. An exemption from dividend withholding tax applies to the part of the unfranked dividends that is declared in the distribution statement to be conduit foreign income.

A final withholding tax at a rate of 30% is imposed on gross royalties paid to nonresidents. The withholding tax rate is typically reduced under a double tax treaty.

A concessional withholding tax regime applies to distributions by eligible managed investment trusts (MITs) to nonresidents, other than distributions of dividends, interest and royalties. The withholding tax rate is 30%, but a reduced 15% rate applies if the nonresident's address or place of payment is in a country that is listed in the regulations as an "information exchange country" (see *Countries listed as "information exchange countries"*). MITs that hold only newly constructed energy efficient commercial buildings may be eligible for a 10% withholding tax rate.

A new taxation system for eligible MITs was introduced, effective from 1 July 2016, with an optional election to apply the rules from 1 July 2015. The new taxation system uses an "attribution model" to determine tax distributions from MITs that meet certain criteria. Specific rules deal with how this new system interacts with withholding tax obligations.

Australian investment manager regime (IMR) rules (including a third installment known as IMR3) allow certain foreign managed funds that have wide membership or use Australian fund managers, and their nonresident investors to qualify for income exemptions for certain income from qualifying investments (in particular, the income exemptions do not apply to income subject to withholding taxes). The IMR applies to conduit foreign income and to Australian-source income from certain passive investments and other financial arrangements for the 2015–16 income year and subsequent income years.

**Countries listed as "information exchange countries."** The concessional withholding tax rates for eligible MITs are restricted to investors in countries listed in the relevant regulation as an "information exchange country." At the time of writing, the regulation listed 60 countries, including the countries that have entered into double tax treaties with Australia, but the treaty countries of Austria, Chile, the Philippines, Switzerland and Turkey had not yet been listed.

**Common Reporting Standard.** Australia adopted the international Common Reporting Standard (CRS) to apply to financial institutions, such as banks, asset managers, funds, custodians and certain insurance companies, from 1 July 2017 and to later calendar years. The initial exchange of information with foreign tax authorities is planned for 2018.

**Foreign-exchange controls.** The Financial Transaction Reports Act 1988 requires each currency transaction involving the physical transfer of notes and coins in excess of AUD10,000 (or foreign-currency equivalent) between Australian residents and overseas residents, as well as all international telegraphic and electronic fund transfers, to be reported to the Australian Transaction Reports and Analysis Centre. This information is then available to the Commissioner of Taxation, Federal Police, Australian Customs Service and other prescribed law enforcement agencies.



**Companies “stapled” to trusts and sovereign wealth funds.**

Structures using companies and linked trusts (“stapled structures” with similar investors) have long been accepted in the real estate sector. Certain trusts flow eligible income through to lower-taxed investors and foreign entities benefiting from the 15% MIT withholding tax rules; stapled companies generate trading income for the same investors, after deducting cross-staple payments to the trusts. These structures spread in recent years to other sectors including infrastructure. ATO and government concern resulted in integrity measures announced to apply from 1 July 2019. These measures will limit access to the lower MIT rate for certain stapled structures, with substantial transitional rules for certain existing infrastructure projects and a rolling 15-year exemption for approved “nationally significant” infrastructure projects. In addition, new conditions will apply when accessing foreign pension fund withholding tax exemptions, tax exemptions for sovereign wealth funds will be codified and limited, and MIT concessions will not apply for funds with agricultural land investments, again with transitional rules.

**Stronger focus of the Foreign Investment Review Board on tax issues.**

The Foreign Investment Review Board (FIRB) approval process for relevant foreign investments involves tax issues, and the ATO is playing a greater role. For approvals since 2016, the national interest test contains eight standard tax conditions plus possible additional conditions that may be imposed if a significant tax risk is identified by the FIRB and ATO. The expanded requirements do not only affect new foreign investment; they may also affect current inbound investors undertaking certain reorganizations. They increase the role of tax discussions in FIRB approval processes and may add time, particularly if the ATO requires further actions.

**F. Treaty withholding tax rates**

The table below provides treaty withholding tax rates for dividends, interest and royalties paid by Australian companies to non-residents.

Under Australian domestic law, certain dividends and interest payments to nonresidents are exempt from withholding tax.

For dividends, Australian domestic law provides that no withholding tax is imposed on dividends to the extent they are franked under Australia’s imputation system introduced in 1987 (see Sections B and E). Some of Australia’s double tax treaties specifically refer to withholding taxes imposed on franked dividends in some circumstances but, under the domestic tax law, dividend withholding tax is not imposed with respect to franked dividends.

For interest, Australia does not impose withholding tax on interest paid to nonresidents on certain publicly offered company debentures or on interest paid on state and federal government bonds. No withholding tax is imposed on interest paid on offshore borrowings by offshore banking units.

	<b>Unfranked dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Argentina	10/15 (b)	12	10/15 (c)
Austria (u)(w)	15	10	10
Belgium	15	10	10
Canada	5/15 (k)	10	10
Chile (z)	5/15 (aa)	5/10 (bb)	5/10 (cc)
China (mainland)	15	10	10
Czech Republic	5/15 (l)	10	10
Denmark	15	10	10
Fiji	20	10	15
Finland (w)	0/5/15 (a)	0/10 (g)	5
France (w)	0/5/15 (q)	0/10 (g)	5
Germany (ii)	0/5/15 (jj)	0/10 (kk)	5
Hungary	15	10	10
India (dd)	15	15	10/15 (c)
Indonesia	15	10	10/15 (c)
Ireland	15	10	10
Italy (w)	15	10	10
Japan	0/5/10/15 (o)	0/10 (g)	5
Kiribati	20	10	15
Korea (South) (w)	15	15	15
Malaysia (w)	0/15	15	15
Malta	15	15	10
Mexico	0/15 (i)	10/15 (h)	10
Netherlands (w)	15	10	10
New Zealand	0/5/15 (x)	0/10 (y)	5
Norway (w)	0/5/15 (a)	0/10 (g)	5
Papua New Guinea	15	10	10
Philippines (u)	15/25 (d)	15	25
Poland	15	10	10
Romania	5/15 (e)	10	10
Russian Federation	5/15 (j)	10	10
Singapore	15	10	10
Slovak Republic	15	10	10
South Africa	5/15 (r)	0/10 (g)	5
Spain	15	10	10
Sri Lanka	15	10	10
Sweden	15	10	10
Switzerland (u)(w)(ee)	0/5/15 (ff)	0/10 (gg)	5 (hh)
Taiwan	10/15 (m)	10	12.5
Thailand	15/20 (f)	10/25 (n)	15
Turkey	5/15 (s)	0/10 (v)	10
United Kingdom (t)	0/5/15 (a)	0/10 (g)	5
United States	0/5/15 (a)	0/10 (g)	5
Vietnam	15	10	10
Non-treaty jurisdictions	30	10	30

- (a) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the rate is 0% or 5%, if the beneficial owner of the dividends is a company that holds at least 80% or 10%, respectively, of the voting power in the payer. In all other cases, the rate is generally 15%.
- (b) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a rate of up to 10% for franked dividends paid to a person holding directly at least 10% of the voting power in the payer). To the extent dividends are unfranked, the withholding tax rate is 15%, regardless of voting power.

- (c) The 10% rate applies to specified types of royalties.
- (d) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the rate is 25%, or 15% if a tax rebate or credit is granted against Australian tax to the beneficial owner of the dividends.
- (e) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a rate of up to 5% for dividends paid out of fully taxed profits if the recipient is a company that holds directly at least 10% of the capital of the payer). To the extent dividends are unfranked, the withholding tax rate is 15%, regardless of voting power.
- (f) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the 20% rate applies to dividends paid to a company that holds directly at least 25% of the capital of the payer of the dividends. The 15% rate applies if the condition described in the preceding sentence is satisfied and if the payer is engaged in an industrial undertaking.
- (g) The 0% rate applies to government institutions and unrelated financial institutions.
- (h) The 10% rate applies if any of the following conditions are satisfied:
- The recipient is a bank or insurance company.
  - The interest is derived from bonds and securities traded on a recognized securities market.
  - The payer is a bank or the purchaser of machinery and equipment with respect to a sale on credit.
- (i) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the 0% rate applies if the recipient of the dividends is a company holding directly at least 10% of the voting power in the payer, and the 15% rate applies in all other cases.
- (j) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a rate of up to 5% for dividends paid out of fully taxed profits to a company that holds at least 10% of the capital of the payer and that has invested at least AUD700,000 [or the equivalent in Russian rubles] in the payer). To the extent dividends are unfranked, the withholding tax is 15%, regardless of voting power.
- (k) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a rate of up to 5% for franked dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer). To the extent dividends are unfranked, the rate is 15%, regardless of voting power.
- (l) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a rate of up to 5% for franked dividends). To the extent dividends are unfranked, the rate is 15%.
- (m) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a rate of up to 10% for franked dividends). To the extent dividends are unfranked, the rate is 15%.
- (n) The 10% rate applies to interest derived by financial institutions or insurance companies.
- (o) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the rate is 0% or 5% if the recipient holds at least 80% or 10%, respectively, of the voting power in the payer and 10% in other cases. However, a 15% withholding tax rate applies to fund payments from managed investment trusts but, under Australian law, this rate is reduced to 10% for funds payments by clean building managed investment trusts.
- (p) The withholding tax rates listed in the table apply to income derived by non-residents on or after 1 January 2015.
- (q) Australia does not impose withholding tax on dividends to the extent they are franked (notwithstanding that the treaty provides for a 0% rate if the dividends paid out of profits that have borne the full company tax and if the recipient is a company that holds directly at least 10% of the voting power of the payer). To the extent dividends are unfranked, the rate is 15%, or it is 5% if the dividends are paid to a company that holds at least 10% of the voting power of the payer.
- (r) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the rate on unfranked dividends is 15%, or 5% if the beneficial owner of the dividends is a company that holds directly at least 10% of the voting power of the company paying the dividend.
- (s) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the 5% rate applies to dividends paid by a company that is resident in Australia to a company (other

than a partnership) that holds directly at least 10% of the voting power in the company paying the dividends. The 15% rate applies in all other cases.

- (t) Australia is renegotiating its double tax treaty with the United Kingdom. An exemption from withholding tax for interest payments to related financial institutions is one area for potential change. However, further details are not yet available.
- (u) These countries are not currently listed as “information exchange countries” (see Section E).
- (v) Interest derived from the investment of official reserve assets by the government of a contracting state, its central bank or a bank performing central banking functions in that state is exempt from tax in the other contracting state. The 10% rate applies in all other cases.
- (w) Australia has most-favored-nation clauses in its treaties with Austria, Finland, France, Italy, Korea (South), Malaysia, the Netherlands, Norway and Switzerland. Under the most-favored-nation clause, Australia and the other treaty country must try to renegotiate their tax treaties if the withholding tax rates in another of Australia’s tax treaties are lower.
- (x) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the 0% rate applies if the recipient holds at least 80% of the payer or if the dividends are paid with respect to portfolio investments by government bodies including government investment funds. The 5% rate applies if the recipient holds at least 10% of the payer. The 15% rate applies to other dividends.
- (y) The 0% rate applies to interest paid to government institutions and unrelated financial institutions. The 10% rate applies in all other cases.
- (z) The withholding tax rates listed in the table apply to income derived on or after 1 April 2013.
- (aa) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the 5% rate applies if the recipient beneficially owns at least 10% of the voting power in the company paying the dividends. The 15% rate applies in all other cases.
- (bb) The 5% rate applies if the recipient is a financial institution that is unrelated to and dealing wholly independently with the payer. The 10% rate applies in all other cases.
- (cc) The 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (dd) An amending protocol to the treaty signed on 16 December 2011 entered into force on 2 April 2013. It updates various aspects of the agreement including cross-border services, source-country taxation and assistance in collection of taxes. However, it does not contain any changes to withholding tax rates.
- (ee) Australia and Switzerland signed a revised tax treaty, which entered into force on 14 October 2014. It applies to withholding taxes on income that is derived by a resident of Switzerland on or after 1 January 2015.
- (ff) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, a 0% rate applies to dividends paid to the following:
- Publicly listed companies or subsidiaries thereof, and unlisted companies in certain circumstances, that hold 80% or more of the paying company
  - Complying Australian superannuation funds and tax-exempt Swiss pension schemes that did not hold more than 10% of the direct voting power or capital in the company, respectively, during the preceding 12-month period
- The 5% rate applies to dividends paid to companies that hold 10% or more of the paying company. The 15% rate applies in all other cases.
- (gg) Under the revised treaty, the 0% rate applies to interest paid to the following:
- Bodies exercising governmental functions and banks performing central banking functions
  - Banks that are unrelated to, and dealing independently with, the payer
  - Complying Australian superannuation funds and tax-exempt Swiss pension schemes
- The 10% rate applies in all other cases.
- (hh) Under the revised treaty, royalties are taxed in the source (of the royalty) country at a rate of up to 5%. The revised definition of “royalties” in the revised tax treaty excludes the right to use industrial, commercial or scientific equipment from the definition, and accordingly, may lower the costs for companies that lease such equipment.
- (ii) The revised treaty between Australia and Germany entered into force on 7 December 2016 and applies for withholding taxes from 1 January 2017.

- (jj) Australia does not impose withholding tax on dividends to the extent they are franked. To the extent dividends are unfranked, the rates are 0% if the recipient holds at least 80% of the voting power in the payer for at least 12 months, 5% if the recipient holds at least 10% for at least 6 months (including the date of payment) and 10% in other cases. However, a 15% withholding tax rate applies to fund payments from managed investment trusts but, under Australian law, this rate is reduced to 10% for funds payments by clean building managed investment trusts.
- (kk) The 0% rate applies if the interest is derived by bodies exercising governmental functions or performing central banking functions or by financial institutions unrelated to and dealing wholly independently with the payer. The 10% rate applies in all other cases.

Australia announced its intention to begin negotiations on a double tax treaty with Israel.

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**A. At a glance**

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25
Withholding Tax (%)	
Dividends	25/27.5 (b)
Interest (from Bank Deposits and Securities only)	0/25 (c)
Royalties from Patents, Know-how, etc.	20 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (e)

- (a) This rate applies to distributed and undistributed profits.  
 (b) In general, this withholding tax applies to dividends paid to residents and nonresidents. An Austrian corporation is generally required to withhold tax at a rate of 27.5%. However, if the distributing company has evidence of the corporate status of the investor, it may withhold tax at a rate of 25% (see Section B). Certain dividends paid to Austrian and European Union (EU) companies are exempt from tax (see Section B). In addition, a reduction in or relief from dividend withholding tax may be possible under double tax treaties.  
 (c) For details, see Section B.  
 (d) This withholding tax applies to nonresidents.  
 (e) The offset of loss carryforwards against taxable income is limited to 75% of taxable income in most cases (see Section C).

**B. Taxes on corporate income and gains**

**Corporate income tax.** In general, all companies resident in Austria and foreign companies with Austria-source income are subject to corporate income tax. (For the scope of income subject to tax, see *Foreign tax relief*.) A company is resident in Austria if it has its legal seat or its effective place of management in Austria.

**Rates of corporate income tax.** The corporate tax rate is generally 25%.

All companies, including those incurring tax losses, are subject to the minimum tax. In general, the minimum tax is EUR1,750 for an Austrian private limited company (Gesellschaft mit beschränkter Haftung, or GmbH), EUR3,500 for a stock corporation (Aktiengesellschaft, or AG) and EUR6,000 for a European stock



corporation (Societas Europea, or SE). For banks and insurance companies, the minimum tax is EUR5,452. Minimum tax may be credited against corporate tax payable in future years.

A reduced minimum tax applies to newly formed Austrian private limited companies incorporated after 30 June 2013. For such companies, the minimum tax is EUR500 per year for the first five years and EUR1,000 for the following five years. This is known as the “foundation privilege.”

**Participation exemptions.** The Austrian tax law provides for national and international participation exemptions.

*National.* Dividends (including hidden profit distributions) received by an Austrian company from another Austrian company are exempt from corporate income tax (no minimum holding is required). Capital gains derived from the sale of shares in Austrian companies are treated as ordinary income and are subject to tax at the regular corporate tax rate. In general, capital losses on and depreciation of the participation may be deducted from taxable income, spread over a period of seven years.

*International participation.* An Austrian company is entitled to the international participation exemption if it holds at least 10% of the share capital of a foreign corporation that is comparable to an Austrian corporation for more than one year. The one-year holding period begins with the acquisition of the participation. The international participation exemption applies to dividends and capital gains.

A decrease in the value of an international participation is generally not tax deductible, but an Austrian company can irrevocably opt for such tax deductibility in the annual tax return for the year of acquisition. If this irrevocable option is exercised, capital gains are subject to tax, and decreases in value and capital losses are tax deductible. In general, capital losses and depreciation of the participation may then be deducted from the taxable income, spread over a period of seven years. In the event of insolvency or liquidation, final losses may be deducted even if the option for tax effectiveness was not exercised. The option does not affect the tax treatment of dividends.

According to an anti-abuse rule, the international participation exemption does not apply if both of the following conditions are met:

- The subsidiary earns primarily specified types of passive income, which are interest, income from leasing property other than land and buildings and capital gains (active business test).
- The subsidiary is not subject to income tax at an effective rate of more than 15% in its home country (low taxation test).

To determine whether a company is a passive company, the Austrian corporate income tax guidelines refer to the company’s focus. The focus is determined from an economic perspective, based on the use of capital, employees and the character of the revenues. A company is considered to be a passive company if it derives more than 50% of its revenues from passive operations.

If the passive income and low taxation tests described above are not met, dividends and capital gains are taxed at the general

Austrian corporate tax rate of 25%. For dividends, income taxes paid by the foreign subsidiary (underlying tax), as well as withholding taxes imposed, are credited against the income tax payable by the Austrian parent company (this represents a switchover from the exemption method to the credit method). Abuse may also be assumed if one of the criteria is “strongly given” and the second element is “almost given.” “Strongly given” means that the statutory threshold is exceeded by more than 25%. “Almost given” means that the company fails to meet the statutory threshold by less than 25% of such threshold. If the creditable foreign tax exceeds the amount of tax to be paid in Austria, the excess amount of foreign tax can be carried forward and credited in future tax periods.

*International portfolio participation.* Dividends from participations that do not meet the criteria for international participations are subject to the general corporate income tax rate of 25%. However, shareholdings in EU corporations, certain European Economic Area (EEA) corporations (currently only Liechtenstein and Norway) and corporations that are resident in third countries and that have agreed to exchange tax information qualify as international portfolio participations. Dividends from such international portfolio participations are exempt from tax. Capital gains (and losses) are tax-effective (the treatment corresponds to the treatment of national participations).

If a foreign entity is subject to no corporate income tax, an exemption from corporate income tax or a tax rate lower than 15%, the exemption for dividends from portfolio participations does not apply. Instead, dividends are taxed at the general Austrian corporate income tax rate of 25%. Income taxes paid by the foreign subsidiary (underlying tax), as well as withholding taxes imposed, are credited against the income tax payable by the Austrian parent company (this represents a switchover from the exemption method to the credit method). If the creditable foreign tax exceeds the amount of tax to be paid in Austria, the excess amount of foreign underlying tax can be carried forward and be credited in future tax periods.

*Hybrid financing.* Dividends from international participations (including portfolio participations) are not exempt from tax in Austria if such payments are deductible for tax purposes in the country of the distributing company.

*Expenses.* Business expenses are generally deductible. However, an exception applies to expenses that are related to tax-free income. Although dividends from national and international participations and portfolio participations are tax-free under the Austrian participation exemption, interest incurred on the acquisition of such participations is deductible for tax purposes. However, interest from debt raised to finance the acquisition of participations from affiliates is generally not deductible. In addition, interest and royalty payments to domestic and foreign-affiliated corporations are not tax deductible if the income of the recipient corporation is not subject to tax or taxed at a (nominal or effective) rate of less than 10%. If the recipient corporation is not the beneficial owner, the taxation of the beneficial owner is relevant. An exception applies to payments to entities that meet the EU law privileges for risk capital measures, which are contained in

Regulation (EU) No. 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds. If these specific rules of EU law are fulfilled and if the income of the recipient corporation is taxed at a rate of less than 10%, interest and royalty payments to domestic and foreign affiliated corporations remain deductible for tax purposes.

**Capital gains.** Capital gains derived from sales of shares in Austrian companies are treated as ordinary income and are subject to tax at the regular corporate tax rate. Capital gains derived from sales of shares in non-Austrian companies may be exempt from tax under the international participation exemption; otherwise, they are treated as ordinary income and subject to tax at the regular corporate tax rate.

### **Withholding taxes on dividends and interest**

*Dividends.* Effective from 1 January 2016, the general withholding tax rate for dividends is 27.5% if the distribution does not constitute a repayment of capital. The withholding tax rate may be reduced to 25% if the investor is a corporation. In practice, this means that if the distributing entity lacks information on the status of an investor (corporate or individual), the 27.5% rate applies. In general, the 27.5% rate applies to dividends paid with respect to portfolio investments, including those paid to corporate investors. If the person required to withhold has information that the investor is a corporation, the 25% tax rate can be applied at source (for example, intercompany dividends). If 27.5% is withheld, corporate investors may reduce their tax burden in Austria to 25% in an assessment and refund procedure, based on their corporate status.

However, this withholding tax does not apply to dividends (other than hidden profit distributions) paid to either of the following:

- An Austrian parent company (fulfilling certain criteria) holding directly or indirectly an interest of at least 10% in the distributing company.
- A parent company (fulfilling certain criteria) resident in another EU country holding directly or indirectly an interest of at least 10% in the distributing company for at least one year.

Furthermore, the withholding tax rate may be reduced for dividends paid to foreign shareholders in accordance with double tax treaties. Depending on the situation, this reduction may be in the form of an upfront reduction at source or a refund of withholding tax.

For dividends paid to parent companies resident in the EU or EEA (if the EEA country grants full administrative assistance; currently only Liechtenstein and Norway meet this condition) that are subject to tax in Austria, Austrian withholding tax is refunded if the shareholder can prove that the withholding tax cannot be credited in the state of residence of the shareholder under tax treaty law.

*Interest.* Interest paid on loans (for example, intercompany loans) is generally not subject to withholding tax in Austria. A 27.5% withholding tax is imposed on interest income paid by Austrian banks, Austrian branches of foreign banks or Austrian paying agents. An exception from the 27.5% rate applies to interest on bank savings and other non-securitized loans from banks (except

for compensation payments and lending fees), which are subject to a 25% tax rate. Interest paid to nonresident companies is generally exempt from Austrian withholding tax if certain evidence is provided. In addition, interest income is exempt from withholding tax if the debtor has neither an ordinary residence nor a registered office in Austria and if it is not a domestic branch of a foreign bank. EU withholding tax is abolished, effective from January 2017.

Interest income earned by a company engaged in business in Austria through a permanent establishment is considered business income and must be included in the taxable income of the permanent establishment. For such companies, the withholding tax (if due) is credited against the corporate income tax. If the withholding tax exceeds the tax due, it is refunded. The withholding tax is not imposed if a declaration of exemption stating that the interest is taxed as business income is filed with the Austrian bank.

**Administration.** In principle, the Austrian tax year corresponds to the calendar year. However, other fiscal years are possible. The tax base is the income earned in the fiscal year ending in the respective calendar year. Annual tax returns must be filed by 30 April (30 June, if submitted electronically) of the following calendar year. Extensions may be granted. A general extension to 31 March (or 30 April) of the second following year is usually granted if a taxpayer is represented by a certified tax advisor (tax returns may be requested earlier by the tax office).

Companies are required to make prepayments of corporate income tax. The amount is generally based on the (indexed) amount of tax payable for the preceding year, and payment must be made in equal quarterly installments on 15 February, 15 May, 15 August and 15 November.

Interest is levied on the amount by which the final tax for the year exceeds the total of the advance payments if this amount is paid after 30 September of the year following the tax year. To prevent interest, companies may pay the amount due as an additional advance payment by 30 September of the year following the tax year.

**Foreign tax relief.** In general, resident companies are taxed in Austria on their worldwide income, regardless of where that income is sourced. However, the following exceptions exist:

- The Finance Ministry may, at its discretion, allow certain types of income that have their source in countries with which Austria has not entered into a double tax treaty to be excluded from the Austrian tax computation, or it may allow foreign taxes paid to be credited against Austrian corporate income tax. Under a decree of the Ministry of Finance, an exemption is granted in case of active income and taxation of at least 15%. Otherwise, only a credit of foreign taxes is allowed.
- Income earned in countries with which Austria has a double tax treaty is taxable or exempt, depending on the treaty.
- Dividends and capital gains derived from participations of 10% or more in foreign subsidiaries can be exempt from corporate income tax under the international participation exemption (see *Participation exemptions*).

- Dividends from foreign portfolio shareholdings in companies resident in countries that have agreed to exchange tax information are exempt from tax unless the subsidiary is low-taxed (see *Participation exemptions*).

### C. Determination of trading income

**General.** In general, taxable income is based on the profit or loss shown in the financial statements prepared in accordance with Austrian generally accepted accounting principles. The financial statement profit or loss must be adjusted in accordance with special rules set forth in the tax acts. Taxable income is calculated as follows.

Profit per financial statements	X
+ Nondeductible taxes (such as corporate income tax)	X
+ Nondeductible expenses (such as donations, lump-sum accruals and certain interest)	X
– Special allowances and nontaxable income (intercompany dividends and loss carryforwards*)	(X)
= Taxable income	<u>X</u>

\* The offset of loss carryforwards against taxable income is limited to 75% of taxable income in most cases.

**Inventories.** In determining trading income, inventories must be valued at the lower of cost or market value. Cost may, at the taxpayer's option, be determined using any of the following methods:

- Historical cost
- Average cost
- First-in, first-out (FIFO)
- Under certain circumstances, last-in, first-out (LIFO)

The highest-in, first-out (HIFO) method is not allowed.

**Provisions.** Accruals for severance payments and pension costs are allowable to a limited extent. Accruals for corporate income tax and lump-sum accruals are not deductible for tax purposes. Provisions with a term of 12 months or more are subject to a mandatory fixed discounting rate of 3.5%, except for accruals for severance payments and pension costs, which are tax deductible to the extent of 100% of their tax value.

**Depreciation.** In general, depreciable assets are depreciated over the average useful life. For certain assets, such as buildings and passenger cars, the tax law provides depreciation rates. The following are some of the applicable annual rates.

Asset	Rate (%)
Buildings	2.5
Office equipment	10 to 25
Motor vehicles	12.5
Plant and machinery	10 to 20

**Research and development.** Companies may claim a research and development (R&D) bonus (cash payment) equal to 14% of certain expenses for research and experimental development (according to the Frascati manual, these expenses consist of material costs, labor costs, energy costs and attributed interest). The R&D must

be conducted by an Austrian company in Austria or by an Austrian permanent establishment of a foreign company.

**Relief for losses.** Losses incurred by resident companies may be carried forward without time limit. The offset of loss carryforwards against taxable income is in most cases limited to 75% of the taxable income. The remaining balance of the loss carryforward may be offset against income in future years, subject to the same 75% limitation.

The loss carryforward is attributable to the corporation, not to the shareholders. Consequently, a change in shareholders does not affect the loss carryforward, provided no corresponding substantial change in the business and management of the company occurs. Losses may not be carried back. Foreign companies with permanent establishments in Austria may claim tax losses only under certain circumstances.

**Groups of companies.** The group taxation regime allows parent and subsidiaries to consolidate their taxable income. Under the Austrian law, the head of the tax group must be an Austrian corporate entity or branch of an EU/EEA corporate entity that has held more than 50% of the capital and voting rights in the subsidiary since the beginning of the subsidiary's fiscal year. The shareholding can be direct, or it can be held indirectly through a partnership or a group member. Only corporations (not partnerships) qualify as group members. If the holding requirement is satisfied, 100% of the taxable income (profit or loss) of domestic group members is allocated to the taxable income of the group parent, regardless of the percentage of the shareholding in the subsidiary. No actual profit or loss transfer takes place (only an agreement on the split of the tax burden is required). The tax group must exist for at least three full financial years. Otherwise, retroactive taxation on a stand-alone basis applies.

Group taxation also allows a cross-border tax consolidation if the foreign subsidiary is directly held by an Austrian parent (first foreign tier) and if the type of entity is comparable to an Austrian corporation from a company law perspective. Effective from 1 March 2014, certain companies are excluded from the group taxation regime. Only corporations resident in the EU and in countries with which Austria has agreed on comprehensive administrative assistance can be included in a tax group. The Austrian Ministry of Finance has published a list of all qualifying third countries.

Foreign losses must be recalculated under Austrian tax law. In addition, the deductibility of foreign losses is limited to the lower of the amount according to Austrian tax law and actual losses calculated under foreign tax law. Losses from foreign group members can be deducted from the Austrian tax base in proportion to the shareholding only. Beginning with the 2015 tax year, the utilization of losses of foreign group members is limited to 75% of the domestic group income. Excess losses are included in the loss carryforwards for subsequent years. Profits of a foreign group member are generally not included in the Austrian group parent's income.

To avoid double utilization of losses of a foreign group member, foreign losses that have been deducted from income of the Austrian group shareholder are added to the Austrian profit if the losses can be offset in the foreign jurisdiction at a subsequent time. Consequently, if the foreign country uses the losses in subsequent years (as part of a loss carryforward), the tax base in Austria is increased by that amount in order to prevent a double dip of losses. Foreign losses must also be added to the Austrian income tax base if the foreign subsidiary leaves the group. A recapture is also required if a significant reduction occurs in the size of the foreign subsidiary's business. This measure is designed to prevent dormant foreign entities from remaining in the group to avoid the recapture of foreign losses. Relief for capital losses is provided only in the event of a liquidation or insolvency.

Depreciation to the fair market value of a participation within the group is tax-neutral.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	
Standard	20
Reduced	10/13
Payroll taxes, paid by employer	
Family allowance fund; varies by state	4.26 to 4.34
Community tax	3
Real estate sales tax (including 1.1% registration fee)	4.6
Stamp duties, on certain legal transactions, such as leases and hire contracts	0.8 to 2

#### E. Miscellaneous matters

**Foreign-exchange controls.** No restrictions are imposed on the transfer of nominal share capital, interest and the remittance of dividends and branch profits. Royalties, technical service fees and similar payments may be remitted freely, but routine documentation may be required.

**Debt-to-equity rules.** Austrian tax law does not provide special debt-to-equity rules. Although, in general, shareholders are free to determine whether to finance their company with equity or loans, the tax authorities may reclassify loans granted by shareholders, loans granted by group companies, and loans granted by third parties guaranteed by group companies as equity, if funds are transferred under legal or economic circumstances that typify equity contributions, such as the following:

- The equity of the company is insufficient to satisfy the solvency requirements of the company, and the loan replaces equity from an economic point of view.
- The company's debt-to-equity ratio is significantly below the industry average.
- The company is unable to obtain any loans from third parties, such as banks.
- The loan conveys rights similar to shareholder rights, such as profit participations.

If a loan is reclassified (for example, during a tax audit), interest is not deductible for tax purposes and withholding tax on hidden profit distributions may become due. Capital duty was abolished, effective from 1 January 2016.

**Transfer pricing.** Austria has accepted the Organisation for Economic Co-operation and Development (OECD) transfer-pricing guidelines and published a summary of the interpretation of the OECD guidelines by the Austrian tax administration in 2010. Under these guidelines, all transactions with related parties must be conducted at arm's length. If a transaction is considered not to be at arm's length, the transaction price is adjusted for corporate income tax purposes. This adjustment may be deemed to be a hidden profit distribution subject to withholding tax or a capital contribution.

In 2016, Austria introduced the Transfer Pricing Documentation Law (TPDL), which follows the three-tier documentation approach consisting of a Country-by-Country Report (CbCR), the master file and the local file. The master file and local file must be prepared if an Austrian constituent entity generated over EUR50 million turnover in the two preceding fiscal years. A CbCR must be prepared if the whole multinational group exceeded a threshold of consolidated turnover of EUR750 million in the preceding fiscal year. By the last day of the fiscal year for which a CbCR is prepared, each Austrian constituent entity of a multinational group exceeding the threshold must inform the competent Austrian tax office of the entity that is preparing or filing the CbCR and where this entity is a resident. An Austrian entity that does not reach the threshold for filing a master file and a local file still must file a master file if the multinational group is required to prepare one by another country. In addition, the TPDL clarifies that documentation obligations existing in addition to the TPDL (for example, accounting and filing obligations imposed by the Austrian Federal Fiscal Code [FFC]) are not affected by the TPDL. Therefore, it is strongly suggested that constituent entities resident in Austria of multinational groups that do not exceed the stipulated turnover of the TPDL prepare Transfer Pricing Documentation Reports in accordance with the FFC.

## F. Treaty withholding tax rates

The following summary is intended purely for orientation purposes; it does not reflect the various special provisions of individual treaties or the withholding tax regulations in domestic tax law.

	Dividends		Interest (a)		Royalties	
	A	B	C	D	E	F
	%	%	%	%	%	%
Albania	15	5	5	5	5	5
Algeria	15	5	10	10	10	10
Armenia	15	5	10	10	5	5
Australia	15	15	10	10	10	10
Azerbaijan	15	5/10 (h)	10	10	10 (i)	5/10 (i)
Bahrain	0	0	0	0	0	0
Barbados	15	5	0	0	0	0
Belarus	15	5	5	5	5	5
Belgium	15	15	15	15	0	10



	Dividends		Interest (a)		Royalties	
	A	B	C	D	E	F
	%	%	%	%	%	%
Belize	15	5	0	0	0	0
Bosnia and Herzegovina	10	5	5	5	5	5
Brazil	15	15	15	15	15 (f)	15 (f)
Bulgaria	5	0	5	5	5	5
Canada	15	5	10	10	10 (k)	10 (k)
Chile	15	15	5/15 (z)	5/15 (z)	5/10 (aa)	5/10 (aa)
China (mainland)	10	7	10	10	10	10
Croatia	15	0	5	5	0	0
Cuba	15	5	10	10	5	5
Cyprus						
From Cyprus	0	0	0	0	0	0
From Austria	10	10	0	0	0	0
Czech Republic	10	0	0	0	5 (j)	5 (j)
Denmark	15	0	0	0	0	0
Egypt						
From Egypt	15	15	15	— (b)	0	0
From Austria	10	10	0	0	0	0
Estonia	15	5	10	10	5/10 (q)	5/10 (q)
Finland	10	0	0	0	5	5
France	15	0	0	0	0	0
Georgia	10	0/5	0	0	0	0
Germany	15	5	0	0	0	0
Greece	15	5	8	8	7	7
Hong Kong SAR	10	0	0	0	3	3
Hungary	10	10	0	0	0	0
Iceland	15	5	0	0	5	5
India	10	10	10	10	10	10
Indonesia	15	10	10	10	10	10
Iran	10	5	5	5	5	5
Ireland						
From Ireland	15	0	0	0	0	0
From Austria	10	10	0	0	0	10
Israel	25	25	15	15	10	10
Italy	15	15	10	10	0	10
Japan	20	10	10	10	10	10
Kazakhstan	15	5	10	10	10	10
Korea (South)	15	5	10	10	10 (n)	10 (n)
Kuwait	0	0	0	0	10	10
Kyrgyzstan	15	5	10	10	10	10
Latvia	10	5	10	10	5/10 (q)	5/10 (q)
Liechtenstein	15	15	10	10	10 (l)	10 (l)
Lithuania	15	5	10	10	5/10 (q)	5/10 (q)
Luxembourg	15	5	0	0	0	10
Macedonia	15	0	0	0	0	0
Malaysia						
From Malaysia	Special arrangements		15	15	10 (j)	10 (j)
From Austria	10	5	15	15	10	10
Malta						
From Malta	Special arrangements		5	5	10	10
From Austria	15	15	5	5	10	10
Mexico	10	5	10	10	10	10
Moldova	15	5	5	5	5	5
Mongolia	10	5	10	10	5/10	5/10

	Dividends		Interest (a)		Royalties	
	A %	B %	C %	D %	E %	F %
Montenegro	10	5 (w)	10	10	5/10 (x)	5/10 (x)
Morocco	10	5	10	10	10	10
Nepal	15	5/10 (r)	15 (s)	15 (s)	15	15
Netherlands	15	5	0	0	0	10
New Zealand	15	15	10	10	10	10
Norway	15	0	0	0	0	0
Pakistan	15	10	15	15	10	10
Philippines	25	10	10/15	10/15	10/15	10/15
Poland	15	5	5	5	5	5
Portugal	15	15	10	10	5	10
Qatar	0	0	0	0	5	5
Romania	5	0	3	3	3	3
Russian Federation	15	5	0	0	0	0
Saudi Arabia	5	5	5	5	10	10
San Marino	15	0	0	0	0	0
Serbia	15	5	10	10	5/10	5/10
Singapore	10	0 (m)	5	5	5	5
Slovak Republic	10	10	0	0	5	5
Slovenia	15	5	5	5	5	5
South Africa	15	5	0	0	0	0
Spain	15	10	5	5	5	5
Sweden	10	5	0	0	0	10
Switzerland	15	0	0	0	0	0
Taiwan	10	10	10	10	10	10
Tajikistan	10	5	8	8	8	8
Thailand						
From Thailand	(b)	15/20	10/25	10/25	15	15
From Austria	(b)	10	10/25	10/25	15	15
Tunisia	20	10	10	10	15 (p)	15 (p)
Turkey	15	5	15 (v)	15 (v)	10	10
Turkmenistan	15	0	10	10	10	10
Ukraine	10	5	2/5	2/5	5	5
USSR (d)	0	0	0	0	0	0
United Arab Emirates	0	0	0	0	0	0
United Kingdom	15	5	0	0	0	10
United States	15	5	0	0	0 (g)	0
Uzbekistan	15	5	10	10	5	5
Venezuela	15	5	10 (e)	10 (e)	5	5
Vietnam	15	5/10 (t)	10	10	10	7.5 (u)
Non-treaty jurisdictions	27.5 (y)	25 (y)	0 (y)	0 (c)	20	20

A General.

B Dividends received from subsidiary company. Shareholding required varies from 10% to 95%, but generally is 25%.

C General.

D Mortgages.

E General.

F Royalties from 50% subsidiary.

(a) Under domestic tax law, a 25% withholding tax is imposed only on interest income from bank deposits and securities. However, interest paid to nonresidents is generally not subject to withholding tax. For details, see Section B.

(b) No reduced rate applies.

(c) No withholding tax is imposed, but the income is subject to tax at the regular corporate rate.

- (d) Austria is honoring the USSR treaty with respect to the republics comprising the Commonwealth of Independent States (CIS), except for those republics that have entered into tax treaties with Austria. Austria has entered into tax treaties with Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The withholding tax rates under these treaties are listed in the above table.
- (e) Interest paid by banks is subject to a 4.95% withholding tax.
- (f) Trademark royalties are subject to a 25% withholding tax. The withholding tax rate is 15% for royalties paid for literary, artistic and scientific items.
- (g) The rate is 10% for royalties paid for the use of films or other means of production used for radio or television.
- (h) The 5% rate applies if the participation of the recipient of the dividends exceeds USD250,000. The 10% rate applies if the participation of the recipient of the dividends exceeds USD100,000 but does not exceed USD250,000.
- (i) The rate is 5% for royalties paid for technologies not older than three years.
- (j) The rate is 0% for royalties paid for literary, artistic and scientific items.
- (k) Royalties paid for computer software, patents and know-how are exempt if the royalties are taxed in the state of residence of the recipient.
- (l) The rate is 5% for royalties paid to licensors engaged in industrial production.
- (m) This rate applies to dividends received from a 10%-subsidiary.
- (n) The rate is 2% for amounts paid for the use of commercial or scientific equipment.
- (o) The rate is 20% for dividends paid by non-industrial Pakistani corporations.
- (p) The rate is 10% for royalties paid for literary, artistic and scientific items.
- (q) The 5% rate applies to amounts paid for the use of industrial or scientific equipment.
- (r) The 5% rate applies to dividends received from a 25%-subsidiary; the 10% rate applies to dividends received from a 10%-subsidiary.
- (s) The rate is 10% for interest paid to a bank if the interest arises from the transacting of bank business and if the recipient is the beneficiary of the interest.
- (t) The 5% rate applies to participations of at least 70%. The 10% rate applies to participations of at least 25%.
- (u) The rate is 7.5% for technical services.
- (v) The rate is reduced to 10% for interest received from a bank. Interest on loans granted by the Österreichische Kontrollbank to promote exports or similar institutions in Turkey is subject to a withholding tax rate of 5%.
- (w) A shareholding of at least 5% is required.
- (x) The 10% rate applies to industrial royalties.
- (y) See Section B.
- (z) The 5% rate applies to interest derived from loans granted by banks and insurance companies, and bonds or securities that are regularly and substantially traded on a recognized securities market, as well as to interest on sales on credit paid by the purchaser of machinery and equipment to a beneficial owner that is the seller of the machinery and equipment.
- (aa) The 5% rate applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment.

The tax treaty with Argentina was suspended by Argentina, effective from 1 January 2009.

# Azerbaijan

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*Because of the rapidly evolving economic situation in Azerbaijan, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Profits Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Permanent Representation Tax Rate (%)	20
Withholding Tax (%)	
Dividends	10 (a)
Interest or Financial Lease Payments	10 (b)
Royalties from Patents, Know-how, etc.	14 (a)
Management Fees	10 (c)
Income from International Transportation and Telecommunication Services	6 (c)
Insurance Payments	4 (c)
Payments of other Azerbaijani-Source Income to Foreign Companies	10 (c)
Payments to Companies Incorporated in Countries with a Preferential Tax Regime	10 (c)(d)
Transfers of Funds to Accounts Created in the Electronic Wallets of Nonresidents	10 (c)(e)
Branch Remittance Tax	10 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) These are final withholding taxes applicable to payments to Azerbaijani and foreign legal entities.
- (b) This is a final withholding tax applicable to payments to Azerbaijani and foreign legal entities, excluding Azerbaijani banks and leasing entities, and foreign banks and leasing entities operating in Azerbaijan through a permanent representation.
- (c) This is a final withholding tax applicable to payments to foreign legal entities.
- (d) Direct or indirect payments made by residents of Azerbaijan or permanent establishments of nonresidents located in Azerbaijan to legal entities incorporated or registered in countries with a preferential tax regime are considered to be income from an Azerbaijani source and are subject to a 10% withholding tax on the gross amounts of the payments. The list of countries with a preferential tax regime is approved by the President of the Republic of Azerbaijan on an annual basis.

- (e) Transfers of funds to accounts created in the electronic wallets of nonresidents (online payment systems) by residents of Azerbaijan are subject to a 10% withholding tax. This tax must be withheld by a local bank, branch of a foreign bank located in Azerbaijan or national postal operator from the residents making the transfers.

## B. Taxes on corporate income and gains

**Corporate profit tax.** Enterprises carrying on activities in Azerbaijan, including enterprises with foreign investment, joint ventures and legal entities operating through a permanent representation, are subject to tax.

Azerbaijani resident legal entities are subject to tax on their worldwide income. For tax purposes, Azerbaijani resident legal entities are entities incorporated in Azerbaijan and entities that have their effective management located in Azerbaijan, including 100%-owned subsidiaries of foreign companies.

Nonresident legal entities are subject to tax on profits earned through a permanent representation only. A permanent representation is defined as the following:

- Persons who are performing the function of a permanent establishment of a nonresident legal entity or natural person and who are authorized to conclude contracts on behalf of such nonresident entity or natural person
- A bureau, office or agency
- A location where activities are carried out relating to the development of natural resources
- The rendering of consultation services
- A fixed base used for entrepreneurial activities for a cumulative amount of 90 days during any 12-month period

The Azerbaijan Law on the Protection of Foreign Investments allows foreign investment in various forms, including investment through 100% foreign-owned subsidiaries, share participations in joint stock companies and in joint ventures with Azerbaijani legal entities and citizens, permanent representations and other types of participations.

**Tax rate.** All entities operating in Azerbaijan are subject to corporate profit tax at a rate of 20%.

**Capital gains.** Capital gains are included in taxable income and taxed at the regular rate.

**Administration.** The tax year is the calendar year. The tax year for newly created enterprises or permanent representations of foreign legal entities runs from the date of formation through 31 December of the year of formation.

All entities operating in Azerbaijan must make advance payments of corporate profit tax by the 15th day following the end of each quarter. Each advance payment must equal at least one-quarter of the profit tax liability for the prior tax year. Alternatively, the amounts of the advance payments may be determined by multiplying the company's revenues for the quarter by the company's effective tax rate for the prior year. The effective tax rate is equal to tax as a percentage of revenues.

If, at the end of the tax year, it is determined that the total of the advance payments exceeds the tax due for the year, the excess may be credited against future tax obligations or refunded. In practice,

however, the tax authorities rarely, if ever, issue refunds. Consequently, entities generally credit overpayments against future taxes.

**Dividends.** Dividends paid are subject to income tax withholding at a rate of 10%. This is considered a final tax and companies do not include the dividends in taxable profits.

**Foreign tax relief.** Foreign income tax paid by taxpayers in Azerbaijan on income derived from sources outside Azerbaijan may be credited against Azerbaijani tax imposed on the same income, limited to the amount of Azerbaijani tax imposed on such income. In determining the amount of the allowable foreign tax credit, it is unclear if a limitation based on the country of source is imposed or if all foreign-source income is pooled.

### C. Determination of trading income

**General.** Taxable profit is determined by computing the profit or loss from business activities and then adding income from non-trading operations, such as leasing income and capital gains, but excluding dividends received. Income received in foreign currency is converted into manats (AZN) at the daily exchange rate determined by the Central Bank of Azerbaijan.

Statutory norms limit the deductions for certain categories of expenses, such as business travel expenses, repair expenses, interest paid on foreign borrowings and interest paid between related parties. Expenses for meals and entertainment as well as for the providing of food and housing to employees are disallowed except for companies providing therapeutic nourishment items, milk and similar products to their employees. Such deductions will be allowed within norms, which have not yet been introduced by the government.

Foreign legal entities doing business through a permanent representation in Azerbaijan are taxed on actual profits. If actual profits cannot be determined, the tax authorities may determine taxable profits based on either income or expenses, with a deemed profit margin of 20%.

**Tax depreciation.** Fixed assets, other than buildings, are subject to depreciation by a group method. Under this method, fixed assets are allocated to groups, and the groups are depreciated in aggregate. Depreciation rates, which are specified by law, are applied to the aggregate book values for each of the groups. The depreciable balance for a group is reduced by the depreciation accrued for the year by the group. If any assets of a group are sold during the year, the depreciable balance of the group is reduced by the residual value of such assets. The profit or loss on the sale of such assets is separately determined.

An acquisition of assets under a finance lease is treated as a loan from the lessor to the lessee and a purchase of assets by the lessee. The lessee may then claim depreciation on the assets.

**Relief for losses.** An enterprise incurring a loss in a tax year may carry forward the loss to the following five years, without limitation on the amount, to offset the profit in such following years.

**Groups of companies.** There are no provisions permitting related enterprises to offset profits and losses among members of a group.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on goods sold and services rendered, in Azerbaijan; the tax law contains specific rules for determining when services are deemed to be provided in Azerbaijan; Azerbaijani taxpayers that make payments to entities that are not registered taxpayers in Azerbaijan for services provided in Azerbaijan must calculate VAT on the payments	18
Assets tax, on the annual average net book value of fixed assets or the market price of the asset if the insurance value of assets exceeds the net book value	1
Import tariffs	0 to 15

## E. Miscellaneous matters

**Foreign-exchange controls.** The manat (AZN) is a non-convertible currency outside Azerbaijan. Enterprises may buy or sell foreign currency through authorized banks or foreign-exchange offices in Azerbaijan.

To receive foreign-currency income in Azerbaijan, an enterprise must obtain a license issued by the Central Bank of Azerbaijan.

**Transfer pricing.** Recent legislative amendments to the Tax Code of the Republic of Azerbaijan introduced transfer-pricing rules, effective from 1 January 2017. These rules are conceptually based on the arm's-length principle outlined in the transfer-pricing guidelines developed by Organisation for Economic Co-operation and Development (OECD). The new rules apply to Controlled Transactions, as defined in the rules. The following are Controlled Transactions:

- Transactions between residents of Azerbaijan and related parties of such residents, as defined in the Tax Code
- Transactions between permanent establishments of nonresidents and such nonresidents, as well as representative offices, branches and other establishments of such nonresidents in other countries
- Transactions between residents of Azerbaijan and/or permanent establishments of nonresidents in Azerbaijan and persons incorporated or registered under the laws of the jurisdictions recognized as preferential tax regime countries under the laws of Azerbaijan

Controlled Transactions are subject to reporting requirements if the company's annual turnover exceeds AZN500,000 (approximately USD294,100). Reporting is achieved through the submission of a Notification on Controlled Transactions by 31 March of the year following the reporting year.

Controlled Transactions can be subject to review by the tax authorities largely based on arm's-length principles assuming a comparability analysis under five transfer-pricing methods that are outlined in OECD transfer-pricing guidelines and recognized

in local transfer-pricing rules, subject to certain specific provisions. These provisions in the local transfer-pricing rules must be considered while performing the comparability analysis.

If the tax authorities make a price correction during the on-site tax audit, the additional tax accrual could be subject to 50% financial sanction.

## F. Treaty withholding tax rates

Azerbaijan currently considers none of the tax treaties of the former USSR to be in force. Azerbaijan has entered into tax treaties with various countries.

The withholding rates under Azerbaijan's ratified treaties are listed below. Because of recent reductions in domestic withholding tax rates, the tax treaties may now specify rates that are the same as, or in excess of, domestic rates and, consequently, offer little or no savings with respect to withholding taxes. The rates in the table reflect the lower of the treaty rate and the rate under domestic tax law.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Austria	5/10/15	10	5/10
Belarus	15	10	10
Belgium	5/10/15	10	5/10
Bosnia and Herzegovina	10	10	10
Bulgaria	8	7	5/10
Canada	10/15	10	5/10
China (mainland)	10	10	10
Croatia	5/10	10	10
Czech Republic	8	5/10	10
Estonia	5/10	10	10
Finland	5/10	10	5/10
France	10	10	5/10
Georgia	10	10	10
Germany	5/15	10	5/10
Greece	8	8	8
Hungary	8	8	8
Iran	10	10	10
Italy	10	10	5/10
Japan	15	10	10
Kazakhstan	10	10	10
Korea (South)	7	10	5/10
Kuwait	5/10	7	10
Latvia	5/10	10	5/10
Lithuania	5/10	10	10
Luxembourg	5/10	10	5/10
Macedonia	8	8	8
Malta	8	8	8
Moldova	8/15	10	10
Montenegro	10	10	10
Norway	10/15	10	10
Netherlands	5/10	10	5/10
Pakistan	10	10	10
Poland	10	10	10
Qatar	7	7	5
Romania	5/10	8	10



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Russian Federation	10	10	10
San Marino	5/10	10	5/10
Saudi Arabia	5/7	7	10
Serbia	10	10	10
Slovenia	8	8	5/10
Sweden	5/15	8	5/10
Switzerland	5/15	5/10	5/10
Tajikistan	10	10	10
Turkey	12	10	10
Ukraine	10	10	10
United Arab Emirates	5/10	7	5/10
United Kingdom	10/15	10	5/10
Uzbekistan	10	10	10
Vietnam	10	10	10
Non-treaty jurisdictions	10	10	14

Treaties with Denmark, Israel, Jordan and Spain are in the ratification stage. Azerbaijan has agreed to tax treaties with Ireland, Malaysia, Morocco, Singapore and the Slovak Republic, which are ready to be signed. Tax treaties with Albania, Bangladesh, India, Kyrgyzstan, Oman, Portugal, Syria and Turkmenistan are in the negotiation stage.

# Bahamas

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### Business Tax Advisory

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## A. At a glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

## B. Taxes on corporate income and gains

No taxes are levied on corporate income or capital gains.

## C. License fees and other duties

**Business license fees.** For corporations designated as residents for exchange-control purposes, their business revenue in the Bahamas is subject to an annual license fee, which varies according to annual revenue or turnover. Businesses that have annual turnover not exceeding BSD50,000 are required to pay a business license fee of BSD100. If the turnover exceeds BSD50,000 per year, the fee varies from 0.5% to 1.25%, based on the business annual revenue or turnover. However, for most professional businesses, the business license fee equals 1% of revenue.

The occasional business license fee is BSD25, and the temporary business license fee equals 1.5% of gross turnover.

As an anti-tax avoidance measure, a subsidiary in the Bahamas is subject to the same business license tax rate as is its parent in the Bahamas.

Business license fees must be paid by 31 March each year, and proof of payment of real property tax must be produced before the license is issued.

Corporations regulated by specific legislation may not be subject to this fee.

**Bank and trust company license fees.** Offshore banks and trust companies licensed under the Bank and Trust Companies

Regulation Act are subject to business license fees, which vary depending on the value of the assets under management. The annual business license fees range from BSD450,000 to BSD3,750,000 per license. In addition, banks and trusts are subject to tax at a rate of 3% of turnover.

**International business companies.** International business companies (IBCs) pay an annual license fee based on authorized capital. Government fees related to the creation of an IBC equal BSD400 for capital up to BSD50,000 and BSD1,200 for capital over BSD50,000. The annual license fee is BSD700 if turnover is less than BSD50,000, and the fee is BSD1,000 if turnover is BSD50,000 or more. IBCs are subject to value-added tax (VAT). They are exempt from all other taxes and stamp duties for a period of 20 years, other than transactions involving real estate in the Bahamas. IBCs are normally created through service providers that charge separate fees for their services.

**Limited duration companies.** Limited duration companies (LDCs) pay an application fee of BSD850 and an annual license fee based on authorized capital. LDCs may be classified as partnerships for US tax purposes. By complying with certain formalities, an existing IBC may change its status to an LDC.

**Insurance companies.** Insurance companies that are incorporated in the Bahamas pay stamp tax on authorized capital (for details, see Section D). They also pay the fees described below.

Resident insurance companies that write local business pay an initial registration fee of BSD1,000.

Restricted offshore insurance companies pay an initial registration fee of BSD2,500 and an annual fee of BSD2,500 in subsequent years. Unrestricted companies pay an initial registration fee of BSD3,500 and an annual fee of BSD3,500 in subsequent years. Offshore insurance companies also pay an annual fee of BSD1,000 for each licensed resident insurance manager who provides underwriting as a service. Offshore insurance companies are exempt from all other taxes for a period of 20 years from the date of registration.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT); charged on any taxable supply of goods and services, as well as importations; applied at the standard rate, unless an exception applies such as a zero-rating or a VAT exemption; standard and zero-rated supplies allow input VAT recovery on purchases made, but VAT exemption results in input VAT being a cost; the legislation provides limited exceptions; VAT registration is mandatory for a person or business making taxable supplies or taxable importations and having turnover exceeding BSD100,000 in any period of 12 months or less; the legislation also provides for voluntary registration; standard rate	7.5%

Nature of tax	Rate
Customs duties, on imported items; exemptions may be granted to businesses licensed under certain legislation; rate varies by type of item	Various
Stamp duty	
On property conveyances; rate depends on selling price (because of the implementation of VAT, the rate is a combination of VAT and stamp duty)	2.5% to 10%
On imported items	0% to 60%
On authorized capital of a domestic limited company (payable at time of incorporation)	
First BSD5,000	2%
Each additional BSD1,000	0.5%
Repatriation out of the Bahamas of substantial profits by trading concerns; tax is imposed on each transfer of funds exceeding BSD500,000 per year if the transfer represents dividends, profits or payments for services rendered by a related party	
Repatriated foreign currency	5%
Repatriated Bahamian dollars	1.5%
Leasing, subleasing or licensing of marina slips; tax rate applied to value	
BSD0 to BSD20,000	4%
BSD20,001 to BSD50,000	6%
BSD50,001 to BSD100,000	8%
BSD100,001 and above	10%
Real property tax; application of tax varies depending on appraised value, location, nationality of owner and development of property; maximum rate	2%
National insurance contributions on weekly wages up to BSD650 or on monthly wages up to BSD2,817; paid by	
Employer	5.9%
Employee	3.9%

## E. Foreign-exchange controls

Corporations doing business in the Bahamas fall into the categories of resident or nonresident.

A resident company is a company that deals in or holds assets in the Bahamas. Business is carried out in Bahamian dollars. All transactions requiring foreign currency need prior approval of the Central Bank of the Bahamas to convert Bahamian dollars into another currency.

A nonresident company is one whose shareholders are not designated residents of the Bahamas and whose principal business activity takes place outside the Bahamas. Bank accounts in all currencies other than the Bahamian dollar can be operated free of any exchange controls. Shares of nonresident companies incorporated under the Companies Act cannot be transferred without the

prior permission of the Central Bank of the Bahamas. Exchange-control regulations generally do not apply to companies incorporated under the International Business Companies Act.

Nonresident companies are subject to an annual fee of BSD300.

## **F. Tax treaties**

The Bahamas does not have any existing tax treaties. The Bahamas has entered into tax information exchange agreements with various countries.

On 3 November 2014, the Bahamas and the United States signed and released a Model 1 Intergovernmental Agreement (IGA) for the implementation of the US Foreign Account Tax Compliance Act (FATCA).

The Bahamas has committed to adopting the Organisation for Economic Co-operation and Development Common Reporting Standard (CRS) and is expected to report for the first time in 2018 for the reporting year ended 31 December 2017.

Bahamas institutions will be required to comply with both FATCA and CRS in accordance with the Bahamas tax law regulations that are enacted.

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## A. At a glance

Corporate Income Tax Rate (%)	0*
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

\* Oil and gas companies are subject to a special income tax (see Section B).

## B. Taxes on corporate income and gains

Except for the income tax levied on oil and gas companies, no taxes are levied on corporate income or gains. Oil and gas companies are subject to tax on income derived from the sale of finished or semifinished products manufactured from natural hydrocarbons in Bahrain and from the sale of such raw materials if produced from the ground in Bahrain. The rate of tax is 46%.

## C. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Customs duties; effective from 1 January 2003, the customs duties of the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are unified; the guidelines for implementation of the unified tariff are	

<b>Nature of tax</b>	<b>Rate</b>
being developed; Bahrain applies the unified tariff in accordance with the Harmonized System codes, issued by the World Customs Organization (WCO); under the unified customs tariff, for all products, except for tobacco and tobacco-related products, customs duties are calculated by applying percentage rates; for tobacco and tobacco-related products, the customs duty equals the higher of an amount calculated by applying a rate of at least 100% to the value of the product or an amount based on the quantity or weight; in general, products are divided into four groups Rates for the four groups	Free duty/ 5%/100%/125%
Social insurance contributions; payable on compensation of up to BHD4,000 per month for each employee	
Pension fund contributions; applicable to base salaries of Bahraini nationals	
Employer	9%
Employee	6%
Insurance against employment injuries; payable by employers; applicable to base salaries of Bahraini nationals and expatriates	3%
Unemployment insurance; payable by employees; applicable to Bahraini nationals and expatriates	1%
Municipal tax; payable by companies and individuals renting property in Bahrain; the tax rate varies according to the nature of the property and the payer of the utilities (that is, landlord or tenant)	7% to 10%
Foreign workers levy; payable monthly by all private and public companies with respect to each employed expatriate	BHD5 for the first five expatriate employees and BHD10 for each additional expatriate employee

#### **D. Foreign-exchange controls**

Bahrain does not impose foreign-exchange controls.

#### **E. Tax treaties**

Bahrain has entered into tax treaties with Algeria, Austria, Barbados, Belarus, Belgium, Bermuda, Brunei Darussalam, Bulgaria, China, Cyprus, the Czech Republic, Egypt, Estonia, France, Georgia, Hungary, Iran, Ireland, Isle of Man, Jordan, Korea (South), Lebanon, Luxembourg, Malaysia, Malta, Mexico, Morocco, the Netherlands, Pakistan, Philippines, Portugal, Seychelles, Singapore, Sri Lanka, Sudan, Syria, Tajikistan, Thailand, Turkey, Turkmenistan, the United Kingdom, Uzbekistan and Yemen.

Bahrain has signed a tax treaty with Bangladesh, but the treaty is not yet in force.

Bahrain has also initiated tax treaty discussions with Guernsey, the Hong Kong Special Administrative Region, Jersey, Kyrgyzstan, Latvia, Liechtenstein, Spain and Switzerland.



# Barbados

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## A. At a glance

Corporate Income Tax Rate (%)	
General Rate	25
Manufacturing Companies	15
Rental Income from Residential Property	15
Branch of Nonresident Corporation (%)	25
Capital Gains Tax Rate (%)	0
Withholding Tax (%)	
Payments to Nonresidents	
Dividends	15*
Dividends from Untaxed Profits	25
Dividends from Foreign-Source Income	0
Interest	15*
Royalties	15*
Rents	25
Management and Technical Services Fees	15*
Payments to Resident Individuals	
Dividends	12.5*
Interest	12.5*

Payments to Resident Companies	
Dividends	0
Interest	12.5*
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	7

\* This is a final tax.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies and societies with restricted liability that are resident in Barbados are subject to corporation tax. Resident and domiciled companies are subject to corporation tax on their worldwide income, regardless of whether the income is remitted to Barbados. Resident companies that are not domiciled in Barbados are subject to corporation tax on income derived from Barbados and income from foreign sources to the extent that such foreign income is remitted to Barbados. Nonresident companies carrying on business through a branch pay tax on Barbados-source income only. Income is considered to be Barbados-source if the property that constitutes the source is physically located in Barbados.

A company is considered to be resident in Barbados if its management and control are located in Barbados. The domicile of a company is based on the country of incorporation. Consequently, a company incorporated in Barbados is domiciled there.

**Rates of corporate tax.** All domestic companies, including branches of nonresident companies, are subject to tax at a basic rate of 25%. A 15% rate applies to manufacturing companies and to net income derived from the rental of residential property. Income derived from Barbados government securities by domestic companies is taxed at a rate of 12.5%.

A branch operating in Barbados pays an additional 10% on its after-tax profits if those profits are remitted or deemed to be remitted.

The following are the tax rates for companies established in the International Business and Financial Services Sector.

Types of companies	Rate (%)
International Business Companies	2.5 reducing to 0.25 (a)
International Banks	2.5 reducing to 0.25 (a)
International Societies with Restricted Liability	2.5 reducing to 0.25 (a)
Exempt Insurance Companies	0
Exempt Insurance Management Companies	0
Qualifying Insurance Companies	
General insurance	1.75 (b)
Life insurance	0.35 (b)

(a) These rates are effective for the 2013 income year and subsequent income years.

(b) This is the minimum effective tax rate.

No tax is required to be withheld from the payment of dividends, interest, royalties, management fees and rents if paid to nonresidents by companies operating in the International Business and Financial Services Sector.

*Foreign-currency earnings credit.* Companies subject to the Income Tax Act may claim a tax credit with respect to foreign-currency earnings derived from qualifying overseas construction projects or qualifying overseas professional services, including qualifying insurance activities. The tax credit may reduce the effective tax rate to 0.35% or 1.75%, depending on the company's activities.

**Tax incentives.** Tax incentives available in Barbados are described below.

*Small Business Development Act.* Under the Small Business Development Act, small businesses qualify for the following tax benefits:

- Corporation tax rate of 15%
- Exemption from withholding tax on dividends or interest paid
- Exemption from import duty on plant and equipment
- Exemption from stamp duty on the execution and registration of financial documents

Only income directly related to the business qualifies for the above tax benefits.

To qualify as a small business, a company must meet the following requirements:

- Its authorized capital does not exceed BBD1 million.
- Its annual sales do not exceed BBD2 million.
- It does not have more than 25 employees.
- It is not a wholly owned or majority-owned subsidiary in a group of companies.

*Tourism Development Act.* Under the Tourism Development Act, duty-free and income tax concessions are available for approved tourism projects and certain tourism entities. These concessions include the following:

- Exemption from the payment of customs duty on specified items
- Tax deduction equal to 100% of expenditure incurred with respect to the development of a tourism product, tourism research, an apprenticeship scheme or the organization and hosting of tourism exhibitions and trade fairs
- Offset of approved capital expenditure against assessable income
- An investment tax credit (subject to conditions)
- Exemption from withholding tax on dividends paid to shareholders

*Fiscal Incentives Act.* A business that manufactures approved products may be deemed to be an approved enterprise under the Fiscal Incentives Act. An approved enterprise may be eligible for several tax incentives, including the following:

- An income tax holiday for up to 11, 13 or 15 years
- Relief from withholding tax on dividends paid during the tax holiday

- Exemption from the payment of customs duty on imported items (including plant and machinery) for the manufacturing of an approved product

*Special Development Areas Act.* Under the Special Development Areas Act, persons carrying out work in designated special development areas in Barbados, as well as persons financing such work, are entitled to certain tax relief. An approved developer is entitled to a reduced corporation tax rate of 15% and exemption from certain taxes, such as the following:

- Import duty, environmental levy and value-added tax on inputs for the construction of new buildings and the renovation or refurbishment of existing buildings
- Charges on the repatriation of interest and capital
- Land tax on the improved value of land
- Property transfer tax on the initial purchase of property

*Renewable Energy Incentives.* Persons engaged in the development, manufacturing, installation or repair of renewable energy systems and energy-efficient products may be entitled to one or more of the following tax benefits if the required criteria are met:

- Ten-year income tax holiday
- Tax deduction of 150% for the following expenditure with respect to the generation, supply and sale of renewable energy, or the installation or supply of renewable energy systems or energy-efficient products:
  - Interest paid on loans with respect to the construction or upgrading of a property
  - Expenditure on the training of staff
  - Expenditure on the marketing of products
  - Expenditure on research and development
- Ten-year exemption from withholding tax on dividends paid to shareholders

In addition, interest earned by financial intermediaries from financing the development, manufacturing and installation of renewable energy systems and energy-efficient products is exempt from tax for 10 years.

**Capital gains.** Capital gains are not taxed in Barbados.

**Administration.** The fiscal (income) year is the period for which the accounts of the business are normally prepared. Tax is calculated on the profits for the accounting period that ends during the fiscal year.

A corporation is required to determine its own tax liability and to prepare and file a corporation tax return. Corporations with year-ends from 1 January to 30 September must prepay tax by 15 September and file their returns by 15 March of the following year. If the year-end is after 30 September, the tax must be prepaid on 15 December of the income year and on the following 15 March. The return is filed 15 June of the year following the income year. Each tax prepayment must be 50% of the previous year's tax. Any balance of tax due is paid when the return is filed. Tax returns may be filed using the Barbados Revenue Authority's electronic filing system.

The Revenue Commissioner of the Barbados Revenue Authority may levy a penalty of BBD500 plus 10% of tax payable and

interest of 1% a month for failure to file a return and pay tax due, and a penalty of 10% and interest of 0.5% a month for failure to prepay corporation tax.

**Dividends.** Dividends received by a resident company from another resident company are not taxable.

Dividends received from a nonresident company are not subject to tax in Barbados if the Barbados company owns 10% or more of the share capital of the nonresident company and if the shareholding in the nonresident company is not held as a portfolio investment.

**Foreign tax relief.** A tax credit is allowed for taxes paid to foreign jurisdictions by Barbados resident companies on profits, income or gains earned from such foreign jurisdictions, regardless of whether Barbados has entered into a double tax treaty with the foreign jurisdiction. This credit is allowed up to the amount of the Barbados taxes payable on the income. An underlying tax credit is also allowed with respect to foreign dividends if the Barbados company owns at least 10% of the capital of the foreign company. Some form of unilateral relief may be granted on income arising from British Commonwealth countries that provide reciprocal relief.

### C. Determination of trading income

**General.** Taxable income is determined on the basis of accounts prepared in accordance with International Financial Reporting Standards, subject to specific adjustments identified in the Income Tax Act.

**Inventories.** The authorities generally accept a method of valuation of inventory that conforms to standard accounting practice in the trade or business, provided it is applied consistently. Average cost or first-in, first-out (FIFO) are the generally accepted methods.

**Provisions.** Reserves or provisions of a general nature for doubtful accounts receivable are not allowable. However, write-offs of specific amounts or balances are generally allowed.

**Tax depreciation.** Depreciation and amortization reported in the financial statements are not allowed as deductions in calculating taxable income. However, a company may claim capital allowances. Annual allowances of between 5% and 33 $\frac{1}{3}$ % are given on the original cost of fixed assets, calculated on a straight-line basis. An annual allowance of 100% is granted with respect to capital expenditure on software. An initial allowance of 20% is given on the cost of equipment. Industrial buildings qualify for an initial allowance of 40% and an annual allowance of 4% of the cost. An allowance of 1% is given on the improved value of commercial buildings. Fifty percent of expenditure on intellectual property is deductible over a 10-year period. In addition, 20% of expenditure on energy audits and the retrofitting of buildings or on the installation of systems to provide electricity from sources other than fossil fuels is deductible over a period of 5 years.

An investment allowance of 20% is granted on the cost of capital expenditure on new plant and machinery to be used in a basic industry. A 40% investment allowance is granted for new plant

and machinery to be used in manufacturing and refining sugar and in manufacturing products from clay and limestone. In addition, manufacturing companies are allowed an annual allowance of 150% for assets used in the industry.

Persons who export products outside the Caribbean Community and Common Market (CARICOM) also qualify for an investment allowance of 40% of the cost of new plant and machinery purchased during the tax year.

The investment allowance is not deductible from the cost of the asset for the purpose of determining the annual allowance.

**Relief for losses.** Losses may be carried forward seven years to offset income derived in those years. Losses may not be carried back.

**Groups of companies.** Group relief is no longer available, effective from the 2015 income year. Group consolidated returns may not be filed with the tax authorities.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on the supply of goods and services in Barbados and on goods imported into Barbados	
Standard rate	17.5
Hotel accommodation and supplies related to tourism	7.5
Mobile voice, data and text messaging services	22
Basic food items	0
Excise tax, on imports of vehicles; this tax is imposed in addition to the VAT	46.95 to 120
Import duty	5 to 20
National insurance contributions, on monthly insurable earnings up to BBD4,650; paid by	
Employer	11.25
Employee	10.1
Self-employed individual	16.1
National Social Responsibility Levy (NSRL); imposed on certain goods imported into Barbados and on goods manufactured or produced in Barbados, with some exemptions; the levy entered into force in Barbados on 1 September 2016 and had a rate of 2%; the rate of the NSRL has been increased to 10% with retroactive effect from 1 July 2017	10

#### E. Miscellaneous matters

**Foreign-exchange controls.** Foreign-exchange controls in Barbados are administered by the Central Bank, which considers all applications. Certain transactions and routine commercial matters are

delegated to the commercial banks. The Central Bank generally allows the repatriation of funds previously registered as an investment if it has been established that all local tax liabilities have been met. Certain types of entities operating in the International Business and Financial Services Sector, such as offshore banks, exempt (captive) insurance companies, international business companies and international societies with restricted liability, are effectively exempt from foreign-exchange regulations with respect to their offshore activities.

**Debt-to-equity rules.** No thin-capitalization rules are imposed in Barbados.

**Anti-avoidance legislation.** Anti-avoidance provisions may be applied to transactions between related persons that are not carried out at arm's length and to artificial transactions if the primary purpose of the transaction is the reduction of taxable income.

## F. Treaty withholding tax rates

The withholding tax rates in the table below apply to payments made to nonresidents of Barbados under the various treaties entered into by Barbados. However, no tax is withheld from dividends, interest, royalties and management fees paid to nonresidents by International Business Companies or International Societies with Restricted Liability. In addition, International Banks and Exempt (Captive) Insurance Companies are exempt from the payment of withholding tax on dividends and interest.

	Dividends	Interest	Royalties
	%	%	%
Austria	15 (a)	0	0
Bahrain (w)	0	0/15	0
Botswana	12 (b)	10	10
Canada	15	15	10
CARICOM (c)	0	15	15
China (mainland)	10 (d)	10	10
Cuba	15 (b)	10	5
Czech Republic	15 (s)	5	10 (u)
Finland	15 (a)	5	5
Ghana (e)	7.5 (a)	7.5 (f)	7.5
Iceland	15 (a)	10 (v)	5
Italy	15 (a)	5 (v)	5
Luxembourg	15 (g)	0	0
Malta	15 (h)	5	5
Mauritius	5	5	5
Mexico	10 (a)	10	10 (i)
Netherlands	15 (j)	5	5 (k)
Norway	15 (a)	5	5
Panama	11.25 (l)	7.5 (m)	7.5
Portugal (r)	15 (s)	10	5
Qatar	0	0	5
San Marino	5 (g)	5 (v)	0
Seychelles	5	5	5
Singapore	0	12 (v)	8
Spain	5 (t)	0	0
Sweden	15 (a)	5	5
Switzerland	15	- (n)	0
United Arab Emirates	0	0	0

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
United Kingdom	0	0	0 (o)
United States	15 (a)	5	5
Venezuela	10 (h)	15 (p)	10
Non-treaty jurisdictions	15 (q)	15	15

- (a) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 10% of the capital of the payer of the dividends.
- (b) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends.
- (c) The Caribbean Community and Common Market (CARICOM) multilateral treaty has been entered into by 10 member states of CARICOM. The treaty follows a source-based model of taxation, with double tax relief typically provided in the form of an income exemption in the state of residence.
- (d) The rate is reduced to 5% if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends.
- (e) This treaty has been ratified by Barbados only. Consequently, the provisions of the treaty are not yet in effect.
- (f) The rate is reduced to 5% if the interest is derived by a bank that is resident in Ghana.
- (g) The rate is reduced to 0% if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least 12 months before the decision to distribute the dividends.
- (h) The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 5% of the capital of the payer of the dividends.
- (i) The term "royalties" includes payments derived from the alienation of rights or property that are contingent on the productivity, use or disposition of such property.
- (j) The rate is reduced to 0% if the beneficial owner of the dividends is a company that owns at least 10% of the capital of the payer of the dividends and if the recipient of the dividends is a company resident in the Netherlands that is not subject to Netherlands company tax on the dividends.
- (k) The rate is reduced to 0% for royalties paid for the use of, or the right to use, literary, artistic or scientific works, including royalties with respect to cinematographic films, and films, discs or tapes for radio or television broadcasting.
- (l) The rate equals 75% of the statutory nominal rate applicable at the time of the dividend distribution. It is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends.
- (m) The rate is reduced to 5% if the interest is derived by a bank that is resident in Panama.
- (n) The treaty does not contain an interest article. Consequently, the normal tax rate applies.
- (o) The rate is 15% for royalties paid for motion picture or television films.
- (p) The rate is reduced to 5% for interest paid to banks.
- (q) The rate is reduced to 0% if the dividends are paid out of income earned from foreign sources.
- (r) This treaty has been signed by both parties, but it has not yet been ratified. Consequently, the provisions of the treaty are not yet in effect.
- (s) The rate is reduced to 5% if the beneficial owner of the dividends is a company that directly owns at least 25% of the capital of the company paying the dividends.
- (t) The rate is reduced to 0% if the beneficial owner of the dividends is a company that directly owns at least 25% of the capital of the company paying the dividends.
- (u) The rate is reduced to 5% for royalties paid for copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for radio or television broadcasting.
- (v) The rate is reduced to 0% if the interest is paid to the government of the other contracting state or any agency or instrumentality thereof, including the central bank of that contracting state (subject to certain restrictions).
- (w) The treaty language is unclear and may be read either as providing an exemption from Barbados withholding tax, or as providing no restriction of Barbados withholding tax. The government has not yet issued guidance as to the correct interpretation.



# Belarus

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## Business Tax Advisory

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## A. At a glance

Corporate Profits Tax Rate (%)	18/25 (a)
Capital Gains Tax Rate (%)	18/25 (b)
Withholding Tax Rate (%) (c)	
Dividends	12
Interest	0/10 (d)
Royalties	15
Freight and Transportation	6
Capital Gains	12
Other Income	15 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

- (a) The 18% rate is the standard profits tax rate. The 25% rate applies to profits of banks and insurance companies. Certain activities are subject to special tax rates and tax incentives are available. For details, see Section B.
- (b) The 18% rate is the standard profits tax rate. The 25% rate applies to profits of banks and insurance companies.
- (c) Withholding tax applies to income derived from sources in Belarus by foreign legal entities that do not carry out business activities in Belarus through a permanent establishment. Withholding tax rates may be reduced or eliminated under applicable double tax treaties. For a table of treaty withholding tax rates, see Section F.
- (d) This withholding tax applies to income derived from debt obligations, such as borrowings or loans, that are not formalized by securities. Exemption is available for certain public debts and certain types of bonds. Interest from certain loans is exempt from withholding tax in 2017. This exemption applies to companies whose permanent location is confirmed by the Bankers Almanac (except for residents of offshore zones).
- (e) The Tax Code specifies the types of income subject to withholding tax.

## B. Taxes on corporate income and gains

**Corporate profits tax.** Companies incorporated in Belarus are subject to corporate profits tax on their worldwide income. Non-residents that carry out business activities in Belarus through a permanent establishment are subject to the corporate profits tax only on the income derived from their activities carried out in Belarus through such permanent establishment.

Income derived from sources in Belarus by nonresidents that do not carry out business activities in Belarus through a permanent establishment is subject to withholding tax. For withholding tax rates, see Sections A and F.

**Rates of corporate profits tax.** The standard corporate profits tax rate is 18%. A 25% rate applies to profits of banks and insurance companies.

Reduced tax rates apply to the following types of income:

- Profits of producers of high-technology products: 10%
- Dividends paid to Belarusian companies: 12%
- Profits of science and technology parks, technology-transfer centers, and residents of science and technology parks (except for corporate profits tax that is calculated, withheld and remitted by a tax agent): 10%

**Tax exemptions and reductions.** Belarus offers various tax exemptions and reductions. Some of these exemptions and reductions are summarized below.

Certain types of income are not subject to tax, including dividends accruing to the following:

- Belarusian societies of disabled people, Belarusian societies of deaf people, Belarusian societies of sight-disabled people (for dividends received from unitary enterprises [commercial organizations that do not have shares or participatory interests] owned by these Belarusian societies)
- Venture organizations and Belarusian innovation funds (for dividends received from innovation organizations)

If certain conditions are met, profits subject to tax can be decreased by amounts used to finance state social objects (including educational, health care, sports and religious organizations) or used for construction or reconstruction of sports facilities, up to 10% of taxable profits.

Profits derived from certain business activities are exempted from the tax, including the following:

- Manufacturing of food products for infants
- Sales of high-technology goods produced by the company according to the list issued by the government, as agreed to by the President of Belarus, if the revenue from these sales is more than 50% of the company's gross revenue
- Sales of innovative goods produced by the company according to the list issued by the government
- Transactions with government securities, securities of the national Bank of the Republic of Belarus and some other securities
- Investment of insurance reserves on voluntary life insurance agreements if the profit is used to increase funds accumulated in the personal accounts of the policyholders

All the benefits described above can be claimed only if special conditions and procedures are met and, in certain circumstances, if special state permits are received.

**Free-economic zones.** A free-economic zone (FEZ) is located in each of the six regional centers of Belarus (Brest, Gomel, Grodno, Minsk, Mogilev and Vitebsk). An FEZ resident registered after 31 December 2011 is exempt from profits tax for 10 years beginning on the date on which profits are declared for the first time.

Other FEZ residents are exempt from corporate profits tax from 2017 through 2021 and for five years beginning on the date on which profits are declared for the first time. After the end of these periods, the FEZ resident pays corporate profits tax at 50% of the standard rate, but the tax rate may not exceed 12%.

The benefits mentioned above are provided to an FEZ resident with respect to profits received from goods (works and services) that are manufactured by the FEZ resident and satisfy one of the following additional conditions:

- They are sold to other FEZ residents.
- They are exported outside Belarus.
- They are sold from storage sites or exhibitions located outside Belarus.

**Special tax regimes.** Belarus has several tax regimes, which are summarized below.

*Simplified system of taxation.* Business entities may pay a unified tax under a simplified system of taxation. Business entities that pay the unified tax are not subject to corporate profits tax, and under certain conditions, to value-added tax (VAT) (and some other taxes). Under this system, the tax due is either 5% of gross revenues or, if the business entity continues to pay VAT, 3% of gross revenues. Certain types of non-operating income are subject to a 16% rate.

*Unified tax on agricultural producers.* Agricultural producers may pay a unified tax at a rate of 1% of gross revenues from the sale of goods (works and services) and other property and income derived from non-sales transactions. An agricultural entity can pay the unified tax if its annual gross revenue consists of at least 50% of revenue from the sale of its own manufactured crop products (excluding flowers and ornamental plants), livestock products, fish breeding and bee breeding products.

*Tax on gambling industry.* Gambling (except for lotteries) is subject to fixed tax rates, depending on the number of items of operational equipment used (for example, gambling tables, slot machines and gambling equipment used to register betting). The positive difference between the amount of received bids and the composed winning fund (fund to be paid to the winner) is subject to additional gambling tax at a rate of 4%.

*Tax on income generated by lottery sales.* Lottery sales are subject to an 8% tax rate on the gross revenue less the awarded prize fund.

*Tax on electronic interactive games.* The tax base for the tax on electronic interactive games equals the difference between the amount of revenue from electronic interactive games and the composed winning fund (fund to be paid to the winner). The tax rate is 8%. Revenue from electronic interactive games is exempt from corporate profits tax. Turnover received from stakes (bets) with respect to the holding of electronic interactive games is exempt from VAT.

*Tax on imputed income.* Providers of car maintenance and repair services are subject to 5% tax on imputed income. The tax base for the tax on imputed income is calculated by multiplying the

average monthly number of employees by the monthly basic profitability of car maintenance and repair services per employee.

*Taxation of commercial organizations and individual entrepreneurs engaged in retail trade and catering in rural areas and small towns.* From 1 January 2018 to 31 December 2022, individual entrepreneurs and commercial organizations that perform retail trade or catering in rural areas and individual entrepreneurs and micro companies (companies with an average number of employees of less than 15 for a month) that perform catering and consumer services in small towns may enjoy special tax benefits with respect to these activities, such as a reduced corporate profits tax rate of 6% and an exemption from VAT.

*Taxation of residents of the High Technologies Park.* The High Technologies Park was established in 2005. It has a special regime that should be in force until 1 January 2049. Park residents are exempt from taxes and other obligatory payments to the state budget and state non-budget funds with respect to revenue derived from the sale of goods (works, services and property rights for intellectual property) except for some specific cases. Business entities operating in the park may engage only in the high technology activities set forth in the Decree of the President of Belarus, "Concerning the Park of High Technologies." From 28 March 2018 to 1 January 2023, residents of the High Technologies Park are exempt from corporate profits tax and VAT with respect to their profits and turnover derived from the mining, creation, purchase and sale of digital signs (tokens). Tokens are objects of proprietary rights and are assets for accounting purposes.

*Special tax benefits to parties that apply modern technologies.* From 28 March 2018 to 1 January 2023, parties that apply modern technologies are exempt from corporate profits tax with respect to profits derived from the disposal of digital signs (tokens) by exchanging them for other digital signs (tokens). In the same period, turnover related to the disposal of tokens is exempt from VAT.

*Taxation of the members of the Infopark Science and Technology Association.* The members of the Infopark Science and Technology Association are exempt from taxes and other obligatory payments to state non-budget funds with respect to revenue derived from the sale of information technologies and services for the development of such technologies, except for profits tax and Social Fund contributions.

*China-Belarus Industrial Park (The Great Stone).* The China-Belarus Industrial Park (The Great Stone; CBIP) was created in 2012 as a territory with a special regime for entrepreneurial activity. Residents of the CBIP may benefit from tax incentives, such as an exemption from the following taxes:

- Corporate profits tax from the realization of their own manufactured goods (works and services) produced in the CBIP for 10 years from the period in which profits first arose. After the end of the 10-year period, residents of the CBIP apply half the general corporate profits tax rate (currently, the general corporate profits tax rate is 18%) during the whole period for which the special regime remains in effect.

- Real estate tax on buildings and constructions located in the CBIP.
- Land tax on land located in the CBIP.

Personal income tax at a rate of 9% applies to the income of a CBIP resident's employees, and social security contributions are calculated on the basis of an amount that is not more than the average salary in Belarus for the preceding month. Other benefits are also available.

**Capital gains.** Capital gains derived from the alienation of equity interests in the charter capital of Belarusian companies are taxed at a standard corporate profits tax rate of 18%. A 25% rate applies to profits of banks and insurance companies.

Capital gains derived by nonresidents without a permanent establishment in Belarus are subject to a 12% withholding tax, unless otherwise provided in a double tax treaty.

**Administration.** The basic tax reporting period is the calendar quarter. The tax return for the first, second and third quarters must be filed by the 20th day of the month following the respective reporting quarter. The tax return for the fourth quarter must be filed by 20 March of the year following the tax period (calendar year). In general, the corporate profits tax must be paid by the 22nd day of the month following the reporting quarter.

Corporate profits tax for the fourth quarter must be paid by 22 December in an amount equal to two-thirds of the tax payable in the third quarter, with subsequent additional payment or reduction not later than 22 March of the year following the tax period (calendar year).

Non-payment or incomplete payment of tax is subject to a fine of 20% of the unpaid tax but not less than 10 basic units (approximately EUR104 or USD124). A fine for late submission of the tax return can be up to 10% of the unpaid tax but not less than 10 basic units. In addition to these fines, a penalty is applied for every day of delay in tax payment. The penalty is assessed on the basis of the refinance rate established by the National Bank of the Republic of Belarus (currently, 18%).

**Dividends.** Dividends paid to foreign legal entities without a permanent establishment in Belarus are subject to a 12% withholding tax, unless otherwise provided by a double tax treaty. The distribution of dividends to resident companies is subject to corporate profits tax.

**Foreign tax relief.** A tax credit for foreign tax paid by, or withheld from, a Belarusian taxpayer is granted on submission to the local tax authorities of a certificate issued by the competent authorities of the foreign country that confirms the amount of tax paid (withheld) in that foreign state.

### C. Determination of taxable profits

**General.** Taxable profits are based on the financial statements prepared according to the accounting standards of Belarus. The taxable profits are determined by adjusting the profits reported in the financial statements by items stipulated by the Tax Code. Adjustments relate to special income and expense items and

usually act to restrict tax-deductible expenses. For example, travel expenses are deductible within certain limits. The list of deductible expenses is open, but may include only economically justified expenses.

Expenses are not economically justified and nondeductible in the following cases:

- The taxpayer does not actually receive goods (works and services), intangible assets or property rights.
- The taxpayer purchases works and services from an individual entrepreneur who is an employee of the taxpayer and whose job duties include these works and services.
- The taxpayer (excluding a stock company) purchases works and services from another company (excluding a stock company) that is a founder (participant) of the taxpayer or vice versa, if the job duties of an employee of the taxpayer include these works and services.

Special rules determine the taxable profits of banks and insurance companies.

**Inventories.** Inventories are carried at actual cost. The allowed accounting methods for determining cost value are cost of each unit, average cost and valuation price, including first-in, first-out (FIFO).

**Provisions.** Banks can establish deductible provisions for unrecoverable loans and securities. The National Bank of the Republic of Belarus regulates the establishment of such provisions.

**Tax depreciation.** The amount of depreciation reported in the financial statements may be deducted for tax purposes if the fixed assets are used in an entrepreneurial activity.

*Investment deduction.* On the acquisition and/or reconstruction of tangible assets, a taxpayer can immediately deduct a percentage of the initial value of the assets (value of investments for reconstruction) for corporate profits tax purposes. The following are the percentages:

- Buildings and structures: not more than 10%
- Machinery and equipment and certain transport vehicles: not more than 20%

The investment deduction does not reduce the base for calculation of the depreciation deduction for tax purposes, which is defined as the initial cost of the asset.

**Relief for losses.** Belarusian tax law contains loss carryforward rules under which losses can be carried forward to the following 10 years, beginning with those incurred in 2011. Losses are carried forward in groups of operations against identical types of income. The following are the groups:

- First group: operations with financial derivatives and securities
- Second group: alienation of fixed assets, construction-in-progress sites and uninstalled equipment

The remaining losses are carried forward regardless of the operations and activities in which they were incurred. To apply the loss carryforward rules, a company must maintain separate accounting and keep documents confirming the amount of losses.

The Belarusian tax law does not provide for loss carrybacks.

**Groups of companies.** The Belarusian tax law does not provide for tax groups. Each legal entity is a separate taxpayer.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT)	
Standard rate	20
Sales of specified products (for example, goods for children and foods)	10
Exports of goods and services	0
Excise duties; imposed at fixed amounts per unit of goods (specific rates) or as a percentage of the value of goods (ad valorem rates); levied on various products (alcohol, tobacco products, certain types of fuel and other items)	Various
Payroll taxes	
Social fund contributions	
Paid by the employer	34
Withheld from employee	1
Personal income tax; withheld from employee	13
Land tax; annual tax imposed at fixed amount per hectare of land area	Various
Ecological tax; imposed at fixed amount per units of various contaminants	Various
Asset tax; annual tax imposed on real estate, including construction-in-progress	1 to 2
Local taxes and duties	Various
Offshore levy; imposed on payments or transfers of cash by residents to nonresidents registered in tax havens; paid by residents	15

#### E. Miscellaneous matters

**Foreign-exchange controls.** The Belarusian ruble (BYN) has limited convertibility. The Council of Ministers of the Republic of Belarus, the National Bank of the Republic of Belarus, The State Control Committee and State Customs are the currency regulation and control bodies in Belarus.

Belarus imposes detailed and severe currency control regulations. These regulations impose restrictions, controls and special reporting with respect to transactions involving the use of foreign and national currency, as well as to settlements with nonresidents.

**Debt-to-equity ratios.** Domestic thin-capitalization rules limit the deductibility of expenses relating to controlled debt owed to a foreign or Belarusian founder (participant).

*Foreign founder (participant).* Controlled debt to a foreign founder (participant) is subject to thin-capitalization rules if the debt-to-equity ratio is 3:1. This ratio is 1:1 for Belarusian companies manufacturing excisable goods. Controlled debt to a foreign founder (participant) includes the total indebtedness, which consists of, among other items, amounts with respect to marketing, consulting, information services, loans received, fines and other sanction charges.

A foreign founder (participant) is a foreign company or individual owning (directly or indirectly) more than 20% of the shares (participatory interests), a related party of this foreign founder (participant) or other persons specified by the Tax Code.

*Belarusian founder (participant).* Controlled debt to a Belarusian founder (participant) is subject to thin-capitalization rules if the debt-to-equity ratio is 1:1. Controlled debt to a Belarusian founder (participant) includes the total indebtedness, which consists of, among other items, amounts with respect to marketing, consulting and information services. However, it does not include indebtedness under loans received, fines and other sanction charges. A Belarusian founder (participant) is a Belarusian company or individual owning (directly or indirectly) more than 20% of the shares (participatory interests), a related party of this Belarusian founder (participant) or other persons specified by the Tax Code.

Thin-capitalization rules do not apply to banks or insurance companies or to lessors or landlords if they receive rental payments (lease payments) exceeding 50% of their total revenue from the sale of goods (works and services) and property rights, as well as income from renting and leasing operations.

**Transfer pricing.** The tax authorities may control prices set in the following types of transactions:

- Transactions related to the sale or purchase of immovable property if the price of the transaction deviates by more than 20% from the market price for identical (homogeneous) immovable property
- The following trade transactions, if the total value of the transactions with one counterparty exceeds BYN100,000 (excluding indirect taxes) in a calendar year:
  - Foreign-trade transactions with related parties or offshore zone residents
  - Foreign-trade transactions with related parties or offshore zone residents undertaken through a chain of transactions with an intermediary third party that is not a related party to the companies involved in the controlled transactions (intermediary transactions)
  - Trade transactions with Belarusian related parties including intermediary transactions if these related parties are exempted from taxation as a result of the application of a special tax regime or similar rulings
- The following foreign-trade transactions, if the total value of the transactions with one counterparty exceeds BYN1 million (excluding indirect taxes) in a calendar year (large-scale transactions):
  - Transactions of large taxpayers
  - Transactions related to sale or purchase of strategic goods on the list approved by the government

Trade transactions are subject to control of the tax authorities if the price of the transaction differs by more than 20% from the market price on the date of acquisition or sale. The comparability of prices to market prices is reviewed only for the purpose of calculating corporate profits tax, and the prices are adjusted only if this will increase the tax. The following methods are used to



determine for tax purposes the conformity of transaction prices to market prices:

- Comparable market price method
- Resale price method
- Cost-plus method
- Comparable profits method
- Profit-split method

Taxpayers must inform the tax authorities regarding transactions performed by them in the tax period that are subject to the control of the tax authorities by entering data on the transactions into electronic VAT invoices that are submitted to the tax authorities.

Taxpayers that completed large-scale transactions (see above) must prepare and, on notification of the tax authorities, provide such tax authorities with the documentation supporting the economic justification of the applied price. Taxpayers that completed other controlled transactions must, on notification of the tax authorities, provide only supporting documentation evidencing that the price applied by the taxpayer is in line with the market price.

The documentation described in the preceding paragraph must be submitted within the period prescribed in the tax authorities' request. However, such period may not be less than the following:

- Ten working days from the date of receipt of notification under a desk tax audit
- Five working days from the date of receipt of notification under a field tax audit

## **F. Tax treaties**

Belarus has entered into double tax treaties with Armenia, Austria, Azerbaijan, Bahrain, Bangladesh, Belgium, Bulgaria, China, Croatia, Cyprus, the Czech Republic, Ecuador, Egypt, Estonia, Finland, Georgia, Germany, the Hong Kong Special Administrative Region (SAR), Hungary, India, Iran, Ireland, Israel, Italy, Kazakhstan, Korea (North), Korea (South), Kyrgyzstan, Kuwait, Laos, Latvia, Lebanon, Lithuania, Macedonia, Moldova, Mongolia, the Netherlands, Oman, Pakistan, Poland, Qatar, Romania, the Russian Federation, Saudi Arabia, Singapore, the Slovak Republic, Slovenia, South Africa, Sri Lanka, Sweden, Switzerland, Syria, Tajikistan, Thailand, Turkey, Turkmenistan, Ukraine, United Arab Emirates, Uzbekistan, Venezuela, Vietnam and Yugoslavia (applied to Serbia).

Belarus has also signed double tax treaties with Indonesia and Libya, but these treaties have not yet entered into force.

Belarus has signed new double tax treaties with Spain and the United Kingdom, which will replace the existing treaties with these countries, but the new treaties are not yet in force. As a result, the existing treaties remain in force.

Belarus honors several of the double tax treaties entered into by the former USSR, including treaties with Denmark, France, Japan, Malaysia, Spain, the United Kingdom and the United States. The Ministry of Taxes and Duties has indicated that the treaties with Canada and Norway are no longer effective.

The following table presents the withholding tax rates under Belarusian tax treaties and under the former USSR's treaties honored by Belarus.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Armenia	10/12 (a)	0/10 (v)	10/15 (tt)
Austria	5/12 (e)	0/5/10 (gg)	5/15 (uu)
Azerbaijan	12	0/10 (v)	10/15 (tt)
Bahrain	5/12 (iii)	0/5/10 (vv)(xx)	5/15 (uu)
Bangladesh	10/12 (ggg)	0/7.5/10 (vv)(jjj)	10/15 (tt)
Belgium	5/12 (e)	0/10 (z)	5/15 (uu)
Bulgaria	10/12 (ww)	0/10 (v)	10/15 (tt)
China (mainland)	10/12 (ww)	0/10 (u)	10/15 (tt)
Croatia	5/12 (e)	10	10/15 (tt)
Cyprus	5/10/12 (d)	5/10 (xx)	5/15 (uu)
Czech Republic	5/10/12 (jj)	0/5/10 (vv)(xx)	5/15 (uu)
Denmark (q)	12	0	0
Ecuador	5/10 (mmm)	0/10 (nnn)	10
Egypt	12	10	15
Estonia	10/12 (ww)	0/10 (s)(vv)	10/15 (tt)
France (q)	12	0/10 (r)	0
Finland	5/12 (e)	0/5/10 (hh)	5/15 (uu)
Georgia	5/10/12 (jj)	0/5/10 (hhh)	5/15 (uu)
Germany	5/12 (dd)	0/5/10 (ee)	3/5/15 (ff)
Hong Kong SAR	0/5 (ooo)	0/5 (ppp)	3/5 (qqq)
Hungary	5/12 (e)	5/10 (xx)	5/15 (uu)
India	10/12 (g)	0/10 (bb)(vv)	15
Iran	10/12 (g)	0/5/10 (v)(xx)	5/15 (uu)
Ireland	0/5/10/12 (oo)	0/5/10 (kkk)	5/15 (uu)
Israel	10/12 (ww)	0/5/10 (t)	5/10/15 (cc)
Italy	5/12 (e)	0/8/10 (mm)	6/15 (zz)
Japan (q)	12	0/10 (ss)	0/10/15 (n)
Kazakhstan	12	0/10 (v)	15
Korea (North)	10/12 (ww)	0/10 (s)(v)	10/15 (tt)
Korea (South)	5/12 (e)	0/10 (p)	5/15 (uu)
Kuwait	0/5/12 (x)	0/5/10 (vv)(xx)	10/15 (tt)
Kyrgyzstan	12	0/10 (v)	15
Laos	5/10/12 (aaa)	0/8/10 (bbb)	5/15 (uu)
Latvia	10/12 (ww)	0/10 (s)(vv)	10/15 (tt)
Lebanon	7.5/12 (jjj)	0/5/10 (v)(xx)	5/15 (uu)
Lithuania	10/12 (ww)	0/10 (s)(vv)	10/15 (tt)
Macedonia	5/12 (e)	10	10/15
Malaysia (q)	12	0/10 (s)(v)(bb)	10/15 (o)
Moldova	12	0/10 (bb)	15
Mongolia	10/12 (ww)	0/10 (nn)	10/15 (tt)
Netherlands	0/5/12 (e)(w)	0/5/10 (xx)(yy)	3/5/10/15 (f)
Oman	0/5/12 (ii)	0/5/10 (ii)	10/15 (tt)
Pakistan	10/12 (g)	0/10 (s)(v)(bb)	15
Poland	10/12 (a)	0/10 (bb)	0
Qatar	5/12 (iii)	0/5/10 (v)(xx)	5/15 (uu)
Romania	10/12 (ww)	0/10 (v)	15
Russian Federation	12	0/10 (v)	10/15 (tt)
Saudi Arabia	5/12 (iii)	5/10 (xx)	10/15 (tt)
Singapore	0/5/12 (ccc)	0/5/10 (ddd)	5/15 (uu)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Slovak Republic	10/12 (g)	0/10 (v)	5/10/15 (i)
Slovenia	5/12 (iii)	0/5/10 (pp)(xx)	5/15 (uu)
South Africa	5/12 (e)	0/5/10 (l)	5/10/15 (m)
Spain (q)	12	0	0/5/15 (y)(uu)
Sri Lanka	7.5/10/12 (eee)	0/10 (fff)	10/15 (tt)
Sweden	5/10/12 (b)	0/5/10 (rr)	3/5/10/15 (c)
Switzerland	5/12 (e)	0/5/8/10 (aa)	3/5/10/15 (c)
Syria	12	10	15
Tajikistan	12	0/10 (bb)	15
Thailand	10/12 (ww)	0/10 (qq)	15
Turkey	10/12 (g)	0/10 (v)	10/15 (tt)
Turkmenistan	12	0/10 (v)	15
Ukraine	12	10	15
United Arab Emirates	5/10/12 (j)	0/5/10 (s)(xx)	5/10/15 (k)
United Kingdom (q)	0/12 (lll)	0/10 (lll)	0/15 (lll)
United States (q)	12	0	0
Uzbekistan	12	0/10 (v)(bb)	15
Venezuela	5/12 (e)	0/5/10 (kk)(xx)	5/10/15 (ll)
Vietnam	12	0/10 (v)	15
Yugoslavia	5/12 (e)	8/10 (h)	10/15 (tt)
Non-treaty jurisdictions	12	10	15

- (a) The 10% rate applies if the recipient is the actual owner of the dividends and owns at least 30% of the capital of the company that pays the dividends. Otherwise, a 12% rate applies.
- (b) The 5% rate applies if the recipient is the actual owner of dividends and owns at least 30% of the capital of the company that pays the dividends. The 10% rate applies in other cases if the recipient is the actual owner of dividends. Otherwise, the 12% rate applies.
- (c) The 3% rate applies if the recipient is the actual owner of royalties paid for the use of or grant of the right to use patents or secret formulas or processes, or for information on industrial, business or scientific experience. The 5% rate applies if the recipient is the actual owner of royalties for the use of or grant of the right of use of industrial, business or scientific equipment. In all other cases, the 10% rate applies if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (d) The 5% rate applies if the recipient is the actual owner of the dividends and has invested at least ECU200,000 in the equity of the company that pays the income. The 10% rate applies if the recipient is the actual owner of the dividends and owns at least 25% of the capital of the company that pays the dividends. Otherwise, the 12% rate applies.
- (e) The 5% rate applies if the recipient of income is the owner of at least 25% of the capital of the company that pays the dividends. Otherwise, the 12% rate applies.
- (f) The 3% rate applies to amounts paid for the use of or grant of the right of use of patents, trademarks, designs, models, plans, or secret formulas or processes, or for information on industrial, business or scientific experience. The 5% rate applies to amounts paid for the use of or grant of the right to use industrial, business or scientific equipment (including road transport vehicles). The 10% rate applies to amounts paid for the use of or grant of the right to use copyrights of works of literature, art or science, including cinematographic films, as well as for films or recordings used in television or radio programs. Otherwise, the 15% rate applies.
- (g) The 10% rate applies if the recipient is the actual owner of the dividends and owns at least 25% of the capital of the company that pays the income. Otherwise, the 12% rate applies. Under the Pakistan and Turkey treaties, the recipient does not need to be the actual owner of the dividends to apply the 10% rate.
- (h) The 8% rate applies if the recipient is the actual owner of the interest. Otherwise, the 10% rate applies.

- (i) The 5% rate applies to amounts paid for the use of copyrights of works of literature, art or science, including cinematographic films, as well as for films or recordings and other means for the transmission of images or sound. The 10% rate applies to amounts paid for patents, trademarks, designs, charts, models, plans or secret formulas or processes, for information on industrial, business or scientific experience, for the use of or cession of the right to use industrial, business or scientific equipment, or for transport vehicles. Otherwise, the 15% rate applies.
- (j) The 5% rate applies if the actual owner of the dividends is a company owning USD100,000 or more in the company that pays the dividends. The 10% rate applies in all other cases if the recipient is the actual owner of dividends. Otherwise, the 12% rate applies.
- (k) The 5% rate applies to amounts paid for the use of or grant of the right to use copyrights of scientific works, patents, trademarks, designs, models, plans, or secret formulas or processes, for the right to use information on industrial, business or scientific equipment or transport vehicles, or for information on industrial, business or scientific experience. The 10% rate applies to amounts paid for the use of or grant of the right to use copyrights for works of literature or art, including cinematographic films as well as films or recordings used in television or radio programs. Otherwise, the 15% rate applies.
- (l) The 0% rate applies if the recipient of the interest income is the government, a government body or a company that is fully owned by the state. The 5% rate applies if the recipient of the interest income is a bank or other financial institution. Otherwise, the 10% rate applies.
- (m) The 5% rate applies if the recipient is the actual owner of the royalties paid for industrial, business or scientific equipment or transport vehicles. The 10% rate applies in all other cases if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (n) The 0% rate applies to amounts paid for the use of or grant of the right to use copyrights of works of literature, art or science, including cinematographic films, as well as for films or recordings used in television or radio programs. The 10% rate applies to amounts paid for the use of or grant of the right to use patents, trademarks, designs, charts, models, plans or secret formulas or processes, for information on industrial, business or scientific experience, and for the use of or grant of the right to use industrial, business or scientific equipment. Otherwise, the 15% rate applies.
- (o) The 10% rate applies if the recipient is the actual owner of royalties paid for the use of or grant of the right to use patents, trademarks, designs, models, plans, secret formulas or processes, or copyrights of scientific works, for the use of or grant of the right to use industrial, business or scientific equipment, and for the use of or grant of the right to use information on industrial, business or scientific experience. Otherwise, the 15% rate applies.
- (p) The 0% rate applies if any of the following circumstances exist:
- The interest income is derived from the sale on credit of industrial, commercial or scientific equipment.
  - The recipient of the interest income is the government, the central bank, local government bodies or financial institutions performing state functions, or the interest is paid on loans that are guaranteed or indirectly financed by such bodies or institutions.
- (q) Belarus abides by the double tax treaty between the former USSR and this state. The table shows the tax rates under such treaty.
- (r) The 0% rate applies to interest on bank and commercial loans. Otherwise, the 10% rate applies.
- (s) The 0% rate applies to interest on government-guaranteed loans.
- (t) The 0% rate applies if the recipient of the interest income recipient is a government, a local government body or the central bank. The 5% rate applies if the recipient and the actual owner of interest income is a bank or other financial institution or if the interest is paid with respect to sale on credit of industrial, business or scientific equipment. Otherwise, the 10% rate applies.
- (u) The 0% rate applies if the recipient of the interest income is a government, local government body, central bank or other financial institution that is wholly owned by the state. Otherwise, the 10% rate applies.
- (v) The 0% rate applies if the recipient of the interest income is the government or the central bank (in the case of Turkey, the 0% rate also applies to interest accruing in Belarus and paid by Eximbank of Turkey on loans for the purchase of industrial, business, commercial, medical or scientific equipment. Otherwise, the higher rates apply).
- (w) The 0% rate applies if either of the following conditions is met:
- The dividend recipient owns more than 50% of the dividend-paying company's capital, provided that the dividend recipient's contribution to the company's capital is at least ECU250,000.

- The dividend recipient owns over 25% of the dividend-paying company's capital, and its contribution to the company's capital is guaranteed or insured by the government.
- (x) The 0% rate applies if the actual owner of the dividends is the government, the central bank, other government agencies or financial institutions. The 5% rate applies if the recipient is the actual owner of dividends. Otherwise, the 12% rate applies.
- (y) The 0% rate applies to amounts paid for the use of or cession of the right to use copyrights of works of literature, music, art or science, except for cinematographic films, as well as for films or recordings used in television or radio programs. Otherwise, the 5% rate applies.
- (z) The 0% rate applies if one of the following circumstances exist:
- The loan is approved by the government.
  - The interest is charged with respect to the sale on credit of industrial, medical or scientific equipment and related services.
  - A loan intended to promote exports that involves the delivery of industrial, medical or scientific equipment and related services is granted, insured or guaranteed by the state.
- Otherwise, the 10% rate applies.
- (aa) The 0% rate applies if one of the following requirements is met:
- The loan is approved by the government.
  - The interest is received with respect to the sale on credit of industrial, commercial, medical or scientific equipment.
  - The interest is paid on state securities.
- The 5% rate applies to interest income relating to bank loans. The 8% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (bb) The 0% rate applies if the loan is approved by the government.
- (cc) The 5% rate applies to amounts paid for the use of copyrights of works of literature, art or science (except for cinematographic films) or for the right to use industrial, commercial or scientific equipment or transport vehicles. The 10% rate applies if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (dd) The 5% rate applies if the recipient is the actual owner of the income, owns over 20% of the dividend-paying company's capital and has made a contribution of at least EUR81,806.70. Otherwise, the 12% rate applies.
- (ee) The 0% rate applies if any of the following circumstances exist:
- The interest originates in Belarus and is paid to the government of Germany, the Deutsche Bundesbank, the Kreditanstalt für Wiederaufbau or the Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern.
  - The interest income is received with respect to loans secured by export loan guarantees (Hermes-Deckung) provided by the German government.
  - The recipient of the interest income is the government or central bank of Belarus.
  - The recipient is the actual owner of interest that is paid with respect to the sale on credit of industrial, business or scientific equipment.
- The 5% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (ff) The 3% rate applies if the recipient is the actual owner of royalties paid for the use of or cession of the right to use copyrights of scientific works, patents, trademarks, designs, models, plans or secret formulas or processes, or for the right to use information regarding industrial, commercial or research experience. The 5% rate applies if the recipient is the actual owner of royalties for the use of or cession of the right to use copyrights of works of literature and art, including cinematographic films, as well as films or recordings used in television or radio programs, or for the use of or cession of the right to use all types of equipment and transport vehicles. Otherwise, the 15% rate applies.
- (gg) The 0% rate applies if any of the following circumstances exist:
- The loan is approved by the government.
  - The recipient of the interest income is the government, local authorities or the central bank.
  - The interest is paid with respect to a lending or a loan guaranteed or insured by state companies with a view to promoting exports and is associated with the delivery of industrial, commercial, medical or scientific equipment (including Österreichische Kontrollbank Aktiengesellschaft).
- The 5% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (hh) The 0% rate applies if the recipient of the interest income is the government, the central bank, the Finnish Fund for Industrial Cooperation (FINNFUND) or the Finnish export credit agency (FINNVERA). The 5% rate applies if

the recipient of the interest income is the actual owner of the interest income. Otherwise, the 10% rate applies.

- (ii) The 0% rate applies if the income recipient is the government, the central bank, the State General Reserve Fund of Oman or a company that fully or largely belongs to the state. The 5% rate applies if the recipient is the actual owner of the income. Otherwise, the higher rate applies.
- (jj) The 5% rate applies if the recipient of the dividends is the actual owner of the income and owns at least 25% of the capital of the company paying the income. The 10% rate applies in all other cases if the recipient is the actual owner of income. Otherwise, the 12% rate applies.
- (kk) The 0% rate applies if the recipient is the actual owner of the interest income and if one of the following requirements is met:
- The recipient of the interest income is the government, a state body, the central bank or a company that fully or largely belongs to the state.
  - The interest is paid on a government-guaranteed loan.
  - The interest is paid on a loan that is intended to promote exports and that is connected with the delivery of equipment and transport vehicles by an enterprise of the other treaty state.
  - The interest is paid with respect to the sale on credit of equipment and transport vehicles.
- Otherwise, the higher rate applies.
- (ll) The 5% rate applies if the recipient is the actual owner of royalties received for the use of or cession of the right to use copyrights of works of science or computer applications, or for the use of or cession of the right to use equipment and transport vehicles. The 10% rate applies if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (mm) The 0% rate applies any of the following circumstances exists:
- The interest is paid by the government or a state body.
  - The interest is paid to the government, a government body, a local agency or body (including a financial institution) that fully belongs to the state or a government body.
  - The interest is paid to another agency or body (including a financial institution) on a loan granted due to the application of an interstate treaty.
- The 8% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (nn) The 0% rate applies to interest on loans granted to the government or the central bank. Otherwise, the 10% rate applies.
- (oo) The 0% rate applies to dividends paid to any of the following:
- The National Treasury Management Agency of Ireland
  - The National Reserve Pension Fund of Ireland
  - A company, including an agency or an institution, that fully or partially belongs to the state
- The 5% rate applies if the recipient is the actual owner of the dividends and owns at least 25% of the dividend-paying company's capital. The 10% rate applies in all other cases if the recipient is the actual owner of the dividends. Otherwise, the 12% rate applies.
- (pp) The 0% rate applies if the payer and the payee of the interest income is the government, a political and administrative division, a local government body or the central bank. Otherwise, the 5% rate applies.
- (qq) The 0% rate applies to interest paid to the government, the central bank or institutions whose capital belongs fully to the state or local government bodies. Otherwise, the 10% rate applies.
- (rr) The 0% rate applies if any of the following circumstances exists:
- The payer or the payee of the interest income is the government, a political and administrative division, a local government body or the central bank.
  - The loan is approved by the government.
  - The loan is granted and guaranteed by the state financial body to promote exports and the lending is provided or guaranteed on preferential terms.
  - The loan is granted by a bank to promote exports.
  - The interest is paid on a debt that arises with respect to the sale on credit of industrial, business or scientific equipment.
- The 5% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (ss) The 0% rate applies if either of the following circumstances exists:
- The interest is paid to the state, a local government body, the central bank or a financial institution that fully belongs to the state.
  - The interest is paid on a loan that is guaranteed, insured or indirectly financed by the government, a local government body, the central bank or a financial institution that fully belongs to the state.
- Otherwise, the 10% rate applies.

- (tt) The 10% rate applies if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (uu) The 5% rate applies if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (vv) The 0% rate applies if the recipient of the interest income is the government, a local government body, the central bank or other government company or financial institution. Otherwise, the higher rate applies.
- (ww) The 10% rate applies if the recipient is the actual owner of dividends. Otherwise, the 12% rate applies.
- (xx) The 5% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (yy) The 0% rate applies if any of the following circumstances exists:
- The payer or the payee of the interest income is the government, a political and administrative division, a local government body or the central bank.
  - A loan is approved by the government.
  - A loan is provided, guaranteed or insured by the government, the central bank or other body under state control.
  - A loan is provided or guaranteed by a financial institution to promote development.
  - The interest is paid on a loan or lending with respect to the acquisition of industrial, business, commercial, medical or scientific equipment.
- Otherwise, the higher rate applies.
- (zz) The 6% rate applies if the recipient is the actual owner of the royalties. Otherwise, the 15% rate applies.
- (aaa) The 5% rate applies if the actual owner of the dividends is a company that directly owns at least 20% of the capital of the company paying the dividends. The 10% rate applies if the recipient is the actual owner of dividends. Otherwise, the 12% rate applies.
- (bbb) The 0% rate applies if the actual owner of interest income is one of the following:
- The government of Belarus
  - National Bank of Belarus
  - A Belarusian local government body
  - The government of Laos
  - Bank of Laos
  - A Laotian local government body
- The 8% rate applies if the recipient is the actual owner of the interest income. Otherwise, the 10% rate applies.
- (ccc) The 0% rate applies to dividends received by the following:
- The government of Belarus.
  - National Bank of Belarus.
  - A legal body in Belarus.
  - An institution wholly or predominantly owned by the government of Belarus. A list of such institutions may be approved from time to time by the government of Belarus or bodies authorized thereby and by a competent Singaporean body.
  - The government of Singapore.
  - Monetary Authority of Singapore (central bank).
  - Government of Singapore Investment Corporation.
  - A legal body in Singapore.
  - An institution wholly or predominantly owned by the government of Singapore. A list of such institutions may be approved from time to time by a competent Singaporean body, the government of Belarus or bodies authorized by the government of Belarus.
- The 5% rate applies to dividends received by the actual owner of the dividends. Otherwise, the 12% rate applies.
- (ddd) The 0% rate applies to dividends received by the following:
- The government of Belarus.
  - National Bank of Belarus.
  - A legal body in Belarus.
  - A bank in Belarus.
  - An institution wholly or predominantly owned by the government of Belarus. A list of such institutions may be approved from time to time by the government of Belarus or bodies authorized thereby and by a competent Singaporean body.
  - The government of Singapore.
  - Monetary Authority of Singapore (central bank).
  - Government of Singapore Investment Corporation.
  - A legal body in Singapore.
  - A bank in Singapore.

- An institution wholly or predominantly owned by the government of Singapore. A list of such institutions may be approved from time to time by a competent Singaporean body and the government of Belarus or bodies authorized thereby.

The 5% rate applies to interest received by the actual owner of the interest income. Otherwise, the 10% rate applies.

- (eee) The 7.5% rate applies if the actual owner of the dividends is a company that directly owns at least 25% of the capital of the company paying the dividends. The 10% rate applies if the recipient is the actual owner of dividends. Otherwise, the 12% rate applies.
- (fff) The 0% rate applies if the actual owner of the interest income is one of the following:
- The government or a local government body.
  - The national (central) bank.
  - Financial organizations (institutions) that are wholly owned by the government. A list of such organizations (institutions) may be approved from time to time by the governments of the treaty states or bodies authorized thereby.
- Otherwise, the 10% rate applies.
- (ggg) The 10% rate applies if the recipient is the actual owner of the dividends and owns at least 10% of the capital of the company paying the dividends. Otherwise, the 12% rate applies.
- (hhh) The 0% rate applies to interest received by the government or a local government body, the national bank or an organization or institution wholly or predominantly owned by the government. The 5% rate applies to interest received by the actual owner of the interest income. Otherwise, the 10% rate applies.
- (iii) The 5% rate applies if the recipient is the actual owner of the dividends. Otherwise, the 12% rate applies.
- (jjj) The 7.5% rate applies if the recipient is the actual owner of the income. Otherwise, the higher rate applies.
- (kkk) The 0% rate applies if the interest is paid to the actual owner of the interest income and if one of the following circumstances exists:
- The interest is paid to the government, central bank or any other organization that fully or largely belongs to the state, including an agency or institution.
  - The interest is paid to the National Treasury Management Agency of Ireland.
  - The interest is paid to the National Pension Reserve Fund of Ireland.
  - The interest is paid on a debt that arises from a loan approved by the government.
  - The interest is paid on a debt that arises with respect to a sale on credit of any items or industrial, business, medical or scientific equipment.
- The 5% rate applies if the recipient is the actual owner of the interest. Otherwise, the 10% rate applies.
- (lll) The 0% rate applies if the recipient is the actual owner of the income. Otherwise, the higher rate applies.
- (mmm) The 5% rate applies if the recipient is the actual owner of the dividends, and the recipient owns not less than 25% of the charter fund of the company paying the dividends. Otherwise, the 10% rate applies.
- (nnn) The 10% rate applies if the recipient is the actual owner of the interest income. The 0% rate applies if the recipient is the actual owner of the interest income and if the interest income is paid to one of the following:
- The government, an administrative subdivision of the government or a government authority.
  - The national bank.
  - A financial organization owned by the government. A list of such organizations may be agreed on by the governments of Belarus and Ecuador.
- (ooo) The 5% rate applies if the recipient is the actual owner of the dividends. The 0% rate applies if the dividends are paid to the actual owner and if the dividends are paid to one of the following:
- The government of Belarus or the Hong Kong SAR.
  - The national bank of Belarus.
  - The Bank of Development of the Republic of Belarus, which is a joint stock company.
  - An entity wholly or partially owned by the government of Belarus or the Hong Kong SAR. A list of such entities may be agreed on by the jurisdictions.
  - The currency administration of the Hong Kong SAR.
  - A currency fund resident in the Hong Kong SAR.



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- (ppp) The 5% rate applies if the interest income is paid to the actual owner. The 0% rate applies if the interest income is paid to the actual owner and if the interest income is paid to one of the following:
- The government of Belarus or the Hong Kong SAR.
  - The national bank of Belarus.
  - The Bank of Development of the Republic of Belarus, which is a joint stock company.
  - An entity wholly or partially owned by the government of Belarus or the Hong Kong SAR. A list of such entities may be agreed on by the jurisdictions.
  - The currency administration of the Hong Kong SAR.
  - The currency fund (in the case of the Hong Kong SAR).
- (qqq) The 3% rate applies if the royalties are paid to the actual owner of the income for the use of aircraft or for the granting of the right to the use of aircraft. The 5% rate applies if the royalties are paid to the actual owner of the income.

# Belgium

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**A. At a glance**

Corporate Income Tax Rate (%)	29 (a)(b)
Capital Gains Tax Rate (%)	25/29 (b)(c)
Branch Tax Rate (%)	29 (b)
Fairness Tax Rate (%)	5 (a)(b)(d)
Withholding Tax (%)	
Dividends	5/10/15/17/20/30 (e)
Interest	15/30 (f)
Royalties from Patents, Know-how, etc.	30
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (g)

(a) For further details, see Section B.

(b) In addition, a 2% surtax (crisis contribution) is imposed. This surtax will be abolished in 2020.

- (c) Certain capital gains are exempt from tax (see Section B).
- (d) The Fairness Tax was annulled by the Constitutional Court as of 1 January 2018.
- (e) The standard withholding tax rate for dividends is 30%. For further details, see Section B.
- (f) The standard withholding tax rate for interest is 30%.
- (g) For further details, see Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their annual worldwide income. Nonresident companies are subject to tax on their annual Belgian-source income only. A company is resident in Belgium if its central management or its registered address is located in Belgium.

**Rates of corporate income tax.** The normal corporate income tax rate was 33% for both resident companies and branches, but, as of the 2018 financial year, the corporate rate is lowered to 29% and to 25% as of the 2020 financial year. A reduced rate applies to small companies, as defined under corporate law. As of the 2018 financial year, under conditions, the rate is 20% on the first EUR100,000 of taxable income. Above this amount, the normal rate applies. One of the principal conditions for the reduced rate is that the company must pay an annual remuneration of at least EUR45,000 to at least one director. For start-up companies, this condition is not imposed for four years. Holding companies and companies owned 50% or more by another company are excluded from the reduced rate.

In addition to the applicable rates, a surtax (crisis contribution) is levied. As of the 2018 financial year, the rate of the surtax is reduced from 3% to 2%, and, as of the 2020 financial year, the surtax will be abolished.

**Notional interest deduction.** Belgian companies and foreign companies with a Belgian permanent establishment or real estate in Belgium may benefit from a tax deduction equal to a percentage of the “risk capital.” This notional interest deduction (NID) is not reflected in the financial accounts. As of the 2019 tax year, the NID is calculated on the average incremental net equity over the last five years (and no longer on the full prior-year net equity). To avoid potential abuse and duplication of tax benefits, the following items must be deducted from the equity:

- The fiscal net value of own shares and other shares recorded as financial fixed assets
- The fiscal net value of shares, the income from which is eligible for the Belgian participation exemption
- The net book value of tangible fixed assets to the extent that costs relating to such assets unreasonably exceed the needs of the business
- The book value of tangible fixed assets that are held as a portfolio investment and that are by their nature not intended to generate periodic income
- The book value of real estate assets or other real property rights used by directors, their spouses or children
- The tax-exempt portion of revaluation gains, capital subsidies and tax credits for research and development (R&D)

Equity allocated to foreign branches and foreign real estate qualifies for the NID. However, in such case, this portion of the NID

must be imputed first on that foreign-source income. Only excess NID relating to branches and real estate located in the European Economic Area (EEA) can be effectively used against Belgian taxable income.

The tax deduction is computed by multiplying the risk capital by the average interest rate on risk-free, long-term Belgian state bonds (the 10-year *obligations linéaires – lineaire obligaties*, or OLO) during the third quarter.

The average OLO rate in the third quarter of 2016 was 0.237%, and the rate in the third quarter of 2017 was 0.746%. For the 2018 tax year, the rates are 0.237% for large companies and 0.737% for small companies. For the 2019 tax year, the NID rate is set at 0.746% (1.246% for small companies). The maximum NID rate is capped at 3% (3.5% for small companies) if the above calculation method would result in a higher percentage. The deduction may not be carried forward in the event of a loss, but other limitations on the carryforward also apply (see *Limitation on certain tax deductions* in Section C).

**Tax regime for the diamond industry.** Belgian tax law provides for a special lump-sum tax regime for the diamond industry.

The gross taxable result of the company equals 2.1% of the diamond trade turnover. This taxable result is subsequently subject to the application of the common corporate tax rules.

However, the net taxable result cannot be lower than 0.55% of the diamond trade turnover.

The special tax regime is subject to the condition that the company manager's salary paid during the tax period be higher than a certain threshold (also depending on the diamond trade turnover of the company).

**Tax incentive for audiovisual investments.** Belgian tax law includes a tax incentive to attract investments of Belgian companies or branches in audiovisual productions.

Framework agreements concluded after 31 December 2014 are subject to a legal regime, under which investors may deduct 356% of their investment from their tax base. Therefore, the investor can recover 105.3% (356% x 29.58%) of the investment directly through a reduction of its corporate income tax. This percentage was increased as of 2018 to compensate for the decrease in the corporate tax rate.

The new incentive requires a tax-shelter certificate issued by the tax authorities, which is to be requested by the production company as soon as the production is finalized. The certificate provides the following:

- It guarantees that the invested amounts flow to the production company to a maximum extent.
- It confirms that the production company complies with all legal conditions.
- It guarantees the tax exemption on behalf of the investor.
- It determines the "tax value" of the project.

Companies planning to invest in a European audiovisual production (to be recognized by the competent departments of the French,

Flemish or German communities) and who want to benefit from the tax incentive must conclude a framework agreement with a qualifying audiovisual production company (including a television channel). In this framework agreement, the expected tax value for the production, which is based on the budgeted production expenses (direct as well as indirect expenses, including expenses incurred up to six months before the conclusion of the framework agreement), needs to be included. The estimated tax exemption is based on this tax value. The framework agreement needs to be notified to the tax authorities within one month after it is signed.

The investors are entitled to an exemption of 356% of the invested funds. The invested amounts do not create a receivable, nor exploitation rights linked to the underlying project. The invested amount is irrevocably paid to the production company (as an expense; the expense as such is not tax deductible) and is not regarded as an asset. Except for commercial gifts with limited value (under reference of value-added tax [VAT] legislation), no other economic or financial benefit can be granted to the investor.

However, the exemption in a given tax year remains limited to a maximum of 50% of the investor's increase of taxable reserves (mainly the net accounting profit before application of the tax-shelter exemption but after deduction of distributed dividends and other tax corrections) during that same tax year, with an absolute maximum of EUR750,000.

In principle, the exemption is granted in the year in which the framework agreement is concluded or the payments are made. Excess exemptions (exemptions that could not be used based on the above maximum) can be carried forward to the end of the fourth tax period following the year in which the framework agreement is signed. The invested amounts must be effectively paid to the production company within three months after the contract has been signed.

The initial exemption is granted in conditionally and provisionally. In addition to the conditions mentioned above, the following are the most noteworthy conditions:

- In the financial statements of the investor, the exempt amounts must be recorded in an "unavailable reserve," which needs to be maintained until the date the tax-shelter certificate is received.
- For a specific project, the exemption is limited to 172% of the expected final tax value of the tax-shelter certificate as specified in the framework agreement.

The exemption only becomes final when the tax-shelter certificate confirming the tax value of the investment is issued and sent to the tax authorities of the investor as an enclosure to the investor's corporate income tax return. The certificate needs to be received by the investor by 31 December of the fourth year following the year in which the framework agreement is signed.

In addition, the final exemption is only granted to the extent that the tax value of the certificate corresponds to the value that was included in the agreement and to the extent that the limits and maximum amounts per tax period are respected. If the tax-shelter exemption is claimed incorrectly, corporate income tax on the difference becomes due, increased with late payment interest.

For the period between the first payment after the conclusion of the framework agreement and the receipt of the tax-shelter certificate, interest can be granted. This period is legally limited to 18 months, and the maximum interest rate that is allowed is fixed at the 12-month Euribor (increased by 450 basis points).

**Tax incentive for stage art performances.** The tax incentive for audiovisual investments also applies to “European stage art performances” (productions recognized as such by the competent authorities of the French-, Flemish- or German-speaking communities).

To qualify, the production expenses must be incurred within a maximum time limit of 24 months since the date of the signing of the framework agreement and no later than one month after the premiere of the stage art performance. Expenses incurred before the signing of the framework agreement are not considered eligible production expenses (in contrast to the audiovisual productions’ time frame of six months).

In addition, as is the case for audiovisual productions, limitations apply with respect to the maximum amount that can be financed through tax-shelter funding. This amount is calculated based upon the eligible direct and indirect expenses incurred in Belgium and/or the EEA.

From the investor’s side, the same limitations apply with respect to the maximum amount of the exemption in a given tax year (an absolute maximum of EUR 750.000 per year and limited to 50% of the increase in taxable income). In this respect, investments in audiovisual productions and stage art performances should be counted together and offset against these limitations.

The entity that is using the tax-shelter funding is subject to corporate income tax. This is particularly important for entities (such as nonprofit organizations) that are in principle only subject to a so-called legal entity tax. These entities are subject to corporate income tax in the tax year in which the first framework agreement is concluded and in the three following tax years.

**Tax incentives for start-ups.** Within the framework of the government program, “Digital Belgium,” the government tries to assist young innovative undertakings with the development of a start-up plan. The program offers the tax incentives described below.

*Tax shelter regime for equity investments in start-ups.* The tax shelter for equity investments in start-ups is designed to encourage individuals to invest in new shares of start-ups on incorporation or within four years after incorporation, as well as in shares in qualifying regulated starter funds. For investments in start-ups that qualify as small companies and for investments in starter funds, the personal income tax reduction amounts to 30% of a maximum investment of EUR100,000 per tax period. The rate is 45% for investments in start-ups that qualify as “micro-undertakings,” as defined in EU accounting directive 2013/34. The total amount of qualifying investments may not exceed EUR250,000 per start-up. The incentive applies only to cash investments that represent a maximum of 30% of the capital of the start-up. The shares must be held for at least four years. Individuals who at the moment of



the investment are part of the company's management are excluded.

*Tax exemption for loans to start-ups through crowdfunding.* Individuals benefit from a tax exemption for interest on loans through a regulated crowdfunding platform for a maximum amount of loans per taxpayer per year of EUR15,000. The loan must have a maturity of at least four years. The exemption applies to loans to companies as well as to individuals who meet the criteria for small companies and who are registered for maximum of 48 months at the Crossroads Bank for Enterprises. The tax exemption does not apply to refinancing loans.

*Partial payroll tax exemption for start-ups.* Belgian law provides for a partial payroll tax exemption to decrease the wage costs for start-ups. The incentive applies to companies and to individual employers who are registered for a maximum of 48 months at the Crossroads Bank for Enterprises, starting from the first day of the month following the registration. If the start-up meets the criteria for small companies, the exemption rate is 10%. The exemption rate is 20% for "micro-undertakings," as defined in EU accounting directive 2013/34.

**Capital gains.** Capital gains on the disposal of tangible and intangible assets are taxed at the ordinary rate. If the proceeds are re-invested in depreciable fixed assets within three years (or a longer period in certain circumstances) and if certain other conditions are satisfied, the taxation of the capital gains is deferred over the depreciation period of the newly acquired assets.

As of the 2019 accounting year, these conditions are the same as the conditions for the dividend participation exemption (see *Dividends*). The reduced rate of 0.412% is abolished. If the taxation test is not met, the ordinary rate applies. The reduced rates also apply to capital gains on shares in companies holding real estate (unless the general anti-avoidance rule applies). Any capital losses on these shares are generally not tax deductible, except to the extent of the loss of fiscally paid-up capital in a liquidation.

If the taxation test is met, but the holding period requirement is not met, a 25% (excluding the crisis surtax) tax rate applies.

Capital gains realized on an exchange of shares in a tax-neutral restructuring are exempt from tax under certain conditions.

**Administration.** A tax year refers to the year following the financial year if the financial year ends on 31 December. If the financial year ends before 31 December, the tax year refers to the year in which the financial year closes. Consequently, the 2018 tax year relates to a financial year ending between and including 31 December 2017 and 30 December 2018.

To avoid a surcharge, tax must be paid in advance in quarterly installments. For the 2019 tax year, the percentage of the surcharge is 3%. For a calendar-year taxpayer, the quarterly installments in 2018 are due on 10 April, 10 July, 10 October and 20 December.

The balance of tax payable is due within two months after receipt of the notice of assessment.

*Reporting obligation for payments to tax havens.* Both resident and nonresident companies are required to report all direct or indirect payments (regardless whether these payments are expenses) in excess of EUR100,000 made to beneficiaries with an address or financial account in “tax havens” or low-tax jurisdictions that do not “effectively or substantially” meet the Organisation for Economic Co-operation and Development (OECD) standard on transparency and exchange of information (so-called “non-compliant jurisdictions”).

For the purpose of this obligation, “tax havens” are defined as non-EEA countries that meet any of the following conditions:

- They have a nominal corporate tax rate below 10%.
- They do not levy corporate income tax on domestic income or on foreign income (offshore tax regimes).
- They have an effective corporate tax rate on foreign income of less than 15%.

Payments to non-compliant jurisdictions must be reported if they were made during the period in which the jurisdiction was non-compliant. The rules apply to payments to the following:

- Branches located in a tax haven, but with a head office in a listed state
- Permanent establishments located in such jurisdictions
- Bank accounts managed by or held with individuals or permanent establishments located in such jurisdictions
- Accounts managed by or held with credit institutions or their permanent establishments located in such jurisdictions

A specific reporting obligation for financial institutions requires financial institutions to automatically and periodically notify their operations with and payments to tax havens.

The payments must be reported on a special form, which must be annexed to the annual corporate income tax return. These payments are tax deductible only if they relate to real and genuine transactions and if they are made to persons that are not artificial constructions.

**Advance rulings.** An advance decision in tax matters (tax ruling) is a unilateral written decision by the Belgian tax authorities at the request of a (potential) taxpayer about the application of the tax law in a specific situation that has not yet occurred, as described by the taxpayer. The purpose of such a ruling is to provide upfront certainty to the taxpayer.

The tax authorities must respond to a ruling request within a three-month period, which may be extended by mutual agreement. A ruling may be valid for a period of five years.

However, advance rulings are not issued in certain circumstances such as the following:

- Transactions that have already been implemented or that are in a tax litigation phase
- Transactions that lack economic substance in Belgium
- Transactions, essential parts of which involve tax havens that do not cooperate with the OECD

Ruling requests filed with the Belgian tax authorities that relate to multinational investments and transactions must disclose other

ruling requests filed in EU or treaty countries regarding the same matters.

In principle, the advance rulings are published.

**Dividends.** Under the dividend participation exemption, dividends received by a qualifying Belgian company or Belgian branch are exempt from tax (until the 2018 tax year, the exemption was limited to 95% of dividends received). The participation exemption applies only if a minimum participation test and a taxation test are satisfied. To satisfy the minimum participation test, the following requirements must be met:

- The recipient company must own a minimum participation of 10% of the share capital or a participation with an acquisition value of at least EUR2,500,000.
- The shares must be held for at least one year.

The minimum participation thresholds and the one-year holding period requirement do not apply to dividends received by qualifying investment companies.

In the case of insufficient profits, the excess participation exemption can be carried forward indefinitely to the extent that it relates to qualifying dividends (that is, dividends from companies established in the EEA or in a country with which Belgium has entered into a double tax treaty that has an equal treatment clause for dividends). However, a general limitation on certain tax deductions, including the carried forward excess participation exemption applies (see *Limitation on certain tax deductions* in Section C). In addition, limitations may apply in cases of restructurings and changes of control.

Non-qualifying dividends can give rise to the participation exemption, but in the case of insufficient profits, the excess participation exemption cannot be carried forward.

Specific exclusion rules apply under the taxation test. However, certain of these exclusion rules contain exceptions or transparency rules.

The standard statutory withholding tax rate for dividends paid by Belgian companies is 30%. A reduced rate applies to dividends paid by small companies on nominative shares issued on or after 1 July 2013 if these shares are received in exchange for a contribution of cash into the company and if an ownership requirement and a holding period requirement are met. A 20% rate applies to dividends distributed during the second year following the capital contribution, and a 15% rate applies to dividends paid in or after the third year following the contribution.

Exemptions and reduced rates are available under Belgium's tax treaties or domestic legislation. For example, withholding tax is not imposed on dividends distributed to a qualifying treaty parent. This is a company that holds or commits itself to hold a shareholding of at least 10% in a Belgian company for an uninterrupted period of 12 months.

A tax reduction or refund of withholding taxes is also provided for dividends paid by Belgian companies to Belgian companies that hold a participation of less than 10% but with an acquisition value of at least EUR2,500,000. If the receiving company is an

EEA company or a company in a jurisdiction with which Belgium has concluded a double tax treaty, a 1.6995% withholding tax applies. A 30% withholding tax is imposed in the event of the liquidation of a company.

Effective from the 2015 tax year, small companies may allocate all or a part of their taxed profits to a liquidation reserve, booked to a separate account, at a tax charge of 10%. If the liquidation reserve is maintained until the liquidation of the company, no additional tax is levied on these funds. The distribution of the funds to the shareholders before the liquidation of the company is subject to an additional but favorable withholding tax rate of 5% (distribution of a dividend after five years following the last day of the tax period in which the reserve is formed), 17% or 20% (distribution within five years). Legislation has also extended this liquidation reserve regime to the 2013 and 2014 tax years.

**Fairness Tax.** The Fairness Tax (a separate minimum corporate tax of 5.15% on dividends paid out of profits that were not effectively taxed at the Belgian corporate income tax rate) is abolished as of the 2019 tax years (financial years starting from 1 January 2018).

**Foreign tax relief.** Income derived from a permanent establishment abroad may be exempt under the provisions of a tax treaty. A Belgian company that receives foreign-source interest income and royalties subject to a foreign withholding tax can claim a foreign tax credit in Belgium if certain conditions are satisfied. The maximum foreign tax credit that may be claimed equals <sup>15</sup>/<sub>85</sub> of the net income at the border.

### C. Determination of trading income

**General.** Taxable income is based on income reported in the annual financial statements and includes all gains, profits, costs, dividends, interest, royalties and other types of income.

Certain business expenses are not deductible for tax purposes, such as certain car expenses, 31% of restaurant expenses and 50% of entertainment expenses.

**Limitation on certain tax deductions.** The use of certain deductions is limited to EUR1 million plus 70% of the tax base exceeding this amount. Therefore, 30% of the tax base in excess of EUR1 million cannot be offset. The limitation applies to the following:

- Carried forward tax losses
- Carried forward participation exemption
- Carried forward innovation income deduction and carried forward NID (see *Notional interest deduction* in Section B)
- The NID as of the 2018 accounting year
- Group contributions made in the context of a tax consolidation

However, other deductions can be applied without the limitation, including the following:

- The participation exemption
- The patent deduction
- The current year innovation deduction
- The investment deduction
- The R&D tax credit

In addition, the limitation does not apply to start-up companies for the first four tax years.

Existing limitations applicable to the carried forward investment deduction and the carried forward NID remain in place.

**Inventories.** Stock values may not exceed the lower of cost or market value; cost is defined as the purchase price of raw materials plus direct and indirect production costs. However, the inclusion of indirect production costs is optional. Accepted valuation methods are first-in, first-out (FIFO); last-in, first-out (LIFO); and weighted average. Valuation of stocks at replacement cost is not allowed.

**Provisions.** Under a new rule, provisions are exempt from tax only if they relate to contractual, legal or regulatory obligations existing at the end of the financial year. This new rule does not apply to provisions or additions to provisions established in tax years beginning before 1 January 2018.

**Depreciation.** In principle, depreciation rates are determined based on the anticipated useful economic life of the assets. The following straight-line rates are generally accepted.

Asset	Rate (%)
Office buildings	3
Industrial buildings	5
Chemical plants	8 to 12.5
Machinery and equipment (including information technology)	10 to 20
Office furniture and equipment	10 to 15
Rolling stock (motor vehicles)	20 to 33
Small tools	33 to 100

The declining-balance method and accelerated depreciation are also allowed under certain circumstances. For assets with an amortization period of less than five years, the annual depreciation rate under the declining-balance method may not exceed 40% of the acquisition value. However, this method will be abolished as of 1 January 2020.

Audiovisual investments must be amortized using the straight-line or declining-balance method, with no minimum amortization period. R&D investments must be amortized for tax purposes using the straight-line method over a period of at least three years. All other intangible assets must be amortized for tax purposes using the straight-line method over a period of at least five years.

**Investment deduction.** A 13.5% investment deduction is available for investments during the 2018 tax year in environmentally friendly R&D, energy savings and related patents by resident and nonresident companies. A company can opt for a spread investment deduction of 20.5% (2018 tax year) and accordingly deduct each year 20.5% of the annual amortization. For security-related investments made by qualifying small companies, a 20.5% investment deduction (2017 tax year) is available.

For investments made on or after 1 January 2016, qualifying small companies can apply an 8% investment deduction (20% for investments between 1 January 2018 and 31 December 2019). Effective from the 2016 tax year, these small companies are also

entitled to an investment deduction of 13.5% with respect to investments in fixed digital assets, such as payment systems and cybersecurity systems.

For investments made on or after 1 January 2016 that relate to high-technology products, a spread investment deduction of 20.5% is allowed to all companies (not only small companies).

If the company has insufficient taxable income, the investment deduction may be carried forward.

For investments in R&D, a company can irrevocably opt for a tax credit instead of a deduction at the same rate as the investment deduction. As opposed to the investment deduction, this tax credit is effectively paid out if a company has insufficient taxable income for five consecutive tax years.

Tax incentives exist for investment in Belgian audiovisual works (see Section B) and for the shipping industry.

**Innovation deduction.** The OECD required Belgium to abolish the patent income deduction and replace it with a Base Erosion and Profit Shifting (BEPS)-compliant regime. The new innovation deduction was introduced by the law of 2 February 2017 and applies retroactively as of 1 July 2016. It contains an important grandfathering clause for patent income earned up to 30 June 2021 with respect to self-developed patents requested before 1 July 2016 and improved patents and patent licenses acquired before 1 July 2016.

Under the new regime, the taxpayer should be owner, co-owner, licensee, usufruct or (economic) rights holder of intellectual property (IP) rights. The regime (under conditions) applies to, among others, patents, medicinal products, software and plant-variety rights.

The income derived from the qualifying IP should be included in the Belgian tax base and should be at arm's length. The following is the equation for calculating the innovation deduction:

$$\text{Innovation deduction} = \text{Net IP income} \times \text{nexus ratio} \times 85\%$$

In the above equation, “net IP income” means the income after deduction of overall expenditures incurred for the development or acquisition of the IP right to the extent included in expenses. In addition, a recapture of prior year expenses (incurred after 30 June 2016) up to seven years is possible.

The following is the “nexus ratio”:

$$\frac{\text{Qualifying expenditures} \times 130\%}{\text{Overall expenditures}}$$

“Qualifying expenditures” relate to R&D expenditures incurred by the taxpayer, including outsourcing to unrelated parties and excluding expenditures for the acquisition of IP or outsourcing to related parties.

The following are other significant features of the innovation deduction:

- Carryforward of unused innovation deductions to subsequent tax periods (however, see *Limitation on certain tax deductions*)

- Tax neutrality in the context of reorganizations
- Possible combination with other R&D incentives
- No R&D center requirement
- No limitations in time or amounts

**Relief for losses.** In general, companies may carry forward tax losses without limitations. However, a general limitation on certain deductions, including carried forward tax losses, applies (see *Limitation on certain tax deductions*) and certain limitations may apply in cases of restructurings and changes of control.

Tax losses cannot be carried back.

**Groups of companies.** Belgium will introduce tax consolidation as of 2019 (financial years beginning from 1 January 2019; 2020 tax year). The Belgian regime is inspired by the Scandinavian group contribution regimes. Companies that are in a taxpaying position can make a group contribution to group companies that are in a loss position, subject to conditions and limitations. The receiving company can offset the group contribution with available tax attributes.

The new rules will apply to Belgian resident companies as well as Belgian establishments of foreign companies resident in an EEA member state. Direct parents and subsidiaries as well as companies with a joint parent resident in Belgium or a member state of the EEA will qualify, subject to having met a minimum 90% holding requirement for at least five years. Historic losses incurred before 2020 will be excluded.

The tax-consolidation regime will also apply to “final losses” of foreign subsidiaries established in the EEA to avoid discrimination with the deduction of “final losses” incurred in foreign permanent establishments.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, standard rate	21
Social security contributions, on gross salary	
Employer (approximately)	35
Employee	13.07
Real estate tax; rate depends on location (allowed as a deductible expense for corporate income tax purposes)	Various
Environmental tax; rate depends on the location and the activity or product; tax is not deductible for corporate income tax purposes	Various
Registration duties, on contributions to companies	0
Registration duties on the transfer of immovable property	10/12.5

#### E. Miscellaneous matters

**Foreign-exchange controls.** Payments and transfers do not require prior authorization. However, for statistical purposes, financial

institutions are required to report all transactions with foreign countries to the National Bank of Belgium. Resident individual enterprises are also subject to this reporting obligation if they conclude the transactions through nonresident institutions or directly.

**Transfer pricing.** The Belgian Income Tax Code (ITC) contains anti-avoidance provisions that relate to specific aspects of transfer pricing. “Abnormal and gratuitous advantages” granted by a Belgian enterprise are added to the tax base of the Belgian enterprise, unless the advantages are directly or indirectly part of the taxable income of the recipient in Belgium. The ITC also contains anti-avoidance provisions concerning royalties, interest on loans and other items, as well as a provision on the transfer of certain types of assets abroad. Under these provisions, the taxpayer must demonstrate the bona fide nature of the transaction.

The Program Law of 1 July 2016 aims at implementing transfer-pricing obligations in line with the three-tiered standardized approach provided for by Action 13 of the OECD’s BEPS project. This approach consisting of a Master File, a Local File and Country-by-Country Reporting (CbCR). The new rules apply to financial years beginning on or after 1 January 2016.

## F. Treaty withholding tax rates

The rates in the table below reflect the lower of the treaty rate and the rate under domestic tax law on outbound dividends. Effective from 1 January 2007, Belgium introduced an exemption from dividend withholding tax for companies located in countries with which Belgium has entered into a tax treaty. The exemption is subject to the same conditions as those contained in the EU Parent-Subsidiary Directive (see footnote [f]). However, the treaty must contain an exchange-of-information clause. As a result, certain countries are excluded (see footnote [k]).

In reaction to the OECD’s position regarding the application of Article 26 (exchange of information) of the model convention in treaties entered into by Belgium, Belgium began renegotiating all treaties in 2009. This has resulted in more than 40 new treaties (the vast majority of which have not yet become effective). It is expected that most of these treaties will enter into effect in the upcoming years. In some cases, the negotiations are limited to the exchange of information only. For certain treaties, other articles are also included in the negotiations.

	Dividends (a)(k) %	Interest (b) %	Royalties (c) %
Albania	5/15 (m)	5	5
Algeria	15	15 (i)	15 (e)(i)(j)
Argentina	10/15 (m)	12	15 (i)
Armenia	5/15 (m)	10 (i)	8
Australia	15	10	10
Austria	0/15 (f)	15	0 (g)
Azerbaijan	5/10/15 (m)	10	10 (e)
Bahrain	0/10 (m)	5	0
Bangladesh	15	15	10
Belarus	5/15 (m)	10	5
Brazil	10/15 (m)	10/15 (i)	15 (i)
Bulgaria	10	10 (i)	5



	Dividends (a)(k)	Interest (b)	Royalties (c)
	%	%	%
Canada	5/15 (m)	10	10 (i)
Chile	0/15 (m)	5/15	5/10
China (mainland)	5/10 (m)	10	7
Congo (Democratic Republic of)	5/10 (i)(m)	10	10
Côte d'Ivoire	15/18	16	10
Croatia	5/15 (m)	10 (i)	0
Cyprus	0/10/15 (f)(m)	10 (i)	0
Czech Republic	0/5/15 (f)(m)	10 (i)	0 (n)
Denmark	0/15 (f)(m)	10	0
Ecuador	5/15 (m)	10 (i)	10
Egypt	15/20 (m)	15	15 (i)
Estonia	0/5/15 (f)(m)	10	10 (i)
Finland	0/5/15 (f)(m)	10 (i)	5 (i)
France	0/10/15 (f)(m)	15	0
Gabon	15	15 (i)	10
Georgia	5/15 (m)	10 (i)	10 (i)
Germany	0/15 (f)	0/15 (i)	0
Ghana	5/15 (m)	10 (i)	10 (i)
Greece	0/5/15 (f)(m)	10 (i)	5
Hong Kong SAR	0/5/15 (m)	10 (i)	5
Hungary	0/10 (f)	15 (i)	0
Iceland	5/15 (m)	10 (i)	0
India	15	10/15 (i)	10
Indonesia	10/15 (m)	10	10
Ireland	0/15 (f)	15	0
Israel	15	15	10 (e)
Italy	0/15 (f)	15	5
Japan	5/15 (m)	10	10
Kazakhstan	5/15 (m)	10	10
Korea (South)	15	10	10
Kuwait	0/10 (i)	0	10
Latvia	0/5/15 (f)(m)	10 (i)	10 (i)
Lithuania	0/5/15 (f)(m)	10 (i)	10 (i)
Luxembourg	0/10/15 (f)(m)	15 (p)	0
Macedonia	5/15 (m)	10	10
Malaysia	15	10 (i)	10 (h)
Malta	0/15 (f)	10	10 (h)
Mauritius	5/10 (m)	10 (i)	0
Mexico	0/10 (m)	5/10	10
Mongolia	5/15 (m)	10 (i)	5 (i)
Morocco	6.5/10 (m)	10 (i)	10
Netherlands	0/5/15 (f)(m)	10 (i)	0
New Zealand	15	10	10
Nigeria	12.5/15 (m)	12.5	12.5
Norway	5/15 (m)	15 (i)	0
Pakistan	15	15	15/20 (j)
Philippines	10/15 (m)	10	15
Poland	0/5/15 (f)(m)	0/5 (i)	5 (i)
Portugal	0/15 (f)	15	10
Romania	0/5/15 (m)	10	5
Russian Federation	10	10 (i)	0

	<b>Dividends (a)(k)</b>	<b>Interest (b)</b>	<b>Royalties (c)</b>
	%	%	%
Rwanda	0/15 (m)	0/10 (i)	10 (i)
San Marino	0/5/15 (m)	10 (i)	5
Senegal	15	15	10
Seychelles	5/15 (m)	5/10 (i)	5
Singapore	0/5/15 (m)	5 (i)	5 (i)
Slovak Republic	0/5/15 (f)(m)	10 (i)	5 (i)
Slovenia	0/5/15 (f)(m)	10	5
South Africa	5/15 (m)	10 (i)	0
Spain	0/15 (f)(m)	10 (i)	5
Sri Lanka	15	10	10
Sweden	0/5/15 (f)(m)	10 (i)	0
Switzerland	0/15 (l)(m)	10 (i)	0
Taiwan	10	10	10
Thailand	15/20 (m)	10/25 (i)	5/15 (j)
Tunisia	5/15 (m)	5/10 (i)	11
Turkey	15/20 (i)(m)	15	10
Ukraine	5/15 (m)	2/10 (i)	10 (i)
USSR (o)	15	15	0
United Arab Emirates	5/10 (m)	5	5 (i)
United Kingdom	0/10/15 (f)(m)	10 (i)	0
United States	0/5/15 (m)	0/15 (i)	0
Uruguay	5/15 (m)	10	10
Uzbekistan	5/15 (m)	10 (i)	5
Venezuela	5/15 (m)	10 (i)	5
Vietnam	5/10/15 (m)	10	5/10/15 (i)
Yugoslavia (d)	10/15 (m)	15	10
Non-treaty jurisdictions	30	30	30

- (a) The domestic withholding tax rate for certain dividends is reduced (see Section B).
- (b) The standard withholding tax rate under Belgian domestic tax law is 27%. Please consult the relevant treaty for details concerning a possible exemption (Ukraine: exemption or 2% rate). Various exemptions under Belgian domestic tax law are available. Belgium also applies the EU Directive on Royalties and Interest between related companies (Council Directive 2003/49/EC). Under this directive, interest payments between companies located in the EU are exempt from withholding tax if one of the companies has a direct or indirect participation of 25% or more in the other company. The list of companies covered by this directive is more limited than the list contained in the EU Parent-Subsidiary Directive.
- (c) Royalties are subject to a withholding tax of 27% under Belgian domestic tax law. Various exemptions under Belgian domestic tax law are available. Belgium also applies the Directive on Royalties and Interest (Council Directive 2003/49/EC). Under this directive, royalties paid between companies located in the EU are exempt from withholding tax if one of the companies has a direct or indirect participation of 25% or more in the other company. The list of companies covered by this directive is more limited than the list contained in the EU Parent-Subsidiary Directive.
- (d) Belgium is honoring the Yugoslavia treaty with respect to Bosnia and Herzegovina, Macedonia, Montenegro and Serbia.
- (e) A lower rate applies to royalties for the use of works of art, science or literature, other than motion pictures. The lower rate is 5% under the Algeria and Azerbaijan treaties and 0% under the Israel treaty.
- (f) Under the EU Parent-Subsidiary Directive, which has been incorporated in Belgian domestic law, no withholding tax is imposed on dividends paid by a Belgian subsidiary to a parent company in another EU state if the recipient owns at least 10% of the capital of the payer for at least one year.

- (g) A 10% rate applies if the recipient owns more than 50% of the capital of the Belgian company.
- (h) A 0% rate applies to copyright royalties.
- (i) Please consult the treaty for further details.
- (j) A 0% rate (Algeria and Thailand, 5%) applies to copyright royalties other than for motion pictures.
- (k) Belgium has extended the application of the EU Parent-Subsidiary Directive to all companies located in a country with which Belgium has entered into a tax treaty. In addition to the conditions that must be met under the directive (10% participation for at least one year and qualifying company), the treaty must contain an extended exchange-of-information clause.
- (l) The EU and Switzerland entered into an agreement that contained, among other items, a measure providing that the EU Parent-Subsidiary Directive also applies to relations between EU member states and Switzerland. Consequently, a withholding tax exemption may be claimed for dividends paid by a Belgian company to a Swiss company if, at the time of payment of the dividends, the recipient of the dividends has held a 25% participation in the payer for at least two years and if certain other conditions are satisfied.
- (m) The following lower rates apply to dividends paid by Belgian subsidiaries if the recipient holds the indicated level of participation.

	<b>Lower rate</b>	<b>Level of participation</b>
	%	
Albania	5	25%
Argentina	10	25%
Armenia	5	10%
Azerbaijan	5	30% and USD500,000 (1)
Azerbaijan	5	USD10,000,000 (1)
Azerbaijan	10	10% and USD75,000 (1)
Bahrain	0	10%
Belarus	5	25%
Brazil	10	10%
Canada	5	10%
Chile	0	10%
China (mainland)	5	25%
Congo (Democratic Republic of)	5	25%
Croatia	5	10%
Cyprus	10	25%
Czech Republic	5	25%
Denmark	0	25%
Ecuador (2)	5	25%
Egypt	15	25%
Estonia	5	25%
Finland	5	25%
France	10	10%
Georgia	5	25%
Ghana	5	10%
Greece	5	25%
Hong Kong SAR	5	10%
Hong Kong SAR	0	25%
Iceland	5	10% (3)
Indonesia	10	25%
Japan	5	25%
Kazakhstan	5	10%
Latvia	5	25%
Lithuania	5	25%
Luxembourg	10	25% or EUR6,197,338.12
Macedonia	5	10%
Mauritius	5	10%
Mexico	0	10%
Mongolia	5	10%
Morocco	6.5	25%
Netherlands	5	10%
Nigeria	12.5	10%
Norway	5	25%
Philippines	10	10%
Poland	5	25% (4)
Poland	5	10% and EUR500,000 (4)
Romania	5	25%
Rwanda	0	25%

	Lower rate %	Level of participation
San Marino	5	10%
San Marino	0	25%
Seychelles	5	10%
Singapore	5	10%
Singapore	0	25% (4)
Slovak Republic	5	25%
Slovenia	5	25%
South Africa	5	25%
Spain	0	25%
Sweden	5	25%
Switzerland	0	10%
Thailand	15	25%
Tunisia	5	10%
Turkey	15	10%
Ukraine	5	20%
United Arab Emirates	5	20%
United Kingdom	0	10%
United States	0	10% of capital (5)
United States	5	10% of voting shares (5)
Uruguay	5	10%
Uzbekistan	5	10%
Venezuela	5	25%
Vietnam	5	50%
Vietnam	10	25% but less than 50%
Yugoslavia	10	25%

- (1) Dividends may qualify for the 5% rate if the recipient holds any of the three listed levels of participation.
- (2) As a result of the most-favored nations clause in the treaty, this lower rate applies.
- (3) The 5% rate does not apply to dividends distributed by an Icelandic company if such dividends are deductible from the tax base in Iceland or if they can be carried forward as an operating loss of the company in Iceland.
- (4) The 0% rate applies if the beneficial owner of the dividends is a company that has owned directly shares representing at least 25% of the capital of the payer of the dividends for a 12-month period ending on the date on which the dividend is paid.
- (5) The 0% rate applies if the beneficial owner of the dividends is a company that has owned directly shares representing at least 10% of the capital of the payer of the dividends for a 12-month period ending on the date on which the dividend is declared. The 5% rate applies if the beneficial owner is a company that owns directly at least 10% of the voting shares of the payer of the dividends.
- (n) A 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
- (o) Belgium is honoring the USSR treaty with respect to Kyrgyzstan, Moldova, Tajikistan and Turkmenistan.
- (p) A 0% rate applies to interest paid by a company to another company if the recipient has a direct or indirect participation in the payer of less than 25%.

Belgium has signed new double tax treaties, additional treaties or protocols that have not yet become effective with Austria, Canada, Congo (Democratic Republic of), Greece, Iceland, Ireland, Isle of Man, Japan, Korea (South), Macau SAR, Malaysia, Malta, Moldova, New Zealand, Norway, Oman, Poland, Qatar, the Russian Federation, Rwanda, San Marino, Spain, Tajikistan, Turkey, Uganda, the United Kingdom and Uzbekistan.

# Bermuda

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## A. At a glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

## B. Taxes on corporate income and gains

Bermuda does not impose income, withholding or capital gains taxes.

## C. Fees and other taxes

**Annual fee.** An annual government fee, based on the assessable capital, is imposed on companies. The following is a schedule of the fees for exempted companies (see Section D).

Capital of company		Annual fee BMD
Exceeding BMD	Not exceeding BMD	
0	12,000	1,995
12,000	120,000	4,070
120,000	1,200,000	6,275
1,200,000	12,000,000	8,360
12,000,000	100,000,000	10,455
100,000,000	500,000,000	18,670
500,000,000	—	31,120

Certain types of entities are not subject to the annual fee described above. These entities are required to pay the following annual fees.

Entity	Annual fee (BMD)
Overseas (Permit) company whose principal business is Finance, insurance or operation of an open-end mutual fund	4,125

Entity	Annual fee (BMD)
Any other business	1,995
Exempt company parent of a wholly owned exempted company carrying on insurance business	1,995
Unit trust management company	2,905
Exempted and overseas partnerships	2,235
Segregated accounts companies	250

**Payroll tax.** Payroll tax is imposed on all employers on the remuneration paid in their business. Taxable remuneration equals the sum of wages, salaries and benefits paid in cash or in kind to employees for services rendered during the tax period.

For payroll tax compliance purposes, the fiscal year in Bermuda runs from 1 April through 31 March.

The Payroll Tax Amendment Act 2017 took effect on 1 April 2017. It increases the tax cap on gross earnings from BMD750,000 to BMD900,000, effective from 1 April 2017. It also changes the structure of the payroll tax into the following two separate portions:

- Employer portion
- Employee portion

These two portions must be calculated separately and reported by employers on the quarterly payroll tax returns. The sum of the two portions is the total payroll tax payable.

The employers remain responsible for the payment of both portions. However, they have the option of deducting the employee portion from employee remuneration in full or in part.

The employers are responsible for calculating the full employee portion regardless of whether they deduct it from the employees.

The following are the payroll tax rates for the employer portion, which are based on gross annual remuneration:

- Annual payroll greater than BMD1 million: 10.25%
- Annual payroll from BMD500,001 to BMD1 million: 9%
- Annual payroll from BMD200,000 to BMD500,000: 7%
- Annual payroll less than BMD200,000: 1.75%

Effective from 1 April 2017, the employee portion of payroll tax is a separate amount and must be calculated separately from the employer portion.

Although as noted above, employers have the option to deduct the employee portion of payroll tax from employee remuneration, the responsibility to pay the full amount of tax (employer and employee portions) to the Office of the Tax Commissioner still rests with the employers.

The transitional period rate for the employee portion only is a flat 6% for the period of 1 April 2017 through 30 June 2017. Therefore, for the first quarter of 2017-18, the employee portion is calculated as 6% of each employees' gross earnings, as defined in the Payroll Tax Act 1995.

Effective from 1 July 2017, the employee portion is calculated using the following marginal tax rate structure:

- On the first BMD48,000 of annual payroll: 4.75%
- On the next BMD48,000: 5.75%
- On the next BMD139,000: 7.75%
- Thereafter: 8.75%

Items exempt from the payroll tax base include employers' contributions to social insurance, the Hospital Insurance Plan, approved retirement plans, hospital and health schemes, life insurance schemes, and workers' compensation schemes.

**Social security.** All employers and employees must contribute to the national insurance scheme. The social insurance contribution rate is BMD68.94 per employee per week (based on a 52-week year). The cost is typically shared equally between the employee and the employer. As a result, BMD172.35 is generally deducted from each employee's monthly paycheck in a five-week month and BMD137.88 is deducted from each employee's monthly paycheck in a four-week month. This amount, together with the employer's matching contribution, is remitted to the Bermuda Social Insurance Department.

**Incorporation fees.** The Bermuda Monetary Authority charge for an application to register a company is BMD305. The government fee for registering a memorandum of association is BMD90.

**Financial Services Tax.** Effective from 1 April 2017, Financial Services Tax (FST) is imposed on the following financial services providers:

- Banks: 0.005% on consolidated gross assets at the end of a tax period
- Domestic insurers: 2.5% of gross premiums written in a tax period, excluding premiums relating solely to health insurance
- Money service businesses: 1% of aggregated income and outgoing money transmission volume in a tax period

For purposes of the FST, the tax period is each period of three calendar months beginning with the months of April, May and June 2017.

Every financial services provider subject to FST must within 30 days after the end of each tax period submit to the Office of the Tax Commissioner a return specifying the consolidated gross assets, gross premiums or aggregated income, and outgoing money transmission volume and pay the FST due with respect to that tax period.

**General Services Tax.** Under a proposal, a General Services Tax (GST) would be levied on turnover from the provision of most services by service providers to the public. It is proposed that the GST would be levied at a rate of 5%. This proposed tax would not be implemented until 1 April 2018, at the earliest. Notable exceptions to the GST would be in the sectors of banking, insurance and health care. Small service providers would also be exempt from GST.

#### **D. Stamp duty**

Stamp duty is charged on various legal instruments, including those detailed below.

**Conveyance or transfer on sale of land or property.** The following are the rates of stamp duty for the sale of Bermuda land or property:

- On the first BMD100,000 of the amount or value, or any part thereof: 2%
- On the next BMD400,000 of the amount or value, or any part thereof: 3%
- On the next BMD500,000 of the amount or value, or any part thereof: 4%
- On the next BMD500,000 of the amount or value or any part thereof: 6%
- Amount in excess of BMD1,500,000: 7%

For non-Bermuda property, the rate is 1%.

**Lease or agreement for lease.** If property is granted in consideration for rent, the following are the amounts of stamp duty:

Monthly amount or value in rent BMD	Stamp duty BMD
Under 1,200	75
1,200 or more but under 1,500	100
1,500 or more but under 2,500	150
2,500 or more but under 3,500	200
3,500 or more but under 5,000	300
5,000 or more	400

## E. Miscellaneous matters

**Types of companies.** The limited liability company is the most common form of business entity in Bermuda. Limited liability companies may be local, exempted or permit, as described below.

*Local companies.* Local companies are required to have at least 60% of their issued share capital beneficially owned and controlled by Bermudians. Because this type of company is usually formed for the benefit of residents of Bermuda, the local companies may transact business worldwide or in Bermuda only.

*Exempted companies.* An exempted company is the most common form used by international businesses to transact business from Bermuda. Exempted companies are exempted from the requirement imposed on local companies that at least 60% of the equity be owned and controlled by Bermudians, as provided for by the Companies Act of 1981. In general, exempted companies may not compete with local companies in the Bermuda market nor own real estate in Bermuda. However, they may carry on business outside Bermuda or with other exempted undertakings in Bermuda. Examples of exempted companies include investment holding companies, trading companies, mutual fund companies, insurance companies and foreign sales corporations.

*Permit overseas companies.* Permit overseas companies are companies incorporated in jurisdictions other than Bermuda, but have a permit to transact business from Bermuda. Permits are obtained through a license granted by the Ministry of Finance. An example of a permit overseas company is a ship-owning company that is incorporated and has ships registered in another country, but by permit conducts business from Bermuda.



*Exempted Undertakings Tax Protection Act, 1966.* Under the Exempted Undertakings Tax Protection Act, 1966, as amended, all exempted undertakings in Bermuda, such as exempted and permit companies, partnerships and unit trusts, may apply for an undertaking by the government that taxation introduced in Bermuda will not apply to the exempted company until 28 March 2016. Under a recent amendment to this act, the assurance of tax-neutrality is extended from 28 March 2016 until 31 March 2035 if proper application is made with the Registrar of Companies and if a fee of BMD160 is paid.

**Foreign-exchange controls.** Exempted companies and permit companies are designated as nonresident for exchange control purposes. The nonresident designation allows these entities to operate free of exchange control regulations and enables them, without reference to the Bermuda Monetary Authority, to make payments of dividends, distribute capital, open and maintain foreign bank accounts, maintain bank accounts in any currency and purchase securities. However, the issuance and transfer of shares and the change of beneficial ownership of shares in a Bermuda exempted company must be approved by the Bermuda Monetary Authority. The remittance and repatriation of funds by exempted companies and permit companies are not subject to exchange controls. Similarly, trust settlements on behalf of nonresidents are generally free from exchange controls. Under the Exchange Control Act 1972 and the Exchange Control Regulations 1973, certain exchange controls apply to Bermuda residents and to local companies. No capital or exchange control regulations apply to nonresidents.

The Bermuda dollar (BMD) is pegged to the US dollar at an equal exchange rate, and the two currencies are used interchangeably in Bermuda.

The Bermuda-dollar accounts of residents and local companies are subject to a 1% tax on the purchase of a foreign currency.

**Transfer of shares.** Although the consent of the Bermuda Monetary Authority is ordinarily required for the issue or transfer of any share or security, blanket permission for share issues and transfers may be granted, such as for publicly traded securities.

# Bolivia

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## A. At a glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25
Withholding Tax (%) (b)	
Dividends	12.5
Interest	12.5
Royalties	12.5
Professional Services	12.5 (c)
Branch Remittance Tax	12.5
Net Operating Losses (Years)	
Carryback	0
Carryforward	3/5 (d)

(a) See Section B.

(b) A 12.5% withholding tax is imposed on all payments of Bolivian-source income to foreign beneficiaries (see Section B).

- (c) This withholding tax applies to services fees received for specified professional services, including consulting, expert services, and technical, commercial or other advice.
- (d) A Bolivian-source loss incurred in a year may be carried forward to offset taxable income derived in the following three years. Loss carryforwards are not subject to inflation adjustment. For the oil and mining production sector and new projects with a minimum capital investment of BOB1 million, the carryforward period is five years. On the reorganization of companies, the carryforward period is four years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Bolivian companies and foreign companies with permanent establishments in Bolivia are subject to income tax on their Bolivian-source income.

**Rates of corporate tax.** The standard rate of corporate income tax is 25%.

*Mining operations.* Act No. 535 (New Mining Code), dated 28 May 2014, confirms the additional rate of corporate income tax of 12.5% (previously established by Act. No. 3787, dated 24 November 2007). This additional rate applies to additional taxable profits resulting from favorable price conditions for minerals and metals. The following are significant aspects of this additional rate:

- The 12.5% tax rate applies if mineral and metal quotations are equal or higher than the base quotations established by law.
- The 12.5% tax does not apply to taxable profits attributable to sales that have lower quotations than the base quotations.

The tax referred to above must be paid on a monthly basis. The date of payment depends on the last digit of the Tax Identification Number. The monthly payments are considered advance payments of the tax determined at the end of the year. If the total of the advance payments is less than the amount determined at the end of the year, this difference must be paid. If the total of the advance payments exceeds the amount determined at the end of the year, the difference can be claimed as a tax credit against the standard corporate income tax for the year or the additional amount of corporate income tax for the following year.

*Surtax.* A 25% surtax is imposed on net income derived from mining, reduced by the following two special deductions:

- A percentage of up to 33%, which varies according to the type of business, of accumulated investment in exploration, development, assets that qualify for environmental incentives and environmental protection, which is directly related to mining extractive activities performed after the 1991 tax year.
- 45% of net income derived from non-renewable natural resource extractive activities. This deduction is limited to BOB275 million. This amount is to be adjusted annually to reflect changes in the Unidad de Fomento de Vivienda (UFV) for each extracting operation (the last update was in 1999). The UFV is an index published by the Statistics National Institute (INE) that reflects changes in Consumer Prices Index (IPC).

For mineral-producing companies, the net income for an extraction operation is the value of the commercialized product in the mining market.

**Hydrocarbon Direct Tax.** The Hydrocarbon Direct Tax is imposed at a rate of 32% on hydrocarbon production in oil wells located in Bolivia. The Hydrocarbon Direct Tax is calculated and paid in the same manner as the 18% royal prerogatives, which apply to all extractive fields. The 18% royal prerogatives consist of the following:

- A regional royal prerogative equal to 11% of the gross hydrocarbon production from oil wells, which is paid to the region where the hydrocarbons are produced
- A national royal prerogative equal to 1% of the gross hydrocarbon production, which is paid to Beni and Pando
- An amount equal to 6% of the gross hydrocarbon production in oil wells, which is paid to the National Treasury after the deduction of the necessary amounts for the management of the contracts

**Capital gains.** In general, capital gains are taxed in Bolivia. However, capital gains derived from transactions on the Bolivian Stock Exchange are exempt from tax.

**Administration.** The law specifies the following tax year-ends, which vary according to the type of business.

<b>Business</b>	<b>Tax year-end</b>
Industry (including oil and gas)	31 March
Agriculture and agribusiness	30 June
Mining	30 September
All other businesses	31 December

Annual tax returns and financial statements must be filed with the Internal Revenue Service (IRS) and income tax paid within 120 days after the end of the tax year. Advance payments are not required except for mining companies, which must make payments of income tax when they export minerals or metals.

Debts owed to and credits due from the state are adjusted to reflect changes in the UFV (see *Rates of corporate tax*).

Fines and interest charges apply to late tax payments and other non-compliance with tax obligations. The IRS publishes interest rates for late tax payments.

The tax code provides that fraud exists if a tax debt exceeds an amount equal to 10,000 UFV, calculated as of the date of determination of the fraud.

Under Act No. 812, dated 30 June 2016, the statute of limitation for tax audits is eight years.

The statute of limitation period may be increased by two years if the entity does not comply with the obligation to register or registers under a different tax regime.

**Withholding taxes.** Local entities, including Bolivian permanent establishments of foreign companies, that pay Bolivian-source income to foreign beneficiaries must withhold 12.5% of the amounts paid. For this purpose, Bolivian-source income includes all dividends, interest payments, branch remittances, royalties, professional service fees (includes consulting, expert services, and

technical, commercial or other advice), commissions and other income. In general, Bolivian-source income is income that is derived from assets located, placed or economically used in Bolivia, or from activities developed in Bolivia. This rule applies regardless of the nationality, address, or residence of the recipient of the income or the parties involved in the activities, or where the relevant contract is executed.

For dividends paid by Bolivian companies, the withholding tax is payable when the dividends are actually paid, remitted or credited. However, branch profits are deemed remitted when the corporate income tax return is due (120 days after the end of the tax year; see *Administration*).

**Dividends.** The 12.5% withholding tax on payments to foreign beneficiaries applies to dividends paid by Bolivian companies (see *Withholding taxes*). Dividends received from Bolivian companies subject to Bolivian corporate income tax are not taxed.

**Foreign tax relief.** The Bolivian tax code does not provide foreign tax relief.

### C. Determination of taxable income

**General.** Taxable income is the income reported in the companies' financial statements prepared in accordance with generally accepted accounting principles in Bolivia, subject to certain adjustments for tax purposes. In general, all expenses necessary to generate income and to maintain the existence of the company (for example, contributions to regulatory-supervisory organizations, contributions for social benefits and certain national and municipal taxes) are deductible. Donations and other gratuitous transfers to nonprofit organizations that are exempt from income tax may be deducted up to a maximum limit of 10% of taxable income derived in the year of the donation or gratuitous transfer.

Certain expenses are not deductible, including the following:

- Personal withdrawals by owners or partners
- Corporate income tax
- Bonuses and other benefits that are not paid to employees within the time period in which the annual form must be presented for the year of payment
- Interest paid to related parties, to the extent it exceeds, for foreign loans, the London Interbank Offered Rate, plus 3%, or, for local loans, the official lending rate. In addition, interest paid to related parties may not exceed 30% of the interest paid to third parties

Royalties paid with respect to mining activities are creditable or deductible, depending on the price of the minerals and subject to certain limits established by law.

Revenue and expenses are reflected in the year they are accrued.

*Documentation for deduction of expenses.* To deduct expenses in an amount of BOB50,000 or greater, the taxpayer must have payment supports issued by a financial intermediation entity regulated by the Authority of Supervision of the Financial System

(Autoridad de Supervisión del Sistema Financiero, or ASFI). These documents must have the following information:

- Financial institution (issuer) business name
- Transaction or operation number
- Transaction date
- Transaction amount

In June 2015, the IRS issued Normative Rule No. 10-0017-15, which states that payment supports of transactions equal or greater than BOB50,000 (the Banking Report) must be prepared on an annual basis and must be sent to the IRS between the fifth and ninth day of the following February; the due date depends on the last digit of the taxpayer's Tax Identification Number. Until June 2015, these reports were filed on a monthly basis. Exceptionally for the period from July 2015 to December 2015, the Banking Report must cover a semester (six-month) period. For 2016 and subsequent years, the Banking Report must be prepared for the entire year.

**Inventories.** Inventories are valued at the lower of market value or replacement cost.

**Provisions.** Provisions and reserves are not deductible for tax purposes, with the exception of the following:

- Technical reserves in insurance companies
- Mandatory provisions for financial entities
- Severance provisions
- Bad debt provisions
- Provisions for environmental restoration

To claim deductions, certain conditions must be satisfied.

**Depreciation and amortization.** Fixed assets are generally depreciated using the straight-line method at rates specified by law. The following are some of the annual depreciation rates.

<b>Assets</b>	<b>Rate (%)</b>
Buildings	2.5
Machinery, equipment and installations	12.5
Vehicles	20
Furniture and office equipment	10
Computer equipment	25

Trademarks and similar intangible assets may be amortized in five years if they are valued using the purchase price.

Depreciation charges resulting from changes in value based on professional appraisals carried out after 31 December 1994 are not deductible for tax purposes.

**Groups of companies.** Groups of companies may not file consolidated returns in Bolivia.

**Relief for losses.** A Bolivian-source loss incurred in a year may be carried forward to offset taxable income derived in the following three years. Loss carryforwards are not subject to inflation adjustment. For the oil and mining production sector and new projects with a minimum capital investment of BOB1 million, the carryforward period is five years. On the reorganization of companies, the carryforward period is four years.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT), on all sales of goods and services and on imports; VAT on capital goods imported by companies in the agriculture and cattle raising industries and non-extractive industries that will be used to produce goods for export may be deferred for up to 3 years if an advance payment of 10% is made	13%
Transactions Tax, on gross revenue; corporate income tax from the preceding year may be credited against Transactions Tax; sales of a limited liability partnership's capital quota are exempt	3%
Real estate tax, imposed annually on the assigned value of real property and vehicles	Various
Excise tax, on the production or importation of specified goods	
Beer	BOB3.62 per liter plus 1%
Wine	BOB3.33 per liter plus 5%
Tobacco products; rate applied on the price	50% to 55%
Vehicles; rate applied on the price	5% to 50%
Special Tax on Hydrocarbons and Derived Products; maximum rate of BOB7.42 per liter (2017 rates)	
Premium gasoline	BOB2.18 per liter
Special gasoline	BOB1.23 per liter
National diesel oil	BOB1.25 per liter
Aviation gasoline	BOB1.85 per liter
Kerosene	BOB0.29 per liter
National jet fuel	BOB0.32 per liter
Fuel oil	BOB0.39 per liter
International jet fuel; rate modified each month based on international prices; minimum rate (not changed since 2015) and maximum rate (changed each year)	BOB4.24 per liter and BOB7.42 per liter
Mining royalty; imposed on gross revenue; rates vary according to the type of mineral	Various
Financial Transactions Tax (ITF); imposed on the amounts of debits and credits to savings and checking accounts; ITF is not deductible for purposes of any other tax; the ITF Act was effective from 13 April 2012 for a period of three years; however, in July 2015, the Bolivian	

Nature of tax	Rate
government issued Act No. 713, which extended the term of the ITF until 31 December 2018 and introduced increasing rates for each year; certain items are exempt including transactions regarding savings accounts in US dollars if the available balance is not greater than USD2,000, savings accounts in local currency or in UFV, securities transactions and payments resulting from foreign remittances; tax is withheld by banks and other financial institutions and other entities carrying out transactions in payment system; rates under Act No. 713 2015 2016 2017 2018	0.15% 0.20% 0.25% 0.30%
Additional financial aliquot (tax rate) for corporate income tax; applicable to banking and nonbanking institutions regulated by the ASFI; tax applicable if return on equity exceeds 6%; tax is neither offsettable nor deductible	25%
Social security contributions	
Employer	
Health care; on monthly gross revenue per employee	10%
Housing fund; on monthly gross revenue per employee	2%
Professional risk insurance; on monthly gross revenue per employee	1.71%
Solidarity Fund	3%
Solidarity Fund for mining entities	2%
Employees	
Retirement fund	10%
Common risk insurance	1.71%
Solidarity Fund (fixed contribution)	0.5%
Solidarity Fund (variable and cumulative contribution)	
Difference between the total salary and BOB35,000	10%
Difference between the total salary and BOB25,000	5%
Difference between the total salary and BOB13,000	1%
Christmas bonus (Aguinaldo); general paid between 1 December and 20 December each year; if employment is less than a year, the bonus is reduced pro rata	One month's salary
Second Christmas bonus (second Aguinaldo); must be paid if Bolivian gross domestic product increases by more than 4.5%	One month's salary



Nature of tax	Rate
Termination compensation; bonus for termination of employment; amount depends on length of employment and whether the employee was fired or resigned	Various

## E. Miscellaneous matters

**Foreign-exchange controls.** The Bolivian currency is the boliviano (BOB).

No restrictions are imposed on foreign-exchange transactions, including the repatriation of capital and the remittance of dividends and royalties abroad. A system of free-floating exchange rates exists in Bolivia. No special registration requirements apply to foreign investment.

The current exchange rate is BOB6.96 = USD1.

**Transfer pricing.** In July 2014, Act No. 549 introduced a transfer-pricing regime in Bolivia, effective from the 2015 fiscal year. Under this regime, commercial and/or financial transactions performed between related parties must be valued using the arm's-length principle. The transactions must be valued as if they were performed between unrelated parties in comparable markets.

The following methods may be used to value transactions between related parties:

- Comparable uncontrolled price
- Resale price
- Cost-plus
- Profit-split
- Transactional net margin
- Notorious price in transparent markets (applicable to the import or export of commodities)

For this purpose, the IRS may verify if the transactions are valued according to the above methods and make any adjustments or re-valuation if the agreed value, regardless of the adopted legal form, does not conform to the economic reality or causes lower taxation in Bolivia.

In April 2015, the IRS issued Normative Rule No. 10-008-15, which imposes the following obligations:

- If annual operations with related parties are greater than BOB15 million (USD2,155,172), a transfer-pricing study and Form No. 601 must be delivered to the IRS.
- If annual operations with related parties are between BOB7,500,000 (USD1,077,586) and BOB15 million (USD2,155,172), only Form No. 601 must be delivered to the IRS.
- If annual operations with related parties are less than BOB7,500,000 (USD1,077,586), the company must retain information to demonstrate that the operations were made at market values.

In January 2017, the IRS issued Normative Rule No. 10-1700000001, which establishes a tax haven list that includes 76 countries and regions.

**Reorganizations.** Profits arising from company reorganizations, which are mergers, divisions or transformations, are not subject to corporate income tax. Regulations on reorganizations are expected to be issued in the near future.

#### **F. Tax treaties**

Bolivia has entered into tax treaties with Argentina, France, Germany, Spain, Sweden and the United Kingdom. It has also signed the Andean Pact, which includes a tax treaty, with Colombia, Ecuador and Peru. However, the government is reviewing these treaties to determine whether they accomplish new government policies. As a result, these treaties may be ratified or revoked.

## Bonaire, Sint Eustatius and Saba (BES-Islands; extraordinary overseas municipalities of the Netherlands)

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On 10 October 2010, the country Netherlands Antilles, which consisted of five island territories in the Caribbean Sea (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten), was dissolved. On dissolution of the Netherlands Antilles, the islands of Bonaire, Sint Eustatius and Saba (BES-Islands) became part of the Netherlands as extraordinary overseas municipalities. Curaçao and Sint Maarten have both become autonomous countries within the Kingdom of the Netherlands. A new tax regime applies to the BES-Islands, effective from 1 January 2011. The following chapter provides information on taxation in the BES-Islands only. Chapters on Curaçao and Sint Maarten appear in this guide.

### A. At a glance

Profit Tax	– (a)
Capital Gains Tax	– (a)

Real Estate Tax Rate (%)	10/17.5 (b)
Yield Tax Rate (%)	5 (c)

- (a) The BES-Islands do not have a profit tax or capital gains tax.
- (b) The profit is fixed at 4% of the fair market value of the real estate. The standard rate of the real estate tax is 17.5% of the fixed profit. Consequently, in principle, the effective annual tax rate is 0.7% of the fair market value of the real estate. A reduced rate of 10% applies to hotels, unless the hotel is owned by an individual. Consequently, the effective annual tax rate with respect to hotels is 0.4%. This real estate tax applies if an entity using the real estate, by virtue of ownership, possession or a limited right, is deemed to be resident in the BES-Islands. If the entity is deemed to be resident in the Netherlands, the Dutch corporate income tax and the Dutch dividend withholding tax apply instead. For further details, see Section B.
- (c) This tax applies if the entity from which distributions of profits are derived is deemed to be resident in the BES-Islands. If the entity is deemed to be resident in the Netherlands, the Dutch corporate income tax and the Dutch dividend withholding tax apply instead. For further details, see Section B.

## B. Taxes on corporate income and gains

**New BES-Islands tax regime.** Effective from 1 January 2011, a new tax regime applies in the BES-Islands. This tax regime does not include a profit tax. A yield tax and a real estate tax have been introduced in the BES-Islands to replace the profit tax.

**Residency fiction.** The yield tax and real estate tax mentioned above are not automatically applicable as a result of a residency fiction. In principle, all entities established on the BES-Islands are deemed to be established in the Netherlands for tax purposes and accordingly subject to Dutch corporate income tax (up to 25%) and Dutch dividend withholding tax (in principle, 15%). For details on the Dutch taxes, see the chapter on the Netherlands in this guide.

However, on request, entities that have sufficient nexus with the BES-Islands may be subject to the fiscal system of the BES-Islands. In such case, no Dutch corporate income tax applies, but the yield tax and real estate tax apply. Entities are deemed to have sufficient nexus with the BES-Islands if any of the following circumstances exist:

- The entity is a foundation or trust that is a resident of the BES-Islands.
- The entity has been admitted to a special trade and service depot.
- On request, the entity has obtained a ruling from the tax authorities that, for tax purposes, the entity is deemed to be a resident of the BES-Islands. A request for such a ruling should be made with the tax authorities within six months after the beginning of the calendar year.

The ruling referred to above is issued in the following cases:

- The assets of the entity in the BES-Islands consist of less than 50% of mobile assets, including, among other portfolio investments, participations and cash.
- An entity that does not meet the requirement above can still obtain a ruling if it employs at least three residents of the BES-Islands that manage the entity's assets and if it has at its disposal business premises in the BES-Islands for a period of at least 24 months with a value of at least USD50,000.
- The entity is a holding company that holds at least 95% of the shares in an entity that is admitted to a special trade and service depot or already has obtained such a ruling.

- The entity has a small business with a turnover of no more than USD80,000, the assets of the company in general do not exceed USD200,000, and the company does not carry out financial services, insurance or trust (fiduciary) activities.

**Yield tax.** The yield tax is levied on distributions (in whatever form) of profits by entities resident in the BES-Islands. The rate of the yield tax is 5%. The entity making the distribution acts as withholding agent. Interest and royalty payments are not subject to the yield tax. The yield tax is not levied on the remittances of profits by branches to their foreign head offices.

**Real estate tax.** The real estate tax is levied on gains derived from real estate located in the BES-Islands. The real estate tax is levied on a taxpayer (person or entity) that, at the beginning of the year, has the use of real estate by virtue of ownership, possession or a limited right.

The profit is fixed at 4% of the fair market value of the real estate. The rate of the real estate tax is 17.5% of the fixed profit. Consequently, the effective annual tax rate is 0.7% of the fair market value of the real estate. A reduced rate of 10% applies to hotels, unless the hotel is owned by an individual. Consequently, the effective annual tax rate with respect to hotels is 0.4%. The value of the real estate is determined by the Tax Inspector. The value is set at the beginning of the period for which the value is determined and is in principle determined for five consecutive calendar years.

Real estate tax is not levied on owner-occupied homes, real estate included in the business assets of a privately run enterprise (that is not operating in the form of an entity) and real estate with a value of less than USD50,000, if the person having use of the real estate is a resident of the BES-Islands.

In addition, entities that are deemed to be residents of the Netherlands (see *Residency fiction*) are exempt from real estate tax.

### Administration

*Real estate tax.* The real estate tax is levied over a period of one calendar year. The Tax Inspector imposes a tax assessment, and the filing of a tax return is not required.

*Yield tax.* The withholding agent must withhold the yield tax at the time the profit distribution is put at the disposal of the recipient. The withholding agent must file a quarterly tax return and remit the yield tax due within 15 days after the end of the quarter. The tax return does not need to be filed for periods in which no distributions take place.

## C. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
General expenditure tax; levied on the delivery of manufactured goods in the BES-Islands by a manufacturer as part of its business, on the rendering of services in the BES-Islands by an entrepreneur as part of its business and on imports of goods	

Nature of tax	Rate (%)
Bonaire	
Delivery of goods (different rates apply to passenger cars)	8
Insurance	7
Other taxable activities	6
St. Eustatius and Saba	
Delivery of goods (different rates apply to passenger cars)	6
Insurance	5
Other taxable activities	4
Real estate transfer tax	5
Customs duties	0

#### **D. Tax treaties**

The Dutch treaty network does not apply to entities deemed to be residents of the BES-Islands. However, the Dutch standard treaty does not exclude entities deemed to be residents of the Netherlands (by the residency fiction) from the application of the treaty.

Provisions for double tax relief are included in the Tax Regulation for the Netherlands. Under a measure in the Tax Regulation for the Netherlands, on request, dividend distributions by a qualifying Dutch subsidiary to its BES-Islands parent company can be exempt from Dutch dividend withholding tax.

# Botswana

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## A. At a glance

Corporate Income Tax Rate (%)	22 (a)
Capital Gains Tax Rate (%)	22 (b)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	7.5
Interest	15
Royalties	15
Management and Technical Fees	15
Payments under Construction Contracts	3 (c)
Brokerage Commission	10 (d)
Rent Paid for Use of Buildings and Land	5 (d)
Purchases of Livestock	4 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) For approved manufacturing companies, the rate is 15%.

(b) See Section B.

(c) This tax is imposed on gross receipts derived from construction contracts.  
This tax is an advance payment that may be offset against the actual tax due.

- (d) This tax is an advance payment that may be offset against the actual tax due.  
 (e) This withholding tax applies to payments for purchases of livestock for slaughter or for feeding for slaughter.

## B. Taxes on corporate income and gains

**Corporate income tax.** All companies operating in Botswana are subject to tax on earnings in Botswana.

**Rates of corporate tax.** The corporate tax rate for companies other than manufacturing companies is 22%. Approved manufacturing companies are subject to tax at a reduced tax rate of 15%.

The tax rate for a branch is 30%. Botswana does not impose a branch remittance tax.

International Financial Services Centre (IFSC) companies (as defined) are taxed at a rate of 15%.

Diamond-mining companies are taxed in accordance with tax agreements entered into by the companies with the government. Other mining companies are taxed at a rate of 22% or at a rate determined by a formula, whichever is higher. The following is the formula:

$$70 - \frac{1,500}{x}$$

$$x = \frac{\text{Taxable income}}{\text{Gross income}} \times 100$$

**Capital gains.** The capital gains tax applies to gains on the sale of capital assets of a business carried on in Botswana and on the sale of corporate shares and debentures of private companies.

For computing gains on sales of immovable property acquired before 1 July 1982, the cost of acquisition and improvements is first increased by a 10% rate, compounded for each complete 12-month period from the date of acquisition to 1 July 1982. It is then indexed for inflation from 1 July 1982 to the date of sale. For computing gains on immovable property acquired on or after 1 July 1982, the cost of acquisition and improvements is indexed for inflation during the period of ownership.

Only 75% of the gain derived from the sale of shares is subject to capital gains tax. Gains on the sale of shares held for at least one year that are listed on the Botswana Stock Exchange are exempt from capital gains tax if the shares are actually traded on the Botswana Stock Exchange or if the company has released for trading 49% or more of its equity shares on the Botswana Stock Exchange. Sales of shares in IFSC companies are exempt from capital gains tax.

Taxable capital gains are subject to tax at a rate of 22% for resident companies and 30% for nonresident companies.

**Administration.** The tax year ends on 30 June. Companies are taxed on the profits reported in their latest completed accounting period.

Under an advance payment of tax and self-assessment system, companies must estimate their tax in advance and pay the estimated



tax in four equal quarterly installments. The first payment is due three months after the beginning of the accounting period and the subsequent payments are due at the end of every subsequent three-month period. Tax returns must be filed, and any balance of tax due must be paid, within four months of the end of the tax year, or in the case of a company with an accounting period that is different from the tax year, within four months from the end of such accounting period. Underpayments and late payments are subject to interest at a rate of 1.5% per month or part of a month (compounded).

**Dividends.** A withholding tax of 7.5% is imposed on dividends paid to residents and nonresidents. It is a final tax.

Dividends distributed by investment or similar companies are exempt from tax if they are paid out of dividends received that suffered withholding tax.

### C. Determination of trading income

**General.** Taxable income is net income reported in the financial statements, modified by certain provisions of the tax law. Expenses are deductible to the extent incurred in producing assessable income.

The rules for determining taxable income for an IFSC company are different from those for a normal company.

Collective-investment undertakings (as defined) are subject to tax on their undistributed income only.

**Inventories.** For tax purposes, inventory is valued at the lower of cost or net realizable value.

**Provisions.** Specific identifiable provisions are allowable for tax purposes; general provisions are not allowed.

**Depreciation.** Depreciation is computed using the straight-line method. Official rates vary according to the type of asset. The following are some of the official straight-line rates.

Asset	Rate (%)
Industrial buildings	2.5*
Commercial buildings	2.5
Office equipment	10
Motor vehicles	25
Plant and machinery	15 to 25

\* An initial allowance of 25% is also granted.

Capital allowances are subject to recapture on the sale of an asset to the extent that the sales proceeds exceed the tax value after depreciation.

Mining companies may deduct 100% of their mining capital expenditure (as defined) in the year in which the expenditure is incurred.

**Relief for losses.** In general, tax losses may be carried forward for five years. Mining and prospecting losses may be carried forward indefinitely.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on almost all supplies of goods and services consumed in Botswana	12
Capital transfer tax, paid by the recipient on all gratuitous receipts of property, corporate shares and inheritances, less allowable deductions	12.5

## E. Foreign-exchange controls

No foreign-exchange controls are imposed in Botswana. However, certain forms must be completed for statistical purposes.

## F. Treaty withholding tax rates

	Dividends %	Interest %	Royalties %	Management and technical fees %
Barbados	5/7.5 (e)	10	10	10 (f)
France	5/7.5 (a)	10	10	7.5
India	10 (c)	10	10	10
Mauritius	5/7.5 (b)	12	12.5	15
Mozambique	10/12 (c)	10	10	10
Namibia	10 (c)	10	10	15
Russian Federation	5/10 (i)	10	10	10
Seychelles	5/7.5 (g)	7.5	10	10
South Africa	10 (c)	10	10	10
Sweden	7.5 (d)	15 (d)	15 (d)	15
United Kingdom	5/7.5 (h)	10	10	7.5
Zimbabwe	5/7.5 (g)	10	10	10
Non-treaty jurisdictions	7.5	15	15	15

- (a) The 5% rate applies if the recipient is a company that holds at least 25% of the share capital of the payer.
- (b) The 5% rate applies if the recipient holds at least 25% of the shares of the payer.
- (c) The domestic rate of 7.5% applies because the treaty rate is higher than the domestic rate.
- (d) If a lower rate is negotiated with any other state in a future treaty, such rate also applies under the Sweden treaty.
- (e) The 5% rate applies if the recipient is a company that holds at least 25% of the capital of the payer of the dividends. The 7.5% rate applies in all other cases.
- (f) If a lower rate is negotiated with any other state in a future treaty, such rate also applies under the Barbados treaty.
- (g) The 5% rate applies if the recipient is a company that holds at least 25% of the capital of the payer of the dividends. The 7.5% rate applies in all other cases.
- (h) The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 25% of the voting power in the company paying the dividends. The 7.5% rate applies in all other cases.
- (i) The 5% rate applies if the recipient holds at least 25% of the shares of the payer. A 7.5% rate applies in all other cases (although the treaty provides for a 10% rate in all other cases, the domestic rate of 7.5% applies because it is lower than the treaty rate of 10%).

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**A. At a glance**

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 to 25 (a)(b)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%)	
Dividends	0
Interest	15 (c)(d)
Royalties from Patents, Know-how, etc.	15 (c)(d)(e)
Services	15 (c)(d)(e)(f)(g)(h)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (i)

- (a) A 10% surtax is also levied (see Section B).
- (b) Under Law 13,259/16, which applies to capital gains derived by Brazilian individuals, effective from 2017, the capital gains tax rate is increased from a 15% flat rate to a progressive rate system with rates ranging from 15% to 22.5%. According to Normative Instruction 1732/17, such increased rates also apply to capital gains derived by nonresident companies and individuals. A 25% rate applies to nonresidents located in low-tax jurisdictions.
- (c) The withholding tax is imposed on payments, credits, deliveries or remittances abroad, and on the use of amounts in Brazil for the benefit of nonresidents.
- (d) The withholding tax rate may increase to 25% if the recipient is resident in a blacklisted jurisdiction, which means a jurisdiction that taxes income at a rate lower than 20% (or 17% if the jurisdiction or regime complies with the international standards of tax transparency) and/or the jurisdiction's legislation does not allow access to information on the shareholders of legal entities or on the effective beneficiaries of income of nonresidents.
- (e) A 10% Contribution for Intervention in the Economic Domain (Contribuição de Intervenção no Domínio Econômico, or CIDE) is imposed on royalties and on technical and administrative service payments. CIDE is due from the Brazilian payer, and it is not a withholding tax.
- (f) The withholding tax rate may increase to 25%, depending on the type of service rendered.
- (g) Based on interpretations of tax treaties by the Brazilian tax authorities, it may be possible to claim that withholding income tax is not due on payments for technical services to Austria, Finland, France, Japan and Sweden.
- (h) Imports of services generally also trigger the Social Integration Program (PIS) tax and the Social Security Financing Contribution (COFINS), at a combined rate of 9.25%, as well as the Municipal Tax on Services (ISS), which is imposed at rates ranging from 2% to 5%, depending on the municipality and the service.
- (i) For details, see Section C.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Brazilian resident companies are subject to corporate income tax (CIT) on their worldwide income. Companies resident in Brazil are those incorporated under the Brazilian laws and managed in Brazil.

Foreign branches, agencies or representative offices of Brazilian companies are also subject to Brazilian tax on their income earned overseas. In general, foreign-source losses may not offset Brazilian-source income. A foreign tax credit is available (see *Foreign tax relief*).

In addition to CIT, Social Contribution Tax (SCT) is imposed on worldwide income (see *Rates of tax*).

### **Rates of tax**

*Corporate income tax.* The basic rate of CIT is 15%, increased by a surtax of 10% on annual taxable profits exceeding BRL240,000 (approximately USD73,000).

Exemption from, or reduction of, CIT is granted to businesses in certain underdeveloped areas.

*Social Contribution Tax.* SCT is levied at a general rate of 9%. For financial institutions, private insurance companies and capitalization companies, the SCT rate is 20% until 2018, while for credit unions, the SCT rate is 17% until 2018.

SCT is not deductible in calculating CIT. The tax bases for SCT and CIT are basically the same. The total effective tax rate on corporate profits is 34% (25% CIT [including the 10% surtax] plus 9% SCT).

Losses for SCT purposes are subject to the same tax rules applicable to losses for CIT purposes.

**Capital gains.** Capital gains are treated as ordinary income for Brazilian resident companies and, accordingly, are subject to CIT and SCT.

Until 2016, capital gains derived by nonresidents on shares and other assets located in Brazil were subject to capital gains tax at a rate of 15%. As of 2017, a progressive rate system with rates ranging from 15% to 22.5% applies to capital gains derived by nonresidents.

Such increased rates result from Law 13,259/16, which expressly refers only to the capital gains tax rate for Brazilian individuals. However, as a general rule, nonresident companies and individuals are subject to the same taxation applicable to Brazilian resident individuals. In Normative Instruction 1732/17, the Brazilian tax authorities confirmed its understanding that the progressive rates also apply to nonresidents.

A 25% rate applies to nonresidents located in blacklisted jurisdictions.

### **Administration**

*Filing and payment.* The fiscal year is the calendar year. In general, companies must file returns in an electronic format by the last working day of July of the following year. Extensions to file returns are generally not available.

Effective from the 2014 calendar year, income tax returns were replaced by a new electronic filing called Escrituração Contábil-Fiscal (ECF), which must be submitted to by the end of July of the following calendar year.

Companies may elect to pay CIT and SCT on an annual or quarterly basis. In general, this election may not be changed during the calendar year. Companies that elect the annual basis must make advance monthly payments of CIT and SCT. The advance payments are equal to the income tax applicable to either the company's actual taxable income or the company's income calculated in accordance with an estimated method, whichever is lower.

For monthly payments of CIT that are calculated based on the estimated method, the tax base is generally 8% of the company's gross income. Different percentages apply to specific industries, such as the following:

- 16% for financial institutions and transportation services
- 32% for services in general
- 1.6% for gas distribution

For the purpose of computing the advance income tax payments, the applicable rate is 15%. An additional 10% rate is applied to monthly taxable income in excess of BRL20,000 (approximately USD6,100).

The tax base for monthly estimated payments of SCT is generally 12% of gross income plus capital gains and other income, including financial income. This percentage is increased to 32% for service companies. SCT payments must be made at the same time as the income tax payments. The applicable tax rate is generally 9%.

The difference between the tax shown on the annual tax return and the amounts paid in advance must be paid by the last working day of March following the end of the fiscal year. If the amounts paid in advance exceed the tax shown on the annual tax return, the excess may be used to offset the tax due in a month following the fiscal year-end. A refund may be requested from the tax authorities within five years of the tax payment.

Alternatively, companies may pay tax quarterly based on actual quarterly income, computed under the accrual method.

*Interest and penalties for late payments.* The late payment of taxes is generally subject to the following:

- Interest calculated at the rate applicable to the Special Liquidation and Custody System (Sistema Especial de Liquidação e Custódia, or SELIC), which is published each month by the government
- A daily fine of 0.33% of the tax due, up to a maximum penalty of 20% of the tax due (excluding interest)

In general, assessments resulting from a tax audit are subject to a penalty of 75% on the tax due. The penalty increases to 150% in the case of fraud. These penalties can be reduced by 50% if the payment is made by the last day of the appeal period (other penalty reductions are available during the appeal process). In such case, the effective penalty is 37.5%.

**Dividends.** Withholding tax is not imposed on dividends paid to residents and nonresidents out of profits generated on or after 1 January 1996.

For earnings recognized in 2014, the excess of dividends paid based on the statutory financial statements over the dividends

determined under a “tax balance sheet” is subject to tax. A 15% withholding tax applies to such excess dividends paid to nonresidents. Dividends generated before 2014 are not subject to tax even if they are in excess of the dividends determined under the “tax balance sheet.” Dividends generated after 2014 are not subject to tax because the concept of “tax balance sheet” has ceased to exist.

Brazilian companies are allowed to pay a “deductible dividend,” which is called interest on net equity (INE), to their shareholders. INE is calculated by applying a benchmark interest rate called Taxa de Juros de Longo Prazo (TJLP) to the net equity of the Brazilian company, followed by certain adjustments provided by the tax law. INE is treated as deductible interest for tax purposes, which is subject to a 15% withholding tax when paid to residents and nonresidents. A 25% rate applies to nonresidents located in blacklisted jurisdictions. Payments to Brazilian residents are fully taxable and are also subject to the PIS tax and the COFINS. (For details regarding the PIS tax and COFINS, see Section D.)

**Foreign tax relief.** A foreign tax credit is available to Brazilian companies on income taxes paid overseas. In general, the foreign tax credit is limited to the amount of Brazilian CIT and SCT on the foreign-source income. Compliance with certain formalities is required to support the foreign tax credit.

### C. Determination of taxable income

**General.** CIT and SCT are due on a company’s taxable income, which is the net book income, as adjusted by the tax law. In general, operating expenses are deductible if the following conditions are satisfied: they are necessary, usual and common to the company’s activity; they are actually incurred; and they are supported by proper documentation. However, the following expenses, among others, are not deductible:

- Expenses related to fixed assets, including financial and operating lease payments, depreciation and amortization, if the assets are not directly used in the production or commercialization of products and services.
- Fringe benefits furnished to shareholders and officers if the beneficiaries are not identified and individualized (a 35% [effective rate of 53.84%] withholding tax is imposed on such payments). Neither the fringe benefits nor the withholding tax is deductible.
- Donations in general, gifts and other non-compulsory payments.

Simplified methods are available for calculating the tax liability applicable to small businesses.

**Inventories.** Companies that have an integrated cost system must value inventory for tax purposes at the lower of cost or market value, using either the average cost or the first-in, first-out (FIFO) method. Direct cost and last-in, first-out (LIFO) methods cannot be used. In general, companies that do not have an integrated cost system must value finished products at 70% of the highest sales price of the product sold in the tax period. Work-in-process must be valued at either 80% of the finished product cost or 1.5 times the highest cost of the material content. Supermarkets and similar enterprises that sell a large number of goods may use a specific system for inventory valuation based on periodic and simplified counting.



**Provisions.** In general, the only deductible provisions are those for vacation pay and the 13th month salary (annual bonus).

**Depreciation.** Fixed assets may be depreciated using the straight-line method at rates provided by the Brazilian tax authorities. The following are some of the annual depreciation rates:

- Real estate assets: 4%
- Machinery and equipment: 10%
- Vehicles: 20%
- Computer hardware and software: 20%

Companies that operate two work shifts per day may depreciate machinery and equipment at 1.5 times the normal rate. If the company operates three shifts, it may double the normal rate.

For accounting purposes, companies may calculate depreciation at different rates (taking into account International Financial Reporting Standards [IFRS] criteria, which can affect, in addition to depreciation rates, inventory and other items).

**Tax losses.** Tax losses may be carried forward indefinitely, but can only offset up to 30% of the company's taxable income for a tax period. No carryback is allowed.

Tax losses may be jeopardized if a company experiences a change in business activity and ownership control between the period in which losses were generated and the period in which losses would otherwise be used to offset taxable income. In general, non-operating tax losses can be offset only against non-operating gains if certain conditions are met. In a corporate restructuring involving a merger, the tax losses of the merged company must be forgone.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
State value-added tax (ICMS)	0 to 25
General rate for intrastate transactions	17/20
General rate for interstate transactions	12
General rate for interstate resale transactions involving imported goods	4
Transactions in which taxpayers located in the South or Southeast (except for Espírito Santo State) regions that remit goods and services taxable under ICMS to taxpayers resident in the states of the North, Northeast or Centre-West regions or Espírito Santo State	7
Exports	Exempt
Federal value-added tax (IPI); the top rate applies to luxury or superfluous goods, such as alcoholic beverages and cigarettes	0 to 330
Tax on Financial Operations (IOF); imposed on credit transactions, foreign-exchange transactions, insurance operations and financial investments	
Loan operations	
Daily rate (maximum annual rate of 1.5%)	0.0041
Additional rate	0.38

Nature of tax	Rate (%)
Foreign-exchange transactions	0.38 to 6.38
Insurance operations	0.38 to 7.38
Financial investments	Various
Social Integration Program (PIS) tax; levied on gross income at a rate of 1.65%; the tax is a non-cumulative (VAT-type) tax for certain taxpayers; certain companies, including local financial institutions and companies that manufacture goods in the Manaus Free Trade Zone, are subject to the cumulative regime and make the contribution at a 0.65% rate; the tax is also levied on imports of goods at a rate of 2.1% and on services at a rate of 1.65%, in most cases; however, for certain imported goods, different rates apply; in certain cases, the rate is reduced to 0%	0/0.65/1.65/2.1 to 3.52
Social Security Financing Contribution (COFINS); levied on gross income at a rate of 7.6%; the tax is a non-cumulative (VAT-type) tax for certain taxpayers; certain companies, including local financial institutions and companies that manufacture goods in the Manaus Free Trade Zone, are subject to the cumulative regime and make the contribution at a 3% rate; the tax is also levied on imports of goods at a rate of 9.65% and on services at a rate of 7.6%, in most cases; however, for certain imported goods, different rates apply; in certain cases, the rate is reduced to 0%	0/3/7.6/9.65 to 16.48
Municipal Tax on Services (ISS)	2 to 5
Social security contributions (INSS), on monthly salary; paid by	
Employer Employee; rate varies depending on amount of remuneration (amount of employee contribution may not exceed BRL608.44 [approximately USD185] a month)	Approximately 28.8 8 to 11
Severance Pay Indemnity Fund (FGTS), on monthly salary	8
Withholding tax on local payments of professional service fees (creditable by the recipient against income tax)	Up to 27.5
Contribution for development of cinematographic and video phonographic works (Condecine); in general, tax rate applied to amounts paid to producers, distributors and intermediaries abroad for the exploitation of cinematographic and video phonographic works	11

## E. Miscellaneous matters

**Foreign investment.** As a general rule, all foreign investments, such as equity or debt investments, must be registered with the

Central Bank of Brazil (BACEN) to assure the payment of dividends, principal and interest, or the repatriation of capital. Nonresidents holding assets and rights in Brazil, such as equity investments, portfolio investments and debt investments, must be registered with the Brazilian tax authorities. On registration, the nonresidents obtain a tax identification number (CNPJ for entities or CPF for individuals). Failure to comply with the foreign-exchange regulations and associated requirements is subject to significant penalties. This particularly applies to evasion, false statements and private offsetting transactions. Changes to the registration of foreign investments with the BACEN entered into force on 30 January 2017. The changes included a release from providing certain information before the transaction, such as the registration of dividends and INE (see *Dividends* in Section B) in the Foreign Direct Investment – IED module of the Electronic Declaratory Registration (RDE) of BACEN’s electronic system (SISBACEN) as a condition for the remittance abroad of such amounts.

Contracts for the supply of technology and technical services with the transfer of technology, and for the use of trademarks and patents between residents and nonresidents must be registered with the National Institute of Industrial Property (INPI). To allow Brazilian companies to pay and deduct the royalties up to the amounts prescribed by law, it must also be registered under the Financial Operations Registration – ROF module of the RDE of SISBACEN.

**Transfer pricing.** Brazilian transfer-pricing rules apply only to cross-border transactions entered into between Brazilian companies and foreign related parties. A transaction entered into between a Brazilian company and a resident of a low-tax jurisdiction or a resident in a jurisdiction with a privileged tax regime is also subject to the transfer-pricing rules, even if the parties are not related. In general, Brazilian transfer-pricing rules do not follow the transfer-pricing guidelines outlined in the Organisation for Economic Co-operation and Development (OECD) Model Convention and the US rules. For example, Brazilian transfer-pricing rules adopt fixed-profit margins on transactions carried out between related parties. Safe harbor measures may be applied to Brazilian exports.

**Low-tax jurisdiction and privileged tax regime.** The Brazilian low-tax jurisdiction (LTJ) list (black list) and privileged tax regime (PTR) list (gray list) are contained in regulations issued by the Brazilian tax authorities. New definitions of LTJ and PTR were introduced in 2015 and in 2016. In 2016, Ireland was added to the black list, and Austria holding companies without substantial economic activity were added to the gray list. In addition, new rules on the meaning of substantial economic activity were issued in 2016.

**Thin-capitalization.** Under thin-capitalization rules, interest expense arising from a financial arrangement with a related party is deductible only if the related Brazilian borrower does not exceed a debt-to-net equity ratio of 2:1. In addition, interest expense arising from a financing arrangement executed with a party established in a LTJ or benefiting from a PTR is deductible only if

the Brazilian borrower does not have a debt-to-net equity ratio of greater than 0.3:1.

**Controlled foreign companies.** Profits realized by a controlled foreign company (CFC) of a Brazilian company are subject to income taxation on 31 December of each year regardless of any actual distribution by the CFC. Law 12,973/2014 introduced a new CFC regime. Under the new regime, qualifying CFCs are taxed on an entity-by-entity basis (that is, individually regardless of the design of the corporate structure outside of Brazil). If certain conditions are met, a tax consolidation of CFCs can be performed at the level of the Brazilian shareholder, through which the accounting losses of a qualifying CFC may offset taxable income of another CFC.

The earnings of CFC entities whose business is connected to oil and gas activities are exempt from tax in Brazil. Foreign tax credits of CFCs can be used against Brazilian corporate income tax, limited to the Brazilian corporate income tax due on CFC income. Under regulations issued by the Brazilian tax authorities (Normative Instruction 1,520/2014), the Brazilian shareholder can elect which non-Brazilian entities are subject to tax consolidation. Qualifying non-CFC entities are subject to tax in Brazil on an actual or deemed dividend distribution to a Brazilian shareholder. A deemed credit of 9% of the CFC income subject to tax in Brazil is available for qualifying entities.

The Brazilian corporate income tax on CFC income may be subject to installment payments over a period of eight years (12.5% payment per year), but the deferred tax liability is subject to adjustment based on London Interbank Offered Rate plus the US dollar currency exchange variation.

**Digital bookkeeping.** The Public System of Digital Bookkeeping (Sistema Público de Escrituração Digital, or SPED) is a unified electronic storage of accounting and tax bookkeeping. It is intended to replace bookkeeping prepared on paper and to unify the preparation, storage, and certification requirements of the Board of Trade and of the tax authorities at the municipal, state and federal levels. Most companies are now required to comply with the SPED.

**International Financial Reporting Standards.** Law 11,638/07 introduced changes to the Brazilian Corporate Law (Law 6,404/76) with respect to the preparation of financial statements for corporations as well as for large companies, regardless of whether they are organized as corporations. This law represents a major step in the process toward harmonization of Brazilian GAAP with IFRS. Under this law, which took effect on 1 January 2008, large companies must prepare their financial statements under new Brazilian GAAP, which is consistent with IFRS principles.

This harmonization process was not intended to generate any tax consequences in Brazil. Consequently, the Brazilian IRS issued guidance on achieving such tax neutrality (called the Transitional Tax Regime). Effective from 2015, Law 12,973/2014 revokes the Transitional Tax Regime by realigning the income tax rules with the accounting rules (Brazilian GAAP), unless otherwise prescribed by the tax law. The early adoption of Law 12,973/2014 for the 2014 calendar year was optional.

**Foreign trade of services integrated system.** The Brazilian tax authorities require the reporting of inbound and outbound services and intangible transactions outlined in Brazilian Services Codification (Nomenclatura Brasileira de Serviços, Intangíveis e Outras Operações que Produzam Variações no Patrimônio, or NBS) through an integrated system with the Brazilian IRS, named Integrated Foreign Trade System for Foreign Services, Intangibles and other Transactions (Sistema Integrado de Comércio Exterior de Serviços, Intangíveis e Outras Operações que Produzam Variações no Patrimônio, or SISCOSEV).

**Special tax benefits.** The Brazilian government has issued laws providing tax incentives to increase investments in Brazil. The following are the main programs:

- Law 11,196/2005: tax benefits for investments in infrastructure and research and development (R&D)
- Special Tax Regime for the Renewal and Expansion of Port Structures (Regime Tributário para Incentivo à Modernização e à Ampliação da Estrutura Portuária, or REPORTO): suspension of IPI, PIS, COFINS and import tax for investments in ports, warehousing and surveillance and monitoring systems
- Reduction of employer social security contribution in some industries, such as hospitality information technology and air and sea transportation: a contribution of 2.5% to 4.5% of gross income replaces the contribution as a percentage of payroll

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties (k) %
Argentina (s)	0	15 (d)	15 (n)
Austria	0	15 (d)	15 (b)(l)(r)
Belgium	0	15 (a)(d)	15 (c)(m)
Canada	0	15 (a)(d)	15 (l)
Chile	0	15	15
China (mainland)	0	15 (d)	15 (l)
Czechoslovakia (h)	0	15 (d)(f)	15 (l)
Denmark	0	15 (d)	15 (l)
Ecuador	0	15 (d)	15 (l)
Finland	0	15 (d)	15 (c)(l)(r)
France	0	15 (a)(d)	15 (c)(l)(r)
Hungary	0	15 (d)(g)	15 (l)
India	0	15 (d)	15 (l)
Israel	0	15 (d)	15 (i)
Italy	0	15 (d)	15 (l)
Japan	0	12.5 (d)	12.5 (e)(l)(r)
Korea (South)	0	15 (a)(d)	10 (l)(p)
Luxembourg	0	15 (a)(d)	15 (l)
Mexico	0	15 (d)	10
Netherlands	0	15 (a)(d)	15 (l)
Norway	0	15 (d)	15 (l)
Peru	0	15 (d)	15
Philippines	0	15 (d)	15 (l)
Portugal	0	15 (d)	15
Russian Federation (t)	0	15 (d)	15
South Africa	0	15 (d)	10 (p)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties (k)</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Spain	0	15 (d)(f)	10 (o)(p)
Sweden	0	15 (d)	15 (l)(r)
Trinidad and Tobago	0	15 (d)	15
Turkey	0	15 (q)	15 (i)
Ukraine	0	15 (d)	15
Venezuela	0	15 (d)	15
Non-treaty jurisdictions	0	15 (j)	15 (j)

- (a) The withholding rate is 10% for interest on certain bank loans with a minimum term of seven years.
- (b) The withholding rate is 10% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, excluding cinematographic films and films or tapes for television or radio broadcasting, produced by a resident of a contracting state.
- (c) The withholding rate is 10% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works or for the use of, or the right to use, cinematographic films or television or radio films or tapes produced by a resident of a contracting state.
- (d) Interest paid to the government of the other contracting state, a political subdivision thereof or an agency (including a financial institution) wholly owned by that government or political subdivision is exempt from tax.
- (e) The withholding rate is 15% for royalties with respect to copyrights of cinematographic films and films or tapes for radio or television broadcasting.
- (f) The withholding rate is 10% for interest on certain long-term (at least 10 years) bank loans.
- (g) The withholding rate is 10% for interest on certain long-term (at least eight years) bank loans.
- (h) Brazil is honoring the Czechoslovakia treaty with respect to the Czech and Slovak Republics.
- (i) This rate applies to royalties related to the use of, or the right to use, trademarks. For other royalties, including payments for technical assistance and technical services, the rate is 10%.
- (j) The withholding tax rate may increase to 25% if the recipient is resident in a low-tax jurisdiction or benefits from a privileged tax regime (see Section E).
- (k) The tax treaties do not apply to the CIDE (see footnote [d] to Section A).
- (l) The withholding tax rate is 25% for royalties paid for the use of trademarks.
- (m) The withholding tax rate is 20% for royalties paid for the use of trademarks.
- (n) The treaty does not provide a maximum rate for royalties, but provides that the domestic rate applies.
- (o) The withholding rate is 15% for royalties for the use of, or the right to use, trademarks.
- (p) The withholding tax rate applicable to royalties was reduced as a result of the most favorable clause contained in the protocol to the treaty. This clause provides for a rate reduction if a future treaty establishes a lower rate. Because of the treaty between Brazil and Israel, the withholding tax rate on royalties was reduced to 10% (except for trademark royalties).
- (q) Interest paid from Turkey to the Brazilian government, Central Bank of Brazil or the National Economic and Social Development Bank (BNDES) are exempt from Turkish tax. Interest paid from Brazil to the Turkish government, the Central Bank of the Republic of Turkey (Türkiye Cumhuriyet Merkez Bankası) or the Turkish Bank of Exportation and Importation (Eximbank) are exempt from Brazilian tax.
- (r) The protocols of these treaties do not expressly classify payments for technical services as royalties. Based on recent interpretations of the Brazilian tax authorities, it may be possible to claim that technical services fees paid to beneficiaries located in these countries are not subject to withholding income tax.
- (s) Argentina and Brazil have signed a protocol amending the treaty. This protocol, which has not yet entered into force, imposes new maximum rates for dividends (10% and 15%), interest (15%) and royalties (10% and 15%), as well as other changes.
- (t) The treaty between Brazil and the Russian Federation entered into force in 2017, but it is effective from 1 January 2018.

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### A. At a glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	0

### B. Taxes on corporate income and gains

The BVI Business Companies Act, 2004 (BVI BC Act) entered into force on 1 January 2005. Under the BVI BC Act, companies incorporated under the British Virgin Islands (BVI) Companies Act are exempt from all taxes provided under the BVI Income Tax Ordinance. The BVI BC Act is essentially an amalgamation of the International Business Companies (IBC) Act and the BVI Companies Act, which contained a regime under which all domestic companies incorporated in the BVI were governed. In addition, on 1 January 2007, all International Business Companies on the companies register in the BVI were automatically reregistered under the BVI BC Act and, consequently, the IBC Act was repealed in full.

All Business Companies (BCs) are statutorily exempt from BVI taxes. However, such companies must pay an annual license fee (see Section C). In general, a BC may not transact business with persons resident in the BVI or own interests in real property located in the BVI unless it obtains the relevant trade license from the BVI government. In addition, a BC may not carry on business as a bank, trust company, insurance company or reinsurance company without a license from the BVI Financial Services Commission.

### C. Other taxes

**Payroll tax.** Payroll tax is imposed on every employer and self-employed person who carries on business in the BVI. The tax rates are 10% for Class 1 employers and 14% for Class 2 employers. The tax is applied to the remuneration paid or deemed to be paid, 8% of which may be reclaimed and paid by the employees or deemed employees. Class 1 employers are those meeting the following conditions:

- Payroll during the financial year that does not exceed USD150,000
- Annual turnover that does not exceed USD300,000
- A total of seven or less employees and deemed employees

All employers not falling within the Class 1 category are deemed to be Class 2 employers.

The first USD10,000 of actual remuneration paid to an employee, deemed employee or self-employed person is exempt from tax.

**Social tax.** Social tax requires both the employer and employee contribute to the mandatory National Insurance Scheme. The total contribution rate is 8.5%, of which 4.5% is paid by the employer and the remaining 4% can be passed on to the employees. These contributions are based on the amount of weekly wages up to a maximum of USD783 or monthly wages up to a maximum of USD3,393. The maximum insurable earnings is USD40,716.

**National health insurance.** BVI implemented a new national health insurance regime, effective from 1 January 2016. This regime requires employers and employees to pay 3.75% each on the employees' monthly income. The maximum income on which national health insurance premiums is assessed is two times the upper wage limit for social security contributions, which currently equals USD6,786 per month. Consequently, the maximum amount payable monthly by employees and employers is USD254.48 each. Employees are also required to contribute an additional 3.75% on behalf of an unemployed spouse.

#### D. Fees and stamp duties

The following table summarizes the fees and stamp duties payable in the BVI.

Nature of fees and duties	Rate
Annual license fees	
BCs incorporated under the BVI BC Act, with authorized share capital of	
Up to USD50,000 or foreign-currency equivalent or authorized to issue up to 50,000 shares	USD350
Exceeding USD50,000 or foreign-currency equivalent or authorized to issue more than 50,000 shares	USD1,100
Restricted Purpose Company	USD5,000
General banking license	USD50,000
Restricted Class I banking license	USD32,000
Restricted Class II banking license	USD32,000
Insurance company license	Up to USD10,000
Class I trust license	USD16,000
Class II trust license	USD14,000
Class III trust license	USD12,000
Restricted Class II trust license	USD1,000 to USD3,000
Restricted Class III trust license	USD500
Stamp duties, on various instruments and transfers of ownership	
Real estate, on higher of consideration or market value	



Nature of fees and duties	Rate
Sales to belongers (individuals born in the BVI or those granted BVI status and BVI companies that are at least 67% owned by such persons and do not have any non-belongers as directors)	4%
Sales to non-belongers	12%
Other instruments and transfers	0.2% to 5%

## E. Miscellaneous matters

**Foreign-exchange controls.** The BVI does not have any foreign-exchange control regulations.

**European Union Savings Tax Directive.** As a result of the BVI's status as a British Overseas Territory, it is required to comply with the requirements of the European Union (EU) Savings Tax Directive (the Directive). Banks and other paying agents in the BVI must exchange certain information pertaining to EU residents.

Under the Mutual Legal Assistance (Tax Matters) (Automatic Exchange of Information) Order, 2011, effective from 1 January 2012, the former 35% withholding option under the Directive is no longer applicable because the BVI transitioned to the automatic exchange-of-information option instead of the withholding-tax option under the Directive. This order provides that BVI-based paying agents are no longer subject to the withholding tax option as a means of complying with the Directive. Instead, BVI institutions must disclose the minimum information to the BVI Inland Revenue, which in turn complies with the information-exchange policy under the Directive.

On 24 March 2014, the EU revised the Directive to strengthen the existing rules on exchange of information on savings income. The principal changes to the Directive are the following:

- A look-through approach based on “customer due diligence,” which prevents individuals from circumventing the Directive by using an interposed legal person located in certain non-EU countries
- Enhanced rules aimed at preventing individuals from circumventing the Directive by using an interposed legal person located in an EU member state
- Extending the scope of the Directive to include financial products that have similar characteristics to debt claims
- Inclusion of income obtained through undertakings for collective investment in transferable securities authorized by Directive 85/611/EEC (UCITS)

## F. Tax treaties

Although the United Kingdom's double tax treaties with Japan and Switzerland have been extended to the BVI, these treaties are not used in practice. The BVI has not entered into any other tax treaties. However, the BVI has entered into 28 tax information exchange agreements with various jurisdictions, including Canada, China, Japan and the United States, and with 16 European countries, including France, Germany, Ireland, the Netherlands and the United Kingdom.

On 28 November 2013, the BVI and the United Kingdom signed an intergovernmental agreement (IGA) to enable the exchange of information for tax purposes, including on an automatic basis.

On 30 June 2014, the BVI and the U.S. Treasury signed and released a Model 1 IGA for the implementation of the US Foreign Account Tax Compliance Act (FATCA).

All BVI institutions must comply with FATCA and UK Crown Dependencies and Overseas Territories (CDOT) regulations. In addition, if required, they must report to the BVI International Tax Authority via the authority's Automatic Exchange of Information website. As a result of the introduction of the Common Reporting Standard (CRS; see below), it is expected that the requirement for reporting in compliance with the above-mentioned UK CDOT regulations will no longer be needed after 2017.

The BVI was an early adopter of the CRS. The BVI recently issued its initial CRS regulations, which took effect on 1 January 2016. The first reporting for the 2016 tax year was due by the end of July 2017. The expected deadline for future years is 31 May. All BVI institutions must comply with the CRS.

# Brunei Darussalam

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## Business Tax Advisory

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## A. At a glance

Corporate Income Tax Rate (%)	18.5 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	18.5 (a)
Withholding Tax (%) (b)	
Dividends	0
Interest	2.5
Royalties	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

(a) This is the standard rate. The rate of petroleum income tax is 55%.

(b) For a listing of withholding taxes, see Section D.

## B. Taxes on corporate income and gains

**Corporate income tax.** Limited companies, regardless of whether they are incorporated overseas or locally or are registered as a branch of a foreign company, are subject to a tax on income accruing in, derived from or received in Brunei Darussalam.

Branches of foreign companies are taxed on their profits arising in Brunei Darussalam at the same rates as corporations.

**Rate of corporate income tax.** The income tax rate is 18.5% for resident and nonresident companies, except for those engaged in petroleum operations. The rate of petroleum income tax is 55%.

The first BND100,000 of chargeable income is taxed at a reduced rate of one quarter of the full rate, while the next BND150,000 is taxed at half the full rate. The balance of chargeable income is taxed at the full rate. For a new company, the first BND100,000 of chargeable income is exempt from tax. This exemption applies for a company's first three consecutive years of assessment.

Certain enterprises and industries may be exempted from taxation if they are considered essential for the development of the country.

Companies that have gross sales or turnover of BND1 million or less are exempted from corporate income tax or charged with a 0% corporate income tax.

**Capital gains.** Capital gains are not taxed. Capital losses are not deductible. However, if assets have been acquired for resale rather than for a company's use, any profit from the sale is regarded as taxable income.

**Administration.** The tax year is the calendar year.

Tax returns must be filed by electronic means.

Corporations must file an annual tax return by 30 June of each year and pay any tax due by the same date. Corporations must also file an Estimated Chargeable Income (ECI) return within three months after their accounting year-end if they are unable to file their annual tax return within this period. Any tax due under an ECI return must be paid by the due date for filing the ECI return. If tax is paid under an ECI return, the tax is adjusted accordingly in the annual tax return. In general, extensions of time are not granted.

**Foreign tax relief.** Foreign income that is not received in Brunei Darussalam is free from tax. Brunei Darussalam has entered into double tax treaties with Bahrain, China, Hong Kong Special Administrative Region (SAR), Indonesia, Japan, Korea (South), Kuwait, Laos, Luxembourg, Malaysia, Oman, Pakistan, Qatar, Singapore, the United Arab Emirates, the United Kingdom and Vietnam. Brunei Darussalam has signed double tax treaties with other countries, but these treaties have not yet been ratified. Both resident and nonresident companies may also apply for unilateral relief on income arising from British Commonwealth countries offering reciprocal relief. However, the maximum relief cannot exceed half the Brunei Darussalam rate.

### C. Determination of trading income

**General.** The following sources of income are subject to tax:

- Gains or profits from any trade, business, profession or vocation
- Gains or profits from employment
- Net annual value of land and improvements occupied or used rent-free for residential or enjoyment purposes
- Dividends, interest or discounts
- Pensions, charges or annuities
- Rents, royalties, premiums and any other profits arising from property

In computing taxable income, normal business expenses may be deducted.

Interest expenses are allowed as a deduction only if the loan generating the charge is used for the production of taxable income.

**Provisions.** Provisions for debts are generally tax-deductible only if they are made against specific bad debts.

**Tax depreciation.** Depreciation charged in the financial accounts is not deductible for tax purposes. Instead, capital allowances (tax depreciation) are permitted.

*Industrial buildings.* An initial allowance of 40% of the qualifying expenditure is given on industrial buildings in the year of expenditure, with a further annual allowance of 20% of qualifying expenditure provided on a straight-line basis until the total expenditure is written off.

*Plant and machinery.* An initial allowance of 40% of the cost of plant or machinery is given on the qualifying expenditure, and an annual allowance is given on the declining value of the asset. Effective from 1 January 2016, the rates of the annual allowance for all types of assets were changed to 25%. Alternatively, a company may choose to write off such expenditure over three years on a straight-line basis. For plant and machinery not exceeding BND2,000 per item, a company may choose to write off such expenditure fully in the year of acquisition subject to an aggregate cap of BND30,000 per year. For computer and office automation equipment, a company may also choose to write off such assets fully in the year of acquisition.

Effective from 1 January 2014, the capital allowance rate was increased to 150% for assets categorized as plant and machinery for companies in the manufacturing sector. This capital allowance applies only to plant and machinery installed between 1 January 2014 and 31 December 2019.

*Mining.* All expenditure incurred in connection with the working of a mine or other source of mineral deposit of a wasting nature is considered qualifying mining expenditure. An initial allowance of 10% of the qualifying expenditure is given in the year of expenditure, with annual depletion allowances deductible over the life of the mine. These are determined by multiplying the residue of the capital expenditure by the greater of 20% and the following fraction:

$$\frac{\text{Output for the year}}{\text{Output for the year plus estimated future output}}$$

*Disposals.* When an asset is sold, scrapped or destroyed, a balancing allowance or charge is made, based on the difference between the disposal price and the depreciated value on disposal. The balancing charge may be deferred if the plant and machinery disposed of are replaced by similar assets.

**Relief for losses.** Losses may be carried forward for up to six years to offset future profits. Continuity of trade or ownership is not required to carry forward losses. Losses in one trade or business may be set off against other sources of income for the same year of assessment.

Unabsorbed capital allowances may be carried forward indefinitely, provided the company continues to carry on the same trade or business.

**Groups of companies.** No special rules or reliefs apply to groups of companies; each company is taxed on its own income as appropriate.

## D. Domestic and treaty withholding tax rates

Brunei Darussalam's domestic tax law imposes withholding tax on various payments made to nonresident persons, which include companies and bodies of persons. A company is considered to be a nonresident company if the control and management of its business are not exercised in Brunei Darussalam. The following are the withholding tax rates.

Type of payment	Rate (%)
Interest, commissions, fees or other payments with respect to loans or indebtedness	2.5
Royalties or other lump-sum payments for the use of movable properties	10
Payments for the use of, or the right to use, scientific, technical, industrial or commercial knowledge or information	10
Technical assistance and service fees	10
Management fees	10
Rent or other payments for the use of movable properties	10
Nonresident directors' remuneration	10

The above withholding tax rates may be reduced under tax treaties. Brunei Darussalam has entered into double tax treaties with Bahrain, China, the Hong Kong SAR, Indonesia, Japan, Korea (South), Kuwait, Laos, Luxembourg, Malaysia, Oman, Pakistan, Qatar, Singapore, the United Arab Emirates, the United Kingdom and Vietnam.

Brunei Darussalam has signed a tax treaty with Tajikistan, but this treaty has not yet been ratified.

# Bulgaria

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## A. At a glance

Corporate Income Tax Rate (%)	10
Capital Gains Tax Rate (%)	10 (a)
Branch Tax Rate (%)	10
Withholding Tax (%) (b)	
Dividends	5 (c)(d)
Interest	0/10 (e)(f)(g)
Royalties from Patents, Know-how, etc.	0/10 (e)(f)
Fees for Technical Services	10 (f)
Rent and Payments Under Lease, Franchising and Factoring Agreements Derived from Sources in Bulgaria	10 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) Capital gains derived from the sale of shares, rights and government bonds through the Bulgarian stock market or stock exchanges in European Union (EU) or European Economic Area (EEA) countries are exempt from tax.
- (b) An EU/EEA recipient of Bulgarian-source income that is subject to withholding tax may claim a deduction for expenses incurred in earning that income by filing an annual corporate income tax return. The return must be filed by 31 December of the year following the year of accrual of the income.
- (c) This tax does not apply to payments to entities that are resident for tax purposes in Bulgaria or EU/EEA countries (no requirements for participation percentage and minimum holding period are imposed). However, under the general anti-tax avoidance rule provided in the domestic corporate income tax law, no exemption from withholding tax is granted to an arrangement or a series of arrangements that, taking into account all of the relevant facts and circumstances, are not genuine and result in tax avoidance.
- (d) This rate may be reduced by tax treaties for dividends distributed to entities not resident for tax purposes in EU/EEA countries.
- (e) The zero rate applies to Bulgarian-source interest or royalties income accrued to EU associated companies (a minimum holding of 25% of the share capital must be maintained for at least two years) if the income recipient is its beneficial owner. The exemption from tax does not apply to income accrued on hybrid financial instruments. The zero rate is disallowed if the Bulgarian-source payment is, in substance, a profit distribution or capital decrease or aims at tax avoidance or tax evasion.
- (f) This tax applies to payments to nonresidents only and may be reduced in accordance with an applicable tax treaty.
- (g) Interest on debt (other than government or municipality bonds) extended to the Bulgarian state or a municipality is exempt from withholding tax. Interest income on bonds or other debt instruments issued by Bulgarian resident companies, the Bulgarian state or municipalities on a regulated EU/EEA market is exempt from withholding tax. The exemptions mentioned in the two preceding sentences are granted to all corporate investors, regardless of their tax residency. Interest income paid to nonresident issuers of bonds or other debt instruments is not subject to withholding tax in Bulgaria if all of the following conditions are met:
  - The issuer of these bonds or debt instruments is a tax resident of an EU/EEA member state.
  - The purpose for the issuance of the bonds or other debt instruments is that the proceeds will be used for granting a loan to a Bulgarian tax resident company.
  - The bonds or other debt instruments are issued on a regulated market in Bulgaria or another EU/EEA member state.

## B. Taxes on corporate income and gains

**Corporate income tax.** Bulgarian companies are subject to corporate tax on their worldwide income. Bulgarian companies are companies incorporated in Bulgaria. Foreign companies are taxed in Bulgaria on their profits generated from activities conducted through a permanent establishment in the country and on income from Bulgarian sources.

**Rates of corporate tax.** The corporate tax rate is 10%.

A 10% tax is imposed on certain expenses, such as employee-related, in-kind fringe benefits and representation-related expenses, thereby increasing the effective tax rate for companies incurring such expenses (see Section D).

**Capital gains and losses.** Capital gains from disposals of assets, including shares, derived by Bulgarian tax residents are included in the current year tax base and are subject to tax at the standard corporate tax rate of 10%. No rollover relief is provided. Capital losses are deductible for tax purposes.

Capital gains derived from the sale of shares, rights and government bonds through the Bulgarian stock market or stock exchanges in EU/EEA countries are exempt from tax. Similarly,



losses from the sale of shares, rights and government bonds through such stock exchanges are not deductible for tax purposes.

**Administration.** The tax year is the calendar year. Annual tax returns must be filed by 31 March of the year following the tax year. The tax return must be accompanied by an activity report for statistical purposes. Taxpayers that did not carry on business activity during the respective year are not required to submit annual tax returns and activity reports.

Companies subject to tax must make advance payments of tax. Only persons that have net sales revenue from the preceding year in excess of BGN3 million must make monthly advance payments. Newly established companies and companies with sales of less than BGN300,000 for the preceding tax year are not required to make advance payments. These taxable persons may opt for quarterly advance payments. Companies with sales ranging from BGN300,000 to BGN3 million for the preceding tax year are subject to quarterly advance corporate tax payments. The tax base for the monthly advance payments is one-twelfth of the company's forecasted annual taxable income for the tax year. The tax base of the quarterly advance payments is one-fourth of the company's forecasted annual taxable income for the tax year. The tax rate for calculating the advance payments is 10%.

The monthly advance payments for January, February and March are due on 15 April of the current tax year. For the months from April through December, the monthly advance payments are due on the 15th day of the respective month. The quarterly advance payments for the first and second quarters are due on the 15th day after the end of the respective quarter. For the third quarter, the advance payment is due on 15 December. No quarterly payment is required for the last quarter. Companies must pay the corporate tax due for the tax year, less the advance installments, by 31 March of the following year.

Beginning in 2017, in the case of errors (including accounting errors) related to the prior year for which the tax return was filed, companies can file a one-off corrective corporate income tax return by 30 September of the year.

The tax on certain expenses (see Section D) is payable on an annual basis by 31 March of the following year.

**Dividends.** A 5% withholding tax is imposed on dividends paid by Bulgarian companies to companies resident for tax purposes in non-EU/EEA countries, as well as on hidden profit distributions to residents of EU/EEA countries.

Remittances of profits by branches to their home countries are not subject to withholding tax.

**Foreign tax relief.** Bulgarian companies are entitled to a tax credit for identical or similar foreign taxes imposed abroad. The tax credit is limited to the amount of the Bulgarian tax that would have been paid in Bulgaria on the income subject to the foreign tax. In addition, a per-country limitation applies. Bulgarian tax treaties normally provide an exemption from Bulgarian taxation for income from foreign real estate and foreign permanent establishments.

### C. Determination of taxable income

**General.** Taxable income is based on annual accounts prepared in accordance with International Financial Reporting Standards (IFRS) or, for small and medium-sized enterprises, Bulgarian accounting standards. However, taxable income does not equal the profit shown in the accounts, because certain adjustments to revenue and expenses are required for tax purposes with respect to items such as accrual for bonuses, unused leave, depreciation and impairment of assets.

The write-down of assets as a result of impairment is not deductible for tax purposes. The loss is deductible on realization.

**Inventories.** All cost methods that are applicable under IFRS may be used for tax purposes. For manufacturing entities, the quantity of raw material exceeding the usual quantity of raw materials required for the production of a particular unit is treated as avoidance of taxation and is subject to adjustment for tax purposes.

**Provisions.** Impairments and write-offs of receivables are not deductible for tax purposes until their materialization or the expiration of the five-year statute of limitation to pursue the claim at court. This rule does not apply to financial institutions, which may deduct impairments and write-offs of receivables in the year in which they are booked. Provisions for payables are not deductible for tax purposes until their materialization.

**Tax depreciation.** The law provides the following maximum tax depreciation rates for categories of assets.

Category	Assets	Rate (%)
1	Buildings, facilities, communication devices, electricity carriers and communication lines	4
2	Machines, manufacturing equipment and other equipment	30 (a)
3	Transportation vehicles, excluding automobiles, road coverings and aircraft runways	10
4	Computers, software and the right to use software, and mobile phones	50
5	Automobiles	25
6	Intangibles and other tangible assets that are legally protected for a limited time period	– (b)
7	Other tangible assets	15

(a) The rate may increase to as high as 50% for new machines for investment purposes.

(b) The depreciation rate is determined by dividing 100 by the number of years of the legal restriction. The maximum rate is 33⅓%.

The Corporate Income Tax Act contains measures requiring companies to prepare tax depreciation plans.

Goodwill arising from business combinations is not treated as a depreciable asset for tax purposes.

**Relief for losses.** Tax losses may be carried forward for five years. Losses may not be carried back.

**Groups of companies.** Bulgarian law does not include measures for filing consolidated returns or relieving losses within a group.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; imposed on all domestic supplies of goods and services, imports and intra-EU acquisitions in Bulgaria	20
Tax on expenses; imposed on payers for representation and social expenses and for fringe benefits resulting from the provision of company assets and personnel to employees, directors and shareholders; the amount of the representation and social expenses is not subject to tax in the hands of the recipient; companies have the option to apply the 10% tax on corporate expenses triggered by the personal use of company assets and personnel by employees, directors and shareholders or to treat them as fringe benefits taxed at the personal level; companies must choose the method for taxation in their annual corporate tax return	10
Real estate property tax; rate varies by municipality	0.01 to 0.45
Real estate transfer tax; rate varies by municipality	0.1 to 3

#### E. Miscellaneous matters

**Foreign-exchange controls.** The Bulgarian currency is the leva (BGN). The exchange rate of the leva against the euro (EUR) is fixed at BGN1.95583 = EUR1.

Bulgaria does not impose foreign-exchange controls. However, some reporting requirements exist.

Each business transaction between local and foreign persons that involves financial credits or direct investment of a local company or sole proprietor abroad, must be declared for statistical purposes to the Bulgarian National Bank (BNB) within 15 days after the date of the transaction.

Under the Foreign Exchange Act, bank payments of up to BGN30,000 may be made freely after the payer declares the purpose of the payments. For payments over BGN30,000, certain requirements must be satisfied, including the submission of certain documents to the bank.

The act does not restrict the amount of foreign currency that may be purchased or imported into Bulgaria. Bulgarian and foreign individuals may export foreign currency of up to the equivalent of EUR10,000 without filing a declaration. The individual must file a declaration for exports exceeding EUR10,000. For exports of cash exceeding EUR15,000 or the equivalent in another currency, the customs authorities should check in the National

Revenue Agency's system to determine whether the individual has any outstanding tax liabilities.

**Debt-to-equity rules.** Thin-capitalization provisions regulate the deductibility of interest expenses related to certain transactions such as the following:

- Nonbank loans from related and unrelated parties
- Financial leases entered into with related parties
- Bank loans obtained from related parties or guaranteed by related parties

If the total amount of debt of a company exceeds three times the company's equity, the thin-capitalization restrictions on tax deductibility are triggered. The tax deductibility for the net amount of the interest expenses subject to the thin-capitalization provisions (after deduction of any interest income) is limited to 75% of Earnings Before Interest and Tax (EBIT). If the financial result before taking into account the interest expense is a loss, the entire amount of the interest expense is nondeductible.

The add-back under the Bulgarian thin-capitalization rules may be a timing difference because the thin-capitalization rules allow for a five-year carryforward of disallowed interest expenses, subject to the application of the limitations described above.

**Hidden distributions of profit.** Adjustments to taxable income as a result of violations of the arm's-length principle are treated as hidden distributions of profit. The definition of hidden profit distribution also includes the following:

- Amounts not related to the business activity
- Amounts exceeding the customary market levels for both expenses accrued and amounts paid or distributed in any form in favor of shareholders, partners or persons related to them, excluding dividends
- Interest on certain hybrid instruments (debt contracts that, subject to a specific test provided for in the Corporate Income Tax Act, seem to be more akin to equity)

Hidden distributions are treated like dividends. Accordingly, they are disallowed for corporate income tax purposes and subject to a 5% withholding tax (if distributed to nonresidents).

In addition, an administrative sanction in the amount of 20% of the distributed amount is imposed. However, voluntary disclosure of hidden profit distributions in the annual corporate income tax return relieves taxpayers of this penalty.

## F. Treaty withholding tax rates

The rates of withholding tax in Bulgaria's tax treaties are described in the following table.

	Dividends (y) %	Interest (ss) %	Royalties %
Albania	5/15 (h)	10	10
Algeria	10	10	10
Armenia	5/10 (m)	5/10 (ll)	5/10 (mm)
Austria	0/5 (tt)	0/5 (uu)	5 (vv)
Azerbaijan	8	0/7 (dd)	5/10 (ee)
Bahrain	0/5 (nn)	5	0/5 (oo)
Belarus	10	10	10

	Dividends (y) %	Interest (ss) %	Royalties %
Belgium	10	10	5
Canada	10/15 (n)	0/10 (aaa)	10
China (mainland)	10	10	7/10 (a)
Croatia	5	5	0
Cyprus	5/10 (r)	7	10
Czech Republic	10	10	10
Denmark	5/15 (b)	0	0
Egypt	10	12.5	12.5
Estonia	0/5 (ff)	0/5 (gg)	5
Finland	10 (c)	0	0/5 (d)
France	5/15 (e)	0	5
Georgia	10	10	10
Germany	5/15 (qq)	0/5 (rr)	5
Greece	10	10	10
Hungary	10	10	10
India (fff)	15	0/15 (bbb)	15/20 (ccc)
Indonesia	15	10	10
Iran	7.5	5	5
Ireland	5/10 (r)	5	10
Israel	7.5	5/10 (u)	7.5
Italy (l)	10	0	5
Japan	10/15 (f)	10	10
Jordan	10	0/10 (hh)	10
Kazakhstan	10	10	10
Korea (North)	10	10	10
Korea (South)	5/10 (j)	0/10 (eee)	5
Kuwait	0/5 (v)	5	10
Latvia	5/10 (b)	5	5/7 (w)
Lebanon	5	7	5
Lithuania	0/10 (aa)	10	10
Luxembourg	5/15 (h)	0/10 (kk)	5
Macedonia	5/15 (p)	0/10 (hh)	10
Malta	0 (g)	0	10
Moldova	5/15 (h)	10	10
Mongolia	10	10	10
Morocco	7/10 (q)	10	10
Netherlands (fff)	5/15 (i)	0	0/5 (pp)
Norway	0/5/15 (hhh)	0/5 (iii)	5
Poland	10	10	5
Portugal	10/15 (ddd)	10	10
Qatar	0	0/3 (ww)	5
Romania	5	0/5 (ggg)	5
Russian Federation	15	15	15
Singapore	5	5	5
Slovak Republic	10	10	10
Slovenia	5/10 (b)	5	5/10 (x)
South Africa	5/15 (h)	5	5/10 (z)
Spain	5/15 (i)	0	0
Sweden	10	0	5
Switzerland	10 (xx)	5 (yy)	0
Syria	10	10	18
Thailand	10	10/15 (s)	5/15 (t)
Turkey	10/15 (o)	10	10
Ukraine	5/15 (i)	10	10
United Arab Emirates	0/5 (ii)	0/2 (jj)	0/5 (jj)

	<b>Dividends (y)</b>	<b>Interest (ss)</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
United Kingdom	0/5/15 (jjj)	5 (kkk)	5
United States	0/5/10 (bb)	0/5/10 (cc)	5
Uzbekistan	10	0/10 (xx)	10
Vietnam	15	10	15
Yugoslavia	5/15 (h)	10	10
Zimbabwe	10/20 (k)	10	10
Non-treaty jurisdictions	5	10	10

- (a) The 7% rate applies to royalties for the right to use industrial, commercial and scientific equipment; the 10% rate applies to other royalties.
- (b) The 5% rate applies if the beneficial owner is a company, other than a partnership, holding directly more than 25% of the capital of the payer.
- (c) This rate applies to dividends paid from Finland to Bulgaria. The treaty does not provide a withholding rate for dividends paid from Bulgaria to Finland.
- (d) The 5% rate applies to royalties for specified types of intellectual property. The rate for other royalties is 0%.
- (e) The 5% rate applies if the beneficial owner of the dividends is a company, other than a general partnership, that holds directly at least 15% of the capital of the payer; the 15% rate applies to other dividends.
- (f) The 10% rate applies if the recipient is a legal person owning at least 25% of the voting shares of the payer for at least six months before the end of the accounting period for which the distribution of profits is made. The 15% rate applies to other dividends.
- (g) The rate is 0% for dividends paid from Bulgaria to Malta. For dividends paid from Malta to Bulgaria, the withholding tax is the lower of 30% of the gross dividend or the tax imposed on the profits out of which the dividends are paid.
- (h) The 5% rate applies if the recipient is a company owning directly at least 25% of the capital of the payer; the 15% rate applies to other dividends.
- (i) The 5% rate applies if the recipient is a company, other than a general partnership, owning directly at least 25% of the payer. The 15% rate applies to other dividends.
- (j) The 5% rate applies if the recipient is a company that is the beneficial owner of the dividends and holds at least 15% of the capital of the payer. The 10% rate applies to other dividends.
- (k) The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer. The 20% rate applies to other dividends.
- (l) The Bulgarian Council of Ministers authorized the signing of a new tax treaty between Bulgaria and Italy. After the new treaty is signed, enters into force and takes effect, it will replace the 1988 income and capital tax treaty between the countries.
- (m) The 5% rate applies if the beneficial owner of the dividends has invested at least USD100,000 or an equivalent amount in another currency in the capital of the payer. The 10% rate applies to other dividends.
- (n) The rate of 10% applies to dividends paid by a Canadian investment company, of which at least 10% of the voting shares are controlled directly or indirectly by a foreign company. The 15% rate applies to other dividends.
- (o) The 10% rate applies if the beneficial owner of the dividends is a company, other than a general partnership, that holds at least 25% of the payer. The 15% rate applies to other dividends.
- (p) The 5% rate applies if the beneficial owner of the dividends is a company, other than a partnership, holding directly at least 25% of the payer. The 15% rate applies to other dividends.
- (q) The 7% rate applies if the beneficial owner of the dividends is a company, other than a partnership, holding directly at least 15% of the capital of the payer. The 10% rate applies to other dividends.
- (r) The 5% rate applies if the recipient is a company owning directly at least 25% of the payer. The 10% rate applies to other dividends.
- (s) The 10% rate applies to interest paid to financial institutions, including insurance companies. The 15% rate applies to other interest payments.
- (t) The 5% rate applies to royalties received for the use of, or the right to use, copyrights. The 15% rate applies to other royalties.
- (u) The 5% rate applies to interest on loans from banks or financial institutions. The 10% rate applies to other interest payments.

- (v) The 0% rate applies if the beneficial owner is a company, other than a partnership, holding directly more than 25% of the capital of the payer.
- (w) The 7% rate applies to royalties received for the use of, or the right to use, copyrights, patents, logos, models, plans, secret formulas or processes. The 5% rate applies to other royalties.
- (x) The 5% rate applies to royalties received for the use of, or the right to use, copyrights (except for cinematographic movies), or scientific, commercial or industrial equipment. The 10% rate applies to other royalties.
- (y) A 0% rate applies to dividends paid to entities from EU countries if certain conditions are satisfied.
- (z) The 5% rate applies to copyright royalties and other similar payments with respect to the production or reproduction of cultural, dramatic, musical or other artistic works (but not including royalties with respect to motion picture films and works on film or videotape or other means of reproduction for use in connection with television) and to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (aa) The 0% rate applies if the beneficial owner of the dividends is a company, other than a general partnership, that holds at least 10% of the payer. The 10% rate applies to other dividends.
- (bb) The 5% rate applies if the beneficial owner is a company that owns directly at least 10% of the voting stock of the company paying the dividends. The 0% rate applies if the beneficial owner is a pension fund resident for tax purposes in the United States. Other conditions must also be observed.
- (cc) The 0% rate applies if any of the following circumstances exist:
- The beneficial owner is an institution wholly owned by the state.
  - The beneficial owner is a financial institution, provided the interest is not paid with respect to a back-to-back loan.
  - The beneficial owner is a pension fund, provided that the interest is not derived from the carrying on of a business, directly or indirectly, by such pension fund.
  - The interest concerns debt claims guaranteed, insured or financed by the state.
- The 10% rate applies to the following payments:
- Contingent interest arising in the United States that does not qualify as portfolio interest under US law
  - Interest arising in Bulgaria that is determined with reference to receipts, sales, income, profits or other cash flow of the debtor or a related person, to a change in the value of any property of the debtor or a related person or to a dividend, partnership distribution or similar payment made by the debtor or a related person
- The 5% rate applies to other cases.
- (dd) The 0% rate applies if either of the following applies:
- The payer or the recipient of the interest is the government, an administrative territorial subdivision or a local authority thereof, the national bank of either contracting state, the state or the State Oil Fund of Azerbaijan.
  - The interest is paid with respect to a loan guaranteed by any of the institutions mentioned in the first bullet.
- The 7% rate applies to other cases.
- (ee) The 5% rate applies to royalties received for the use of patents, designs or models, plans, secret formulas or processes, or for information, regarding industrial, commercial and scientific experience (know-how). The 10% rate applies in all other cases.
- (ff) The 0% rate applies if the beneficial owner of the dividends is a company holding directly at least 10% of the capital of the payer. The 5% rate applies in all other cases.
- (gg) The 0% rate applies if any of the following circumstances exists:
- The interest is paid to the government, local authority or the central bank of a contracting state.
  - The interest is paid on a loan granted, insured or guaranteed by any of the institutions mentioned in the first bullet.
  - The interest is paid with respect to the sale on credit of industrial, commercial or scientific equipment.
  - The interest is paid on a loan granted by a bank.
- (hh) The 0% rate applies to interest originating from one of the contracting states that is paid to the government or the central bank of the other state.
- (ii) The 0% rate applies if the beneficial owner of the income derived from one of the contracting states is any of the following:
- The other state or a political subdivision, local government, local authority or the central bank of the other state

- The Abu Dhabi Investment Authority, Abu Dhabi Investment Council, International Petroleum Investment Company or any other institution created by the government, a political subdivision, a local authority or a local government of the other state, which is recognized as an integral part of the government, as agreed in an exchange of letters between the competent authorities of the contracting states
- (jj) The 0% rate applies to income originating from one of the contracting states that is paid to any of the following:
- The other state, a political subdivision, a local government, a local authority or the central bank of the other state
  - The Abu Dhabi Investment Authority, Dubai Investment Office, International Petroleum Investment Company, Abu Dhabi Investment Council or any other institution created by the government, a political subdivision, a local authority or a local government of the other state, which is recognized as an integral part of the government, as agreed through the exchange of letters between the competent authorities of the contracting states
- (kk) The 0% rate applies if any of the following circumstances exists:
- The interest is paid with respect to the sale on credit of industrial, commercial or scientific equipment.
  - The interest is paid with respect to the sale on credit of goods or merchandise delivered by an enterprise to another enterprise.
  - The interest is paid on a loan, not represented by bearer shares, granted by a financial institution or by the government.
- (ll) The 5% rate applies to interest paid on loans granted by banks or financial institutions.
- (mm) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting.
- (nn) The 0% rate applies to dividends paid to the government, a local authority, statutory body, agency, the national bank or a wholly owned company of a contracting state.
- (oo) The 0% rate applies to royalties paid to the government, a local authority, statutory body, agency, the national bank or a wholly owned company of a contracting state.
- (pp) The 0% rate applies as long as the Netherlands' tax laws do not levy a tax at source on royalties.
- (qq) The 5% rate applies if the recipient of the income owns at least 10% of the capital of the company paying the dividends.
- (rr) The 0% rate applies to interest paid on the following loans:
- Loans granted or guaranteed by the Bulgarian government or municipal and state institutions
  - Loans guaranteed by Germany with respect to exports or foreign direct investment or granted by the government of Germany, the Deutsche Bundesbank, the Kreditanstalt für Wiederaufbau or the Deutsche Investitions- und Entwicklungsgesellschaft
  - Loans related to the sale on credit of equipment and merchandise
  - Loans granted by banks
- (ss) A 0% rate (unless explicitly indicated otherwise in the table) broadly applies to interest paid to governments, statutory bodies or central banks. Under certain treaties, it may also extend to other financial institutions and/or local authorities, subject to explicit reference in the respective double tax treaty.
- (tt) A 0% rate applies to dividends distributed to Austrian companies. A 5% rate applies to distributions to partnerships and in all other cases.
- (uu) A 0% rate applies to interest paid on the following loans:
- Loans granted by banks
  - Loans granted to the government of Austria or to the government of Bulgaria
  - Loans granted, insured or guaranteed by the Oesterreichische Kontrollbank AG or any comparable Bulgarian institution for purposes of promoting exports
  - Loans granted in connection with the sale on credit of industrial, commercial or scientific equipment.
- A 5% rate applies in all other cases.
- (vv) A 5% rate applies to royalties.
- (ww) The 0% rate applies to interest paid on loans granted by the Bulgarian National Bank, the Qatar Central Bank, the Qatar Investment Fund, the capital pension authority of Qatar, administrative authorities, the Qatar Development Bank, other financial institutions wholly owned by the government of Qatar and other banks or institutions mutually agreed on by the contracting states.



- (xx) A 0% rate applies to dividends distributed to the following beneficial owners:
- Resident companies holding directly at least 10% of the capital in the company paying the dividend for at least one year before the payment of the dividend
  - Pension schemes
  - The central bank of the other contracting state
- A 10% rate will apply to distributions to partnerships and in all other cases.
- (yy) A 0% rate applies to interest paid on loans granted by the Bulgarian National Bank or, in the case of Uzbekistan, by the Central Bank or the National Bank of the Foreign Economic Activity of the Republic of Uzbekistan, or any other similar financial institution as agreed through an exchange of letters between the competent authorities of the contracting states.
- (zz) A 0% rate applies to interest paid on the following loans:
- Loans related to the sale on credit of equipment, merchandise or services
  - Loans granted by financial institutions
  - Loans granted to pension schemes
  - Loans granted to the government of Bulgaria or the government of Switzerland, a political subdivision or local authority, or the central bank of Bulgaria or Switzerland
  - Loans granted by a company to a company of the other contracting state if such company has directly held 10% of the capital for at least one year before the payment of the interest or if both companies are held by a third company and such company has directly held at least 10% of the capital of the first company and 10% of the capital of the second company, for at least one year before the payment of the interest
- (aaa) The 0% rate applies to interest paid on the following loans:
- Bonds or similar obligations of the government, political subdivisions or local authorities
  - Loans granted by the government or state-owned central banks
  - Loans and credits made, guaranteed or insured by the Export Development Corporation
  - Loans made, guaranteed or insured by the Bulgarian National Bank, the Bulgarian Foreign Trade Bank or other entity as agreed through an exchange of letters between the competent authorities of the contracting states
- (bbb) The 0% rate applies to interest paid on the following loans:
- Loans granted by the government, political subdivisions, local authorities or the central banks
  - Loans and credits extended or endorsed by the Bulgarian Foreign Trade Bank and the Export-Import Bank of India (Exim Bank) to the extent such interest is attributable to financing of exports and imports only, as well as by other institutions in charge of public financing of external trade
  - Loans and credits extended or endorsed by other persons to the extent that the loan or credit is approved by the government
- (ccc) The 15% rate applies to royalties relating to copyrights of literary, artistic or scientific works, other than cinematographic films or films or tapes used for radio or television broadcasting. The 20% rate applies to other royalties and technical service fees.
- (ddd) The 10% rate applies if the beneficial owner held directly 25% of the capital of the paying entity for an uninterrupted period of at least two years before the payment of the dividend.
- (eee) The 0% rate applies to interest paid on the following loans:
- Loans granted by the government, political subdivisions, local authorities or the central banks
  - Loans or credits made or guaranteed by the Export Import Bank of Korea and Korea Development Bank, as well as by the Bulgarian Foreign Trade Bank, or any other institution as agreed through an exchange of letters between the competent authorities of the contracting states
  - Loans related to the sale on credit of industrial, commercial or scientific equipment
- (fff) The existing treaty is being renegotiated.
- (ggg) The 0% rate applies if the interest income is accrued and beneficially owned by the state, a local authority, the central bank or other state-owned institution or bank or if the loan receivable is guaranteed, insured or financed by an institution that is wholly owned by the state.
- (hhh) The 0% rate applies if the Bulgarian-source dividends are distributed to the Central Bank of Norway, the global government pension fund or an institution in which the government participation is more than 75%. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends. The rate is 15% in all other cases.

- (iii) The rate is 0% for interest on the following loans:
  - Loans granted by a bank, the government, a political subdivision or local authority
  - Loans granted, insured or guaranteed by a governmental institution for the purpose of promoting exports or loans in connection with the sale on credit of industrial, commercial or scientific equipment
- (jjj) The 0% rate applies to dividends distributed to companies and pension funds. The 15% rate applies if the dividends are paid out of income (including gains) derived directly or indirectly from immovable property by investment vehicles. In all other cases, the withholding tax rate is 5%.
- (kkk) The rate is 5% for interest on loans other than loans granted by financial institutions or pension schemes, the government, a political subdivision or local authority, loans by the central bank, loans between associated companies (that is, a direct holding relationship of at least 10% was maintained for at least one year before the payment of the interest) and loans in connection with the sale on credit of any equipment, merchandise or services.

A treaty between Bulgaria and Bosnia and Herzegovina with respect to taxes on income has been initialed.

# Cambodia

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## A. At a glance

Tax on Income Rate (%)	20
Capital Gains Tax Rate (%)	20
Withholding Tax (%) (a)	
Dividends	14
Interest	14
Royalties	14
Income from Movable and Immovable Property	14
Technical, Management and Service Fees	14
Insurance Premiums	14 (b)
Branch Remittance Tax	14
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (c)

(a) These withholding tax rates apply to payments to nonresidents only. For a listing of withholding taxes applicable to payments to resident taxpayers, see Section B.

(b) This does not apply to reinsurance.

(c) See Section C.

## B. Taxes on corporate income and gains

**Tax on income.** Tax on Income (ToI) is calculated on taxable income inclusive of capital gains and passive income, such as interest, royalties and rent.

The ToI is imposed on the worldwide income of resident taxpayers. It is imposed on the Cambodian-source income of nonresident taxpayers. For companies, resident taxpayers are enterprises organized, managed or having a principal place of business in Cambodia. A company that is not a resident taxpayer and that receives income from a Cambodian source is considered to be a nonresident taxpayer.

**ToI rates.** The standard rate of ToI for legal persons is 20%.

A tax rate of 30% applies to income derived from oil or natural gas production sharing contracts and from the exploitation of natural resources including timber, ore, gold and precious stones.

A tax rate of 5% is imposed on the gross premium income of insurance companies providing insurance or reinsurance products for property or other risks. However, insurance companies providing life insurance or reinsurance in the form of a savings product are taxed at a rate of 20%.

**Minimum tax.** Minimum tax is a separate annual tax imposed at a rate of 1% of annual turnover inclusive of all taxes, except value-added tax (VAT). If the ToI liability exceeds the amount of the minimum tax, the taxpayer is not liable for the minimum tax. If taxpayers' accounting records meet the criteria set by the tax authority for the maintenance of proper accounting records, these taxpayers are exempt from the minimum tax.

**Additional Income Tax on Dividend Distribution.** The Additional Income Tax on Dividend Distribution (AITDD) is imposed on the distribution of retained earnings to local and overseas shareholders. The AITDD is payable by the distributing company. The AITDD rate varies according to the rate of ToI that was imposed on the retained earnings. The following are the rates of the AITDD.

Rate of ToI (%)	Amount of AITDD
0	Dividend x 20/100
20	0
30	0

**Investment incentives.** A Qualified Investment Project (QIP) registered and approved by the Council for the Development of Cambodia is entitled to the incentives described below.

An exemption from ToI applies to the trigger period plus the three-year priority period. The trigger period begins on the date of final registration and ends on the earlier of the end of the third year after the first revenue is earned or the end of the year preceding the year in which the first taxable income is earned. The priority period, which is specified in the Finance Law and varies by project, may have a duration of up to three years. The taxpayer is also entitled to an exemption from the minimum tax (see *Minimum tax*) for as long as it retains its QIP status.

QIPs are also eligible for import duty exemption with respect to the importation of production equipment, construction materials, raw materials, intermediate goods and accessories that serve production.

**Capital gains.** All realized gains (including capital gains) are considered to be income. Tax on capital gains is not separately imposed in Cambodia. Capital gains derived from the disposal of fixed assets are treated as ordinary income and generally taxed at the standard ToI rate of 20%.

**Administration.** Resident taxpayers must file annual ToI or minimum tax returns within three months after the end of the tax year.

Resident taxpayers must make monthly prepayments of ToI, which are each equal to 1% of monthly turnover inclusive of all taxes, except VAT. The prepayments must be made by the 20th day of the month following the month in which the tax liability arose. The tax payment can be used to offset the annual ToI or minimum tax liability. Prepayments of ToI are not required during the period of exemption from ToI.

**Dividends.** Dividends paid to nonresident taxpayers are subject to withholding tax at a rate of 14%.

### Withholding taxes

*Payments to resident taxpayers.* Resident taxpayers carrying on business in Cambodia must withhold tax from payments made to other resident taxpayers at the following rates.

Payment	Rate (%)
Interest paid to recipients other than domestic banks and saving institutions	15
Interest paid on non-fixed term saving accounts by domestic banks or saving institutions	4
Interest paid on fixed-term saving accounts by domestic banks or saving institutions	6
Royalties	15
Rent paid for movable and immovable property (except for subleasing with proper registration)	10
Payments to individuals for services, including management, consulting and similar services	15

*Payments to nonresident taxpayers.* Resident taxpayers must withhold tax at a rate of 14% on payments to nonresidents that earn Cambodian-source income, which is defined to include the following:

- Interest paid by resident enterprises, resident pass-through entities or Cambodian governmental institutions
- Dividends distributed by resident taxpayers
- Income from services performed in Cambodia
- Compensation for management and technical services (not defined) paid by resident persons
- Income from movable or immovable property, if the property is located in Cambodia
- Royalties from the use of, or the right to use, intangible property paid by residents or by nonresidents through a permanent establishment that the nonresident maintains in Cambodia
- Gains from sales of immovable property located in Cambodia or from transfers of interests in immovable property located in Cambodia
- Insurance premiums paid on the insurance of risks in Cambodia
- Gains from the sale of movable property that is part of the business property of a permanent establishment maintained by a nonresident taxpayer in Cambodia
- Income from business activities carried on by nonresidents through a permanent establishment in Cambodia (branch remittance tax)

In general, the above withholding taxes are considered a final tax. However, the withholding tax on rent paid to registered resident taxpayers may be offset against the resident taxpayers' ToI liability.

If withholding tax is not withheld from the recipient, it is borne by the payer. Accordingly, the withholding tax is not deductible for purposes of the ToI.

*Withholding tax returns and payments.* Resident taxpayers must submit withholding tax returns and remit withholding taxes to the tax authorities by the 20th day of the following month.

**Foreign tax relief.** Cambodia allows a credit against the ToI for foreign taxes paid on foreign-source income if supporting documentation exists.

### C. Determination of trading income

**General.** Taxable income equals the difference between total income and allowed expenses that are incurred to carry on the business.

Allowable deductions include most expenses incurred in the course of carrying on a business enterprise with certain limitations. These limitations include the following:

- The deduction of charitable contributions to specified organizations is limited to 5% of taxable income before deducting the amount of the charitable contributions.
- Depreciation is allowed as a deduction in accordance with rates and methods set forth in the tax regulations.
- Deductions for interest are limited to interest income plus 50% of taxable income excluding interest income and expenses. The disallowed interest may be carried forward to subsequent years and deducted subject to the same limitations (also, see *Special rules for loans*).

Non deductible expenses include the following:

- Expenses incurred on activities generally considered to be amusement, recreation, entertainment or on the use of any means with respect to such activities
- Losses on direct or indirect sales or exchanges of property between related parties
- Penalties, additional tax and late payment interest imposed for violation of the tax regulations
- Donations, grants or subsidies made to other than specified organizations

*Special rules for loans.* Loans that are interest-free or that have below-market interest rates are allowed. In assessing the taxable income of an enterprise, the tax authorities do not deem a subsidy with respect to a loan without interest or with interest below the market rate.

For above-market-interest loans, limitations are imposed on deductible interest expenses claimed by Cambodian taxpayers. The following are the applicable rules:

- For third-party loans, the interest rate may not exceed 120% of the market rate at the time of borrowing.
- For related-party loans, the interest rate may not exceed the market interest rate at the time of borrowing.

For purposes of the above rules, the market interest rate is the annual market interest rate issued by the General Department of Taxation (GDT), which is based on the average interest rate of at least five major commercial banks. On 2 February 2017, the GDT determined that the market interest rate for loans for the 2016 tax year was 9.47% per year for US dollar-denominated loans and 15.29% per year for Khmer riel-denominated loans. Interest rates that are higher than the above rates are adjusted, and the excess interest is nondeductible for tax purposes.

An enterprise is required to notify the GDT no later than 30 days after a loan transaction occurs, and all loan agreements or documentation certifying the loan transaction must be attached to the notification. If the enterprise fails to notify the GDT about a loan transaction or no proper documentation is provided, the loan is considered a loan without supporting documents, and the loan proceeds are included in taxable income subject to the 20% ToI.

**Provisions.** Provisions for losses or expenses that have not occurred are not allowed for tax purposes even if the incurrence of such losses or expenses is probable. However, domestic banks or savings institutions may establish provisions for bad debts.

**Tax depreciation and amortization.** The tax regulations divide fixed assets into four classes for purposes of depreciation and specify the depreciation methods and rates for the classes. The following are the classes.

Classes	Assets	Method	Rate (%)
1	Building and structures	Straight-line	5
2	Computers, electronic information systems, software and data handling equipment	Declining-balance	50
3	Automobiles, trucks, and office furniture and equipment	Declining-balance	25
4	Other tangible property	Declining-balance	20

A QIP (see Section B) may apply a special depreciation rate of 40% in the year of purchase or in the first year the tangible assets are placed into operation, if later. If the enterprise elects to use the exemption period for the ToI, the special depreciation rate does not apply.

Intangible assets with a limited useful life, such as patents, copyrights, drawings, models, and franchises, can be amortized over their useful life on a straight-line basis. If the life of intangible assets cannot be determined, the assets are amortized using the straight-line method at a rate of 10%.

**Relief for losses.** Losses can be carried forward to offset future taxable income for the following five years. The carryback of losses is not allowed.

The carryforward of losses is subject to restrictions including continuity of ownership and conducting the same business activities.

**Groups of companies.** Cambodia does not allow consolidated tax filing or provide other group tax relief.

#### **D. Other significant taxes**

**Value-added tax.** Resident taxpayers providing taxable supplies must register for VAT. Taxable supplies include supplies of goods or services by taxable persons in Cambodia.

The standard rate of VAT is 10%. A 0% rate of VAT applies to exports of goods and services including international transportation of passengers and goods and services with respect to such transportation. It also applies to enterprises in supporting industries and subcontractors that supply certain goods and services to exporters.

The tax law specifies certain nontaxable supplies.

A resident taxpayer must complete the registration for VAT within 30 days after the date on which it becomes a taxable person. The filing of the VAT returns and payment of VAT must be made by the 20th day of the following month.

**Other taxes.** Cambodia imposed various other taxes, including the following:

- Specific Tax on Certain Merchandises and Service
- Tax for Public Lighting
- Accommodation Tax
- Patent Tax
- Registration Tax (property transfer tax)
- Fiscal Stamp Tax
- Tax on Immovable Property
- Tax on Unused Land
- Tax on Means of Transportation

#### **E. Foreign-exchange controls**

The Cambodian currency is the Khmer riel (KHR).

Cambodia does not impose any restrictions on the purchase of foreign currencies through authorized financial institutions.

#### **F. Tax treaty**

Cambodia recently signed double tax treaties with Brunei Darussalam, China, Singapore and Thailand, but these treaties have not yet been ratified. After ratification, the treaties with China and Singapore, will reduce the withholding tax rate from 14% to 10% on dividends, interest and royalties paid to Chinese and Singaporean residents. At the time of writing, details regarding the Brunei Darussalam and Thailand treaties had not yet been made public.



# Cameroon

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## A. At a glance

Corporate Income Tax Rate (%)	33 (a)
Capital Gains Tax Rate (%)	33 (b)
Branch Tax Rate (%)	33 (a)
Withholding Tax (%)	
Dividends	16.5 (c)(d)
Interest	0/16.5 (e)
Royalties from Patents, Know-how, etc.	15
Petroleum Subcontractors	15 (f)
Fees for Technical Services, Digital Services and Professional Activities, Public Procurement, and Ad Hoc Material Services from Abroad	5 to 15 (g)
Specific Payments to Resident Individuals or Companies	5.5 (h)
Branch Remittance Tax	16.5
Net Operating Losses (Years)	
Carryback	0
Carryforward	4

- (a) The minimum tax is generally 2.2% or 5.5% of turnover, or 15.4% of the gross margin. For further details, see Section B.
- (b) In certain circumstances, the tax is deferred or reduced (see Section B).
- (c) This withholding tax also applies to directors' fees, nondeductible expenses and adjustments of profits following a tax examination. The withholding tax also applies to allowances granted to members of commissions, ad hoc or permanent committees and to members of public, semipublic, regional or local bodies.
- (d) This withholding tax applies to residents and nonresidents.
- (e) Interest on savings of up to XAF10 million is exempt from withholding tax. Interest on state bonds is exempt from corporate income tax and the tax on movable capital (this tax is withheld at a rate of 16.5% from income on shares and negotiable bonds and from certain other income). The 2014 Financial Law

confirms that interest on loans paid to nonresident lenders or creditors is exempt from withholding tax. Special income tax applies to all types of deliveries that are part of public contracts or orders and that are paid for by state, regional or local authorities, public institutions, public corporations or semi-public companies, or that are paid for through external financing. The rate is 15%, which is withheld at source.

- (f) An optional final withholding tax is available for petroleum contractors and subcontractors of oil companies (foreign companies in Cameroon that have contracted with petroleum companies established in Cameroon). The rate of this special tax (TSR) is fixed at 15% of turnover. The 2011 Financial Law extended this tax regime to foreign individuals or companies that carry out activities on a casual (day-to-day) basis in Cameroon, subject to the prior authorization of the Director General of Taxation, issued on written request of the service providers (companies) or authorized clients. The 2016 Financial Law extended this tax regime to remuneration for technical assistance services, equipment rental and equipment, and all services provided to oil companies during the research and development (R&D) phase, with the exception of services provided at cost by an affiliated company during the R&D phase. Petroleum subcontractors admitted to the TSR regime must maintain supporting documentation that enables the tracing of the relevant tax bases. They must also display on all of their bills the gross amounts of the transactions, the TSR to be deducted at source, their customers and the net amount to be paid.
- (g) This withholding tax applies to nonresidents. The 2012 Financial Law provides that this tax also applies to “software,” which is defined as computer applications and programs relating to the operation or functioning of an enterprise. The 2017 Finance Law provides that the general rate of 15% applies to all remuneration subject to this tax except for the following:
- Remuneration for ad hoc material services (defined in the 2011 Finance Law) paid to non-domiciled companies without a permanent establishment in Cameroon carrying out economic activities there, which is subject to an average rate of 10%
  - Remuneration under public procurement for successful bidders not domiciled in Cameroon, which is subject to a reduced rate of 5%
- (h) This withholding tax applies to fees, commissions, emoluments and remuneration for services that are paid to resident individuals or companies. These payments include the following:
- Payments made to persons in the self-employed professions, such as consultants, experts, architects, physicians, auditors in charge of damages, trade intermediaries and salesmen
  - Payments made to magistrates and representatives of the law (attorneys, bailiffs and notaries)
  - Payments made to forwarding agents, customs brokers, stevedores, accounting firms and internet service providers.

The withholding tax does not apply to payments made for services related to transport, bank interest, insurance premiums and commissions, air ticket expenses and commissions, and water, electricity and telephone expenses. The 10% surtax applies to the withholding tax rate of 5%, resulting in a total withholding tax rate of 5.5%.

## B. Taxes on corporate income and gains

**Corporate income tax.** Income tax in Cameroon is imposed on undertakings deemed to be operating in Cameroon, which are the following:

- Undertakings headquartered in Cameroon or with an effective management office in Cameroon
- Undertakings that have a permanent establishment in Cameroon
- Undertakings that have a dependent representative in Cameroon

The profits of undertakings that do not fulfill the conditions referred to above are taxed in Cameroon if they carry out activities that form a full business cycle in Cameroon.

**Tax rates.** The regular corporate income tax rate is 30% (plus a 10% additional council tax). For companies operating under the real earnings tax regime, the minimum tax payable is 2% (plus 10% additional council tax) of monthly gross sales (turnover). However, for companies subject to the real earnings tax regime

that are in the administered margin sectors, which are the distribution of petroleum, domestic gas, milling, pharmaceutical and press products, the minimum tax payable is 14% (plus 10% additional council tax) of the gross margin. Effective from 1 January 2018, these companies can opt for the minimum tax at 2% (plus 10% additional council tax) of monthly gross sales. This option is irrevocable over the year and is tacitly renewed for subsequent years until renunciation. It must be notified by a simple letter to the center of affiliation (the tax center responsible for the assessment, control and recovery of all taxes, duties, and other fiscal and quasi-fiscal charges of companies within its jurisdiction). The minimum tax payable is 5.5% for companies under the simplified tax regime. The 2018 Financial Law introduced a minimum tax of 5% (plus a 10% additional council tax) withheld at source for public procurements under XAF5 million, regardless of the provider's tax regime. The minimum tax is creditable against corporate tax due for the current financial year.

Profits realized in Cameroon by branches of foreign companies are presumed to be distributed and are consequently subject to a branch withholding tax of 16.5% on after-tax income. This rate is subject to reduction by treaty.

Deductions at source or advance payments apply to all purchases and importations by traders, including the following:

- Purchases and importations by traders subject to the flat-rate tax system
- Purchases of goods by traders from manufacturers, farmers, importers, wholesalers, retail-wholesalers and forestry operators
- Purchases of petroleum products by petrol station owners
- Purchases of staple products by exporters
- Purchase of goods with a regulated profit margin
- Purchases and importations by enterprises that do not hold the taxpayer's card (non-registered enterprises)

Exceptions to the advance payment rule apply to the following:

- Importation of goods by traders under the Specialized Management Units of the Directorate General of Taxation
- Purchases of goods by the state, councils and persons living abroad
- Purchases by registered industrialists for the operation of their enterprises if they are assessed under the real earnings tax system

The following are the applicable tax rates for advance payments:

- 0.5% for purchases of petroleum products by petrol station owners.
- 2% of the amount of operations realized by traders under the real earnings tax regime.
- 5% of the amount of operations realized by registered traders subject to flat rate tax.
- 5% of the amount of operations realized by traders under the simplified tax system.
- 10% of the amount of operations realized by registered importers that are subject to the simplified tax system and by enterprises without a taxpayer's card.
- 14% of the gross margin for the purchase of goods with a regulated profit margin
- 15% of the amount of operations realized by taxpayers engaging in import operations that do not have a taxpayer's card. This rate is increased to 20% if the taxpayer makes sales under customs.

The above rates are added to the sales price or customs value of the goods purchased. The advance payments are calculated without the council surtax of 10%. For companies, advance payments are creditable against their future monthly tax installments or minimum tax.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies depending on the nature of the project and the level of investments.

**Investment incentives.** The law of 18 April 2013 introduced investment incentives, which are summarized below.

*Installation phase.* Incentives that are available during the installation phase (five years after the issuance of the approval) include exemption from registration duties, transfer duties, customs duties and value-added tax for certain items.

*Operational phase.* Incentives available during the operational phase (10 years for all companies qualifying for the incentives) include exemptions or reductions with respect to minimum tax, corporate tax, customs duties on certain items and other specified taxes and fees.

In addition, companies may carry forward losses to the fifth year following the year in which the losses are incurred.

**Capital gains.** Capital gains are taxed at a rate of 16.5%, subject to tax treaties. Capital gains include gains on the sale of real estate, corporate shares and business assets. The tax, however, can be deferred or eliminated in the event of a merger.

Capital gains realized in Cameroon or abroad from the direct or indirect transfer of stocks, bonds and other capital shares of enterprises located in Cameroon are subject to tax.

If the business is totally or partially transferred or discontinued (such as in the event of a merger, liquidation or sale of the business), only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased.

Capital gains realized on the Cameroonian stock market are exempt from corporate income tax and the tax on movable capital. However, under the 2014 Financial Law, capital gains realized in Cameroon or abroad that are derived from the sale of shares by an individual or corporate entity holding an exploitation or exploration permit for natural resources extracted from the Cameroonian subsoil are subject to income tax on the gains.

**Administration.** The fiscal year runs from 1 January to 31 December. However, companies that started operating during the six-month period before the prescribed closing date can report their first results at the end of the fiscal year following the fiscal year in which they began activities.

Corporate income tax must be paid by the deadline for filing the tax return. Companies must file their income tax return by 15 March of the year following the fiscal year. The late filing of a nil monthly or annual return or a return with credit after an official warning is subject to a fixed fine of XAF1 million.

Late returns are subject to interest of 1.5% of the tax due per month of delay. In addition, late payments are subject to a penalty of 10% per month of delay, up to a maximum of 30% of the tax due. This penalty applies only if payments are made at the initiative of the taxpayers. It does not apply in the case of a tax audit.

Tax receivables that are at least five years old from the date of issuance of the assessment notices and for which administrative redress procedures have been exhausted may be the subject of a negotiated settlement request a period of one year beginning on 1 January 2015.

The minimum tax is paid in accordance with the same rules applicable to the payment of corporate income tax. Manufacturers, farmers, wholesalers, retail-wholesalers, forestry operators, petrol station owners and exporters must pay to the tax authorities the advance payment of tax on purchases by the 15th day of the month following the month of the purchase (for further details regarding advance payments, see *Tax rates*).

**Dividends.** Dividends paid to residents in Cameroon are subject to a 16.5% withholding tax (15% plus the 10% council surtax). Resident recipients must include the gross dividend in taxable income, but they receive a corresponding 16.5% tax credit to prevent double taxation. Dividends paid to nonresidents are subject to a 16.5% withholding tax, which is a final tax.

A parent corporation may exclude up to 90% of the dividends received from a 25%-owned subsidiary if the parent company and the subsidiary have their registered office in a Central African Economic and Monetary Community (CEMAC) country (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon). In this case, however, no withholding tax credit is allowed. Instead, the tax can be offset against any withholding tax due on its own dividend distributions.

**Foreign tax relief.** In general, foreign tax credits are not allowed; income of residents and nonresidents subject to foreign tax that is not exempt from Cameroonian tax under the territoriality principle is taxable, net of the foreign tax. The French tax treaty, however, provides a tax credit that corresponds to withholding tax on passive income.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the OHADA (organization for the harmonization of business law in French-speaking Africa) standard statements.

Business expenses are generally deductible unless specifically excluded by law or by the provisions of an international convention. Expenses that are not deductible include the following:

- Head office overhead, research costs and technical, financial and administrative assistance fees paid to residents or nonresidents that exceed any of the following:
  - 5% of taxable profits for ordinary law companies before their deduction
  - 2.5% of turnover for public works projects
  - 7.5% of turnover for design and engineering services

- Royalties from patents, brands, models or designs paid to a non-CEMAC corporation participating directly or indirectly in the management of, or owning shares in, the Cameroonian corporation are the deductible up to an overall limit of 2.5% of taxable income before the deduction of the expenses.
- Rent expense for movable equipment paid to a shareholder that manages the company in fact or by right and holds, directly or indirectly, more than 10% of the capital.
- Losses related to bad debts that do not comply with the enforcement measures provided in the OHADA Uniform Act relating to the organization of simplified procedures for collection and enforcement.
- Losses related to damages noted and validated in the presence of approved tax agent.
- Losses resulting from misappropriation by a shareholder or manager of the company, or losses attributable to the negligence of management.
- Liberalities, gifts and subsidies exceeding 0.5% of the turnover of research, philanthropic, development, educational, sports, scientific, social and family institutions or bodies.
- Gifts and subsidies exceeding 5% of turnover of clubs participating in official national competitions and the bodies in charge of organizing these competitions.
- Interest paid to shareholders in excess of the central bank annual rate plus two points. Under the 2014 Financial Law, the deductibility of interest paid to shareholders owning directly or indirectly at least 25% of the capital or voting rights of the company is subject to the following two cumulative conditions:
  - Interest paid may not exceed one and one-half of the amount of real capital for all shareholders.
  - Interest paid to such affiliates may not exceed 25% of the income before income tax and deduction of such interest and depreciation.
- Commissions and brokerage fees for services on behalf of companies located in Cameroon that exceed 5% of purchased imports and sales of exports.
- Remuneration granted to wage earners that are excessive in comparison to the services rendered and that do not correspond to effective work and conventional norms.
- Amounts set aside for self-insurance.
- Certain specific charges (such as contributions other than those for retirement paid to a foreign social security organization, which are deductible up to a limit of 15%, and premium insurance paid to companies located in Cameroon for employees' retirement indemnities), gifts, subsidies and penalties (to some extent).
- Expenses paid in cash of XAF500,000 or more. The XAF500,000 limit is assessed with respect to the total amount of specific expenses recorded in the expenditures account. Accordingly, splitting an expense worth XAF500,000 into two equal parts of XAF250,000 each and paying them in cash does not result in the deductibility of the expenses. Under the 2014 Financial Law, all reimbursements of loan advances to shareholders paid in cash are treated as dividends and are accordingly subject to dividend withholding tax.
- Expenses paid to local suppliers without reference to a Cameroonian tax identification number and without an invoice that

complies with the standard requirements for the deductibility of expenses.

- Remuneration paid to liberal professionals in violation of the regulations governing their respective professions.
- Expenses for services and certain purchases paid to natural persons or nonresident legal entities established in territories or states considered to be tax havens.
- Disbursements from tax havens invoiced to local companies by other companies located in or outside tax havens.

**Inventories.** Inventory is normally valued at the acquisition cost or at the lower of cost or market value. Cost must be determined on a weighted average cost-price method. The first-in, first-out (FIFO) method is also generally acceptable.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Insurance companies may deduct technical provisions provided by the Conférence Interafricaine des Marchés d'Assurance (CIMA) Code.

**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. Small equipment and other items that have a value not exceeding XAF500,000 without tax are directly accounted for as charges and considered deductible expenses.

**Legal revaluation of fixed assets.** The 2011 Financial Law established a regime for the legal revaluation of tangible and intangible fixed assets, regardless of whether the assets are depreciable. The revaluation must occur by 31 December 2013. The capital gain resulting from revaluation is subject to a withholding tax at a rate of 5%. This is a final tax. The 5% withholding tax is not due if the amount of the capital gain is reinvested within two financial years.

**Relief for tax losses.** Losses may be carried forward for four years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** The Cameroonian tax law does not provide for the fiscal integration of Cameroonian companies equivalent to a consolidated filing position.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on transactions carried out in Cameroon; certain transactions are exempt	
Standard rate	19.25
Exports	0
Business license; rate varies depending on the amount of turnover	Various

Nature of tax	Rate (%)
Radio-television tax, equal to the business license; payable by companies subject to the business license	Various
Registration duties, on transfers of real property or businesses	1 to 15
Payroll taxes, paid by employer	2.5
Social security contributions on an employee's annual gross salary, limited annually to XAF9,000,000, with a minimum of XAF750,000 per month	
Family allowances, paid by employer	3.7 to 7
Old age, disability and survivor's pension; paid by Employer	4.2
Employee	4.2
Social security contributions on an employee's annual gross salary for job-related accidents and diseases; paid by employer	1.75 to 5

## E. Miscellaneous matters

**Foreign-exchange controls.** Exchange control regulations exist in Cameroon for financial transfers outside the franc zone, which is the monetary zone including France and its former overseas colonies. A CEMAC rule (No. 0200/CEMAC/UMAC/CM, dated 29 April 2000) applies to all of the CEMAC countries.

**Transfer pricing.** In 2012, Article M19 bis in Book II of the General Tax Code on Manual of Tax Procedures was introduced to increase the regulation and control of transfer pricing.

Under the new rules, if in the course of an accounts auditing, the administration has evidence that a company has indirectly transferred profit, the administration may request that the company provide information and documents with respect to certain items, including the following:

- Relationships between the company and one or more companies or groups established outside Cameroon
- The pricing method for industrial, commercial or financial operations in which the company engages with the related parties mentioned in the first bullet and justification for this method and the agreed consideration in these operations
- The activities carried out by the related parties mentioned in the first bullet
- The tax treatment for the company and related parties mentioned in the first bullet with respect to the operations performed with the related parties

The 2014 Financial Law requires “a detailed statement of transactions with companies which control or which are controlled by them up to 25%, in addition to other existing disclosure and documentation requirements.” In addition, the 2018 Financial Law states that these companies must “also attach documentation to justify their transfer pricing policy.”

Companies in the large taxpayers unit must transmit the following information to the tax authorities by 15 March of each year at the same time of the filing of the annual tax return:

- A statement of their shareholdings in other companies if the holdings exceed 25% of the share capital
- A detailed statement of intergroup transactions



**F. Treaty withholding tax rates**

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Canada	15/20 (a)	15/20 (a)	15/20 (a)
Central African Republic	– (c)	16.5 (b)	– (d)
Chad	– (c)	16.5 (b)	– (d)
Congo	– (c)	16.5 (b)	– (d)
Equatorial Guinea	– (c)	16.5 (b)	– (d)
France	15	16.5 (b)	7.5/15 (e)
Gabon	– (c)	16.5 (b)	– (d)
Morocco	10 (f)	10 (f)	10 (f)
South Africa	10/15 (g)	0/10 (h)	10
Tunisia	12	15	15
Non-treaty jurisdictions	16.5	0 (i)	15

- (a) The 15% rate applies to payments from a Cameroonian source. The 20% rate applies to payments from a Canadian source.
- (b) If from a Cameroonian source, the payments are subject to withholding tax under Cameroonian domestic tax law. See Section A.
- (c) Withholding rates are determined under the domestic tax law of the state of domicile of the payer.
- (d) Withholding tax is not imposed. The income is subject to tax in the state of the recipient.
- (e) The 7.5% rate applies to payments for financial services, accounting services and technical assistance. The 15% rate applies to other royalties.
- (f) The 10% rate applies to the gross amount of the payments.
- (g) The 10% rate applies if the beneficial owner is a company that holds at least 25% of the capital of the company paying the dividends.
- (h) Interest arising in a contracting state and paid to the government or the central bank of the other contracting state is exempt.
- (i) See footnote (e) to Section A.

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## A. At a glance

Federal Corporate Income Tax Rate (%)	15 (a)
Federal Capital Gains Tax Rate (%)	7.5 (a)(b)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%)	
Dividends	25 (c)
Interest	0/25 (d)
Royalties from Patents, Know-how, etc.	25 (c)
Branch Remittance Tax	25 (e)
Net Operating Losses (Years)	
Carryback	3
Carryforward	20

- (a) These 2018 rates are applied to general income that is not eligible for the manufacturing and processing deduction or the small business deduction. The calculation of the rate is discussed in Section B. Additional tax is levied by the provinces and territories of Canada, and the combined federal and provincial or territorial rates on general income may vary from approximately 25% to 31%.
- (b) 50% of capital gains is subject to tax.
- (c) Final tax applicable only to nonresidents. This rate may be reduced by a tax treaty (see Section F).
- (d) In general, no withholding tax is imposed on interest paid to payees who are dealing at arm's length with the payer. However, withholding tax at a rate of 25% typically applies to interest paid or credited to related nonresidents (the rate may be reduced by a tax treaty). Other specific exemptions or specific inclusions may apply to change the general rules noted above.
- (e) This tax is imposed in addition to the regular corporate income tax. For details, see Section B. The rate may be reduced by a tax treaty.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporations resident in Canada (whether owned by Canadians or nonresidents) are taxed on their worldwide income from all sources, including income from business or property and net taxable capital gains. Nonresident corporations are taxed only on certain Canadian-source income. In general, a corporation is deemed to be resident in Canada if it is incorporated in Canada or has its central mind and management located there.

If a tax treaty exists between Canada and the country in which a nonresident corporation is resident, the determination of whether a nonresident is taxable in Canada may be restricted or modified, and lower rates may apply. In general, Canada's tax treaties provide that a nonresident that is resident in a treaty country is subject to Canadian tax on income derived from carrying on business in Canada only if the nonresident has a Canadian permanent establishment.

**Rates of income tax.** Corporations are taxed by the federal government and by one or more provinces or territories. The basic rate of federal corporate tax for 2018 is 38%, but it is reduced to 15% by an abatement of 10 percentage points on a corporation's taxable income earned in a province or territory and a general rate reduction of 13 percentage points on a corporation's full-rate taxable income. Provincial and territorial tax rates are added to the federal tax and generally vary between 10% and 16% of taxable income.

The federal government and the provincial and territorial governments may apply lower rates of tax to active small business earnings and earnings derived from manufacturing and processing.

Nonresident corporations carrying on business in Canada through a branch are taxable at the full corporate tax rate on their net business income earned in Canada, and they must pay an additional tax (branch tax) of 25% on after-tax income, subject to an allowance for investment in Canadian property. This branch tax may be reduced by treaty.

**Capital gains and losses.** The taxable portion of capital gains and the deductible portion of capital losses is 50%. See Section E for details concerning the taxation of capital gains of nonresidents.

The deductible portion of capital losses (other than allowable business investment losses) in excess of taxable capital gains is termed “net capital loss” and may be carried back three years and carried forward indefinitely, but may be applied only against taxable capital gains.

Proceeds from the disposition of capital property that exceed the tax cost of such property are generally taxed as capital gains. For depreciable property, tax depreciation previously claimed that is recovered on disposition is generally fully included in income.

If control of a corporation is acquired by a person or group of persons, net capital losses incurred before the change of control cannot be deducted in a year after the acquisition of control. Also, the carryback of capital losses to years prior to such change of control is prohibited. A flow through of net capital losses is provided for on certain amalgamations and liquidations.

If a sale of what might otherwise be capital property is regarded as a sale in the course of a taxpayer’s business (such as dealers in real estate, securities or art) or as an undertaking in the nature of normal trading, any resulting gain or loss is fully taxable or deductible.

**Administration.** A corporation’s tax year usually ends on the same date as the financial statement year-end. If an acquisition of control occurs, the corporation is deemed to have a tax year ending immediately before the acquisition of control.

Corporate income tax returns are required to be filed within six months following a corporation’s tax year-end. Subject to certain exceptions, nonresident corporations must file a Canadian income tax return if they carry on business in Canada or dispose of taxable Canadian property during the tax year. Nonresident corporations claiming relief from Canadian tax under a tax treaty with another country must disclose detailed information regarding their activities in Canada.

A penalty is levied on returns that are filed late, equal to 5% of the unpaid tax at the required filing date, plus an additional 1% per month (not exceeding 12 months) of such unpaid tax for each month that the return remains unfiled. Repeat offenders may be liable for additional penalties. Nonresident corporations that are required to file Canadian tax returns may be subject to another penalty of up to CAD2,500 even if no tax is payable.



Federal and provincial corporate tax installments must be made monthly during the corporation's tax year. The remaining balance of taxes owed must be paid by the end of the second month following the tax year-end (third month for Canadian-controlled private corporations that carry on an active business and claim a small business deduction).

Interest is charged on late or deficient tax payments based on the prescribed rate. The prescribed rate can vary each quarter. A penalty may apply to late or deficient tax installments.

**Dividends.** In general, dividends received by one Canadian corporation from another are fully deductible. However, to prevent the use of private companies to obtain significant tax deferrals on portfolio dividend income, such corporations are subject to a special 33⅓% refundable tax on dividends received from portfolio investments. Additional taxes may be imposed on dividends paid on certain preference-type shares.

Dividends paid by a Canadian corporation to a Canadian resident individual are generally taxable, but the individual also receives a tax credit because the income has already been taxed within the corporation. A dividend received from a nonresident corporation that is a foreign affiliate of a Canadian taxpayer may be exempt from tax (see Section E).

**Foreign tax relief.** In general, taxpayers resident in Canada may deduct from their Canadian tax liability a credit for income or profits tax and for withholding tax paid to another country. The foreign tax credit is calculated separately for foreign business tax and foreign nonbusiness tax on a country-by-country basis.

If a Canadian corporation receives dividends from a foreign affiliate, the normal foreign tax credits are replaced by either a complete or partial deduction for such dividends (see Section E).

### C. Determination of taxable income

**General.** Taxable profits are computed in accordance with generally accepted commercial principles, modified by certain statutory provisions in the Canadian Income Tax Act.

In general, only 50% of meal and entertainment expenses is deductible for income tax purposes.

**Inventories.** For tax purposes, inventories may be valued at the lower of cost or fair market value. The last-in, first-out (LIFO) basis is not permitted for tax purposes, despite its acceptability for accounting purposes in certain instances. Corporations may use a different inventory valuation method for tax purposes than the one used for accounting purposes.

**Provisions.** In general, provisions, such as warranty reserves, are not deductible for income tax purposes. Only actual expenses incurred are tax-deductible.

**Depreciation and amortization.** Depreciation or amortization included in financial statements is added back, and tax depreciation, generally calculated on a declining-balance basis at prescribed rates, beginning when the asset is available for use, is deducted for tax purposes. The deduction is generally limited in the first year the

asset is available for use. Tax depreciation may be fully or partially claimed at the taxpayer's option.

The following are the depreciation rates under the declining-balance method for major categories of assets.

<b>Asset</b>	<b>Rate (%)</b>
Commercial and industrial buildings	4 (a)
Computers	55
Office equipment	20
Motor vehicles	30
Machinery and equipment	20 (b)

(a) Certain eligible nonresidential buildings may qualify for a rate of 6% or 10% (election required).

(b) For machinery and equipment used primarily in manufacturing and processing, the rate is generally 30%. A straight-line rate of 50% applies if the machinery and equipment is acquired after 18 March 2007 and before 2016.

Capital assets are generally pooled into various classes, but, in certain cases, a corporation may elect to include individual pieces of certain types of equipment in separate classes. In general, if an asset is disposed of, the balance of the assets in the class is reduced by the proceeds from the disposition. However, if the proceeds from the disposition of an asset exceed the tax value of the class after depreciation, the excess is recaptured and is subject to tax at the regular corporate tax rates. If the asset is the only asset in the class and if a balance remains after the proceeds are charged to the class, the balance may be deducted as a terminal loss.

**Groups of companies.** Canada does not allow consolidated tax reporting for related companies and does not provide relief for group losses.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Goods and Services Tax (GST), a value-added tax, applies to a broad range of goods and services	5
Harmonized Sales Tax, a value-added tax, applies to a broad range of goods and services in certain provinces	Up to 15
Part VI tax on financial institutions, effectively a minimum tax, which is reduced by income taxes paid; applies on a non-consolidated basis to capital in excess of CAD1 billion	1.25
Provincial/territorial income taxes, on taxable income allocated to jurisdictions in which corporations have permanent establishments (lower rates may apply to manufacturing or processing earnings and active small business earnings)	10 to 16
Provincial payroll taxes; varies by province; paid by employers	Up to 4.3
Canada Pension Plan, on pensionable earnings between CAD3,500 and CAD55,900 (amounts in effect for 2018)	
Employer	4.95

<b>Nature of tax</b>	<b>Rate (%)</b>
Employee	4.95
Self-employed individual (The Province of Quebec offers a similar plan for residents of Quebec.)	9.9
Employment Insurance, on insurable earnings up to a maximum of CAD51,700 (amount in effect for 2018)	
Employee	1.66
Employer (1.4 times the employee rate) (Employment Insurance premiums for residents of the Province of Quebec are reduced, because residents of Quebec also must pay premiums for Quebec Parental Insurance. The aggregate amount for both is similar to the total Employment Insurance premiums computed with respect to persons resident outside Quebec.)	2.32

## **E. Miscellaneous matters**

**Foreign-exchange controls.** Canada does not impose foreign-exchange control restrictions.

**Debt-to-equity rules.** Canada imposes a thin-capitalization rule limiting the ability of nonresidents to withdraw profits through deductible interest charges. In general, these rules restrict the deductibility of interest paid or payable by a Canadian resident corporation to a specified nonresident shareholder (or to a nonresident person who does not deal at arm's length with a specified shareholder) on debts exceeding 1.5 times the Canadian resident corporation's "equity." A specified shareholder is a shareholder who, either alone or together with persons with whom the shareholder does not deal at arm's length, owns shares that satisfy either of the following conditions:

- They give the shareholder 25% or more of the votes that could be cast at an annual meeting of shareholders.
- They have a fair market value representing 25% or more of the fair market value of all of the issued and outstanding shares of the corporation.

Canada's thin-capitalization rule applies to Canadian resident corporations, trusts, nonresidents' Canadian branches and partnerships of which a Canadian resident corporation is a member. The thin-capitalization rules may also apply to certain back-to-back (BTB) loan arrangements that would otherwise circumvent the application of the thin-capitalization rules.

In general, the BTB rules apply to arrangements whereby a nonresident corporation (parent), or a person related to the parent, of a corporation resident in Canada (Canco) grants a loan (intermediary debt) or a specified right in a particular property (specified right) to an intermediary and the intermediary debt and/or specified right is "connected to" a debt owed by Canco to the intermediary (primary debt), provided that the amount of the intermediary debt and/or fair market value of the property subject to the specified right is not less than 25% of the amount of the primary debt. When applicable, the BTB rules deem the primary debt to be a debt between Canco and the parent for thin-capitalization purposes. The rules also deem interest payments from Canco to

the intermediary to be interest payments from Canco to the parent.

The BTB rules also apply to royalties and similar payments.

**Foreign affiliates.** A nonresident corporation is considered a foreign affiliate of a Canadian corporation if the Canadian corporation directly or indirectly owns at least 1% of any class of shares of the nonresident corporation and if the Canadian corporation and related persons directly or indirectly own together at least 10% of any class of shares of that nonresident corporation. Dividends received by a Canadian corporation from a foreign affiliate are fully deductible in Canada if the dividends are derived from active business profits earned in a country with which Canada has entered into a tax treaty or a Tax Information Exchange Agreement (TIEA). Dividends are taxable in Canada if they are derived from passive operations (with certain exceptions) or any operations in a non-treaty or non-TIEA country, with relief for foreign tax on such income.

**Foreign affiliate dumping rules.** Rules, commonly known as the “foreign affiliate dumping (FAD) rules,” are aimed at “surplus stripping” on the part of a corporation resident in Canada (CRIC) that is controlled by a nonresident corporation. The FAD rules broadly apply to certain investments in foreign affiliates. They apply to an “investment” in a nonresident corporation (a “subject corporation”) by a CRIC if the following two conditions are met:

- The subject corporation must be a foreign affiliate of the CRIC or a foreign affiliate of another corporation resident in Canada that deals at non-arm’s length with the CRIC immediately after the investment is made.
- The CRIC must be controlled by a nonresident corporation (parent) at the time the investment is made.

The concept of “investment” is broadly defined and includes equity and debt investments in foreign affiliates, as well as the acquisition of shares of another corporation resident in Canada if the fair market value of all of the foreign shares owned directly or indirectly by the Canadian corporation comprises more than 75% of the total fair market value of all the properties owned by the Canadian corporation.

If applicable, the FAD rules deem dividends to have been paid to the parent by the CRIC or will cause the paid-up capital (PUC) of the shares of the CRIC to be reduced. The rules also contain certain provisions to reduce PUC instead of triggering a deemed dividend, as well as a PUC reinstatement rule if the shares of the subject corporation (or substituted property) are later distributed (or sold) by the CRIC.

Certain exemptions limit the application of the FAD rules. For example, the rules do not apply if, broadly speaking, the business activities of the CRIC are more “closely connected” to the subject corporation than the business activities carried on by any related nonresident corporation, and if officers of the CRIC have and exercise the principal decision-making authority with respect to the investment. In addition, for the exception to apply, additional conditions need to be met regarding the officers of the CRIC. In particular, these conditions require that the officers be residents

of Canada and that they work principally in Canada. In addition, the rules do not apply to certain internal reorganizations. The rules also do not apply if the debt owed by the foreign affiliate is a pertinent loan or indebtedness (PLOI). To qualify as a PLOI, the CRIC and the parent need to jointly elect to treat the debt obligation as a PLOI. In addition, the PLOI needs to generate a minimum amount of income for the CRIC in Canada (namely, interest computed based on the current government of Canada three-month Treasury bill rate plus 4%).

In view of the complex nature of the rules, taxpayers are advised to reach out to their tax advisor to determine whether they could be affected by the rules.

**Passive income of controlled foreign affiliates.** Any Canadian taxpayer that controls (as defined) a foreign affiliate is taxed on its share of that entity's passive investment income (with certain exceptions) in the year such income is earned, regardless of whether such income is currently paid to the shareholder, except in certain specified circumstances. In addition, any taxpayer is taxed on its shares of any other type of income if the income is earned through a permanent establishment located in a non-treaty or non-TIEA country (except a country with which Canada has entered into negotiations for a TIEA or has sought to enter into such negotiations within the last 60 months).

**Upstream loans from foreign affiliates.** The upstream loan rules are essentially anti-avoidance measures that are intended to prevent taxpayers from making synthetic dividend distributions from foreign affiliates to avoid what would otherwise be an income inclusion in Canada that would not be fully offset by a corresponding dividends-received deduction as described in *Foreign affiliates*.

The rules have a very broad application. In general, Canadian taxpayers may be required to include in their income a portion of the principal amount (referred to as the "specified amount") of loans made to them by their foreign affiliates. In addition, Canadian taxpayers may be required to include in their income a portion of the principal amount of loans made by their foreign affiliates to certain non-arm's-length persons (other than controlled foreign affiliates that are effectively Canadian controlled). If loans are made to other foreign affiliates, taxpayers may be required to include in their income the portion of such loans to the extent that the taxpayer's surplus entitlement percentage (SEP) in the creditor affiliate exceeds its SEP in the borrowing affiliate. Accordingly, a loan from one foreign affiliate to another foreign affiliate that is not a Canadian controlled foreign affiliate results in an income inclusion only to the extent that the taxpayer has a lower SEP in the borrowing affiliate than in the creditor affiliate.

Similar to the domestic shareholder loan rule, exceptions exist for indebtedness repaid within two years after the date on which the indebtedness arose, provided that the repayment is not part of a series of loans or other transactions and repayments, and for indebtedness arising in the ordinary course of business of the creditor. The new rules contain further transitional relief with respect to indebtedness that existed before 19 August 2011, which essentially extends the effective date of the rules with respect to such indebtedness to 19 August 2016 (because any 19 August 2011

indebtedness still outstanding at 19 August 2014 is deemed to have arisen on 19 August 2014, thereby extending the two-year period to 19 August 2016).

New upstream loan continuity rules apply to reorganizations of corporations or partnerships. These new continuity rules apply to transactions and events that occur on or after 16 September 2016. However, it is possible to elect to have the rules apply as of 20 August 2011.

The income inclusion arising under the new upstream loan rule may essentially be offset in whole or in part by a deduction if the taxpayer demonstrates that a hypothetical dividend paid the year the loan is made would have enjoyed a full deduction from the income of the Canadian taxpayer with respect to the exempt surplus and/or taxable (and hybrid) surplus of a foreign affiliate of the taxpayer. In addition, the rules provide for a deduction equal to amounts previously included in income in the year that the loan is eventually repaid. The new rules also extend the application of the reserve mechanism in certain circumstances to include a deduction for pre-acquisition surplus dividends (essentially equivalent to returns of tax basis), but only to the extent of the taxpayer's Canadian tax basis in the shares of the top-tier foreign affiliate. However, this particular deduction is not available if the borrower under the relevant loan is a nonresident person with whom the taxpayer does not deal at arm's length, which for example, includes a foreign parent or sister company. As a result, this deduction is normally only available regarding upstream loans from the foreign affiliate to the Canadian taxpayer.

**Cross-border cash redeployment and pooling using PLOI.** As noted in *Foreign affiliate dumping rules*, the FAD rules include an elective exception for certain foreign affiliate indebtedness (PLOI). Under a corresponding amendment to the shareholder loan rules, loans will be allowed to be made without triggering deemed dividends and withholding taxes, if they result in interest income inclusions at the higher of the prescribed rate (the prescribed rate for PLOI is equal to the three-month government of Canada treasury bill rate plus 4%) and essentially, any funding costs incurred by the CRIC to make the loan. The rules are relevant to all CRICs that are part of a foreign-based multinational group, not only to CRICs having foreign affiliates. In many cases, these proposals should facilitate commercially efficient and tax-neutral cross-border redeployments and pooling of cash among members of foreign-based multinational groups that include CRICs.

**BTB rules and interest payments.** As discussed in *Debt-to-equity rules*, the BTB rules apply to interest, royalties and similar payments between a person resident in Canada (Canco) and an intermediary if the following conditions are met:

- A nonresident (parent) grants a loan (intermediary debt) or a specified right with respect to a particular property (specified right) to the intermediary.
- The intermediary debt or specified right is “connected to” an outstanding debt owed by Canco.
- The amount of intermediary debt and/or fair market value of the property subject to the specified right is not less than 25% of the amount of primary debt.

- The amount of withholding tax payable by Canco is less than the amount of withholding tax that would have been payable had the interest payment been made to the parent rather than the intermediary.

If the above conditions are met, the new rules will generally deem the interest payments to have been made to the parent rather than to the intermediary. In addition, specific rules will apply for determining the amount of interest deemed to have been paid to the parent.

**Corporate reorganizations.** In general, transactions between related corporations must be recognized at fair market value. However, some common types of domestic and foreign corporate reorganizations may be accomplished with little or no immediate Canadian tax cost.

**Anti-avoidance legislation.** The Canada Revenue Agency (CRA) may apply a general anti-avoidance rule to challenge transactions that it perceives to be abusive. This rule does not apply to a transaction that may reasonably be considered to have been undertaken or arranged primarily for bona fide purposes other than to obtain a tax benefit. The application of the rule may cause certain transactions to be ignored or recharacterized.

**Transfer pricing.** Under Canada's transfer-pricing rules, acceptable transfer-pricing methods are those recommended by the Organisation for Economic Co-operation and Development (OECD). These methods include comparable uncontrolled price, resale price and cost-plus. Other methods may be used if the result obtained is similar to the result that would be obtained from an arm's-length transaction. It is possible to enter into advance-pricing agreements with the CRA.

Following the OECD's Base Erosion and Profit Shifting project, a Country-by-Country Report will need to be filed in a prescribed form with the Minister of National Revenue by entities of multinational enterprises (more than EUR750 million in consolidated group revenue) for their fiscal years beginning in 2016 and future years.

**Acquisition of control considerations.** If control of a corporation has been acquired, the target corporation is deemed to have a year-end immediately before the acquisition of control. A new tax year begins immediately thereafter, and a new year-end may be selected by the target corporation. If an acquisition of control occurs, special rules apply to the determination and treatment of capital losses, business losses, and certain tax attributes with respect to foreign affiliates.

**Capital gains realized by nonresidents.** Subject to applicable tax treaties, nonresidents must pay Canadian tax on their net taxable capital gains derived from the disposition of "taxable Canadian property" (TCP). Such property includes, but is not limited to, the following:

- Real property located in Canada
- Shares of private corporations, interests in partnerships or interests in trusts that, within the preceding 60 months, derived their value principally from real or immovable property located in Canada

- Canadian resource property and timber resource property, or interests in such properties
- Shares of Canadian public corporations (in limited circumstances)
- Property used in a business carried on by the nonresident in Canada

The above definition of TCP applies for determination of TCP status after 4 March 2010.

A nonresident vendor of TCP (other than property that qualifies as excluded property) must obtain a tax clearance certificate from the CRA. To obtain such certificate, the nonresident vendor must provide the CRA with acceptable security or must pay tax on the disposition at the time of sale. For dispositions of TCP occurring after 2008, excluded property includes, among other items, property that is treaty-protected property of the vendor. In the case of a disposition between a purchaser and a seller not dealing at arm's length, for treaty-protected property to qualify as excluded property, a notice in a prescribed form must be sent to the CRA.

The purchaser must generally withhold and remit to the Receiver General up to 25% (50% in certain circumstances) of the amount by which the cost to the purchaser of the property (other than excluded property) exceeds the amount stipulated in the CRA clearance certificate on account of the nonresident's potential tax liability resulting from the disposition. In the absence of a clearance certificate, the purchaser must generally withhold and remit 25% of the purchase price (50% in certain circumstances). The withholding and remittance obligation is referred to as the "source deduction." Similar requirements apply for the province of Quebec.

The purchaser remains liable for any source deduction not made in the event it is later determined that the property disposed of does not qualify as excluded property, unless one of the safe harbor rules described below applies. The first safe harbor rule provides that a purchaser is not liable for any source deduction if the purchaser had no reason to believe that the vendor was not resident in Canada after reasonable inquiry. Similarly, a purchaser is not held liable for any source deduction if the property (disposed of after 2008) is acquired from a nonresident vendor and if all of the following conditions are satisfied:

- After reasonable inquiry, the purchaser concludes that the vendor is a resident of a country with which Canada has a tax treaty.
- The property is treaty-protected property of the vendor under the tax treaty with the particular treaty country.
- The purchaser sends a notice in a prescribed form to the CRA within 30 days after the acquisition, setting out the date of acquisition, the name and address of the nonresident vendor, a description of the property, the amount paid or payable by the purchaser of the property and the name of the particular treaty country.

In addition, the requirement for the nonresident vendor to file a Canadian tax return may be removed. In general, a nonresident vendor is exempt from filing a Canadian tax return with respect to taxable Canadian properties if the following criteria are satisfied:

- No Canadian "corporate income tax" is payable for the tax year.
- The nonresident is not currently liable to pay any Canadian tax with respect to any previous tax year.



- Each TCP that is disposed of during the year is “excluded property,” which now includes treaty-protected property in certain circumstances (see above) and property with respect to which the Minister of National Revenue has issued a nonresident clearance certificate.

**Functional currency reporting.** Canada has introduced new rules with respect to functional currency reporting. These new rules are intended to address the concerns of Canadian corporations that are required to use a currency other than the Canadian dollar as their “functional currency” for financial statement reporting purposes and the Canadian dollar for tax purposes.

In general, all Canadian taxpayers are required to use the Canadian dollar as their reporting currency for tax purposes. However, “qualifying corporations” may now elect to determine their “Canadian tax results” in their “functional currency.” In general, a “qualifying corporation” is a corporation resident in Canada (with some exceptions) that has a “functional currency” and makes an election in prescribed form. For these purposes, the taxpayer’s “functional currency” is defined as the currency of a country other than Canada if the following conditions are satisfied:

- The currency is a “qualifying currency.” A “qualifying currency” includes the US dollar, the euro, the British pound, and the Australian dollar. This is not an exhaustive list. A prescribed currency could also qualify.
- The currency is the primary currency in which the taxpayer maintains its records and books of account for financial reporting purposes.

## F. Treaty withholding tax rates

As noted in Section A, in general, Canada’s domestic tax law provides exemptions from Canadian withholding tax on interest paid or credited to arm’s-length nonresident persons, regardless of their country of residence. In addition, withholding tax does not apply to interest that is considered “fully exempt interest,” regardless of the recipient’s relationship to the payer. “Fully exempt interest” generally includes the following:

- Interest paid by a government body or crown corporation
- Interest on a mortgage or hypothecary obligation with respect to real property located outside of Canada (certain conditions apply)
- Interest paid to a prescribed international institution or agency
- Deemed interest amounts pertaining to securities lending arrangements (certain conditions apply)

However, regardless of the above general rules, a 25% withholding tax applies to all “participating debt interest.” “Participating debt interest” is generally interest, other than fully exempt interest, which satisfies either of the following conditions:

- It is paid or payable on an obligation, other than a prescribed obligation, and all or any portion of the interest is contingent or dependent on the use of or production from property in Canada.
- It is computed by reference to revenue, profit, cash flow, commodity price or any other similar criterion or by reference to dividends paid or payable to shareholders of any class of shares of the capital stock of a corporation.

Similarly, withholding tax applies to the following:

- Interest that is not “fully exempt interest” and is paid or payable to a person with whom the payer is not dealing at arm’s length
- Interest with respect to a debt or other obligation to pay an amount to a person with whom the payer is not dealing at arm’s length

The rates in the table below generally reflect the lower of the treaty rate and the rate under domestic tax law for dividends, interest and royalties paid from Canada to residents of various treaty countries. Certain exceptions or conditions may apply, depending on the terms of the particular treaty. The following table includes tax treaties currently in force and tax treaties that are signed but not yet in force.

<b>Residence of recipient</b>	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties (b)(c) %</b>
Algeria	15	15/0	15/0 (ii)
Argentina	15/10 (qq)	12.5/0	15/10/5/3 (sss)
Armenia	15/5 (cccc)	10/0	10
Australia	15/5 (rr)	10/0	10
Austria	15/5 (r)	10/0	10/0
Azerbaijan	15/10 (ggg)	10/0	10/5 (hhh)
Bangladesh	15	15/0	10
Barbados	15	15/0	10/0 (eeee)
Belgium	15/5 (uu)	10/0	10/0 (rrr)
Brazil	25/15 (ooo)	15/10/0	25/15 (ttt)
Bulgaria	15/10 (ee)	10/0	10/0
Cameroon	15	15/0	15
Chile	15/10 (u)	15/0	10
China (mainland)(ssss)	15/10 (uuu)	10/0	10
Colombia	15/5 (gggg)	10	10
Côte d’Ivoire	15	15/0	10
Croatia	15/5 (w)	10/0	10
Cyprus	15	15/0	10/0 (zzzz)
Czech Republic	15/5 (d)	10/0	10
Denmark	15/10/5 (q)	10/0	10/0 (g)
Dominican Republic	18	18/0	18/0 (pppp)
Ecuador	15/5 (mm)	15/0	15/10 (aaa)
Egypt	15	25/15/0 (f)	15 (qqqq)
Estonia	15/5 (x)	10/0	10
Finland	15/5 (n)	10/0	10/0 (zzzz)
France	15/5 (m)	10/0	10/0 (g)
Gabon (ccc)	15	10/0	10
Germany	15/5 (ll)	10/0	10/0 (p)
Greece	15/5 (iiii)	10/0	10/0 (jjj)
Guyana	15	15/0	10
Hong Kong SAR	15/5 (r)	10/0	10
Hungary	15/10/5 (aa)	10/0	10/0 (zzzz)
Iceland	15/5 (r)	10/0	10/0 (jj)
India	25/15 (www)	15/0	20/15/10 (o)
Indonesia	15/10 (z)	10/0	10
Ireland	15/5 (nnn)	10/0	10/0 (jjj)
Israel (ffff)	15/5 (iiii)	10/0	10/0 (zzzz)
Italy	15/5 (xxxx)	10/0 (yyyy)	10/5/0 (nnnn)
Jamaica	15	15/0	10
Japan	15/5 (dd)	10/0	10

<b>Residence of recipient</b>	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties (b)(c) %</b>
Jordan	15/10 (t)	10/0	10
Kazakhstan	15/5 (r)	10/0	10
Kenya	25/15 (xxx)	15/0	15
Korea (South)	15/5 (yy)	10/0	10
Kuwait	15/5 (ss)	10/0	10
Kyrgyzstan	15	15/0	10/0 (y)
Latvia	15/5 (x)	10/0	10 (qqqq)
Lebanon (ff)	15/5	10/0	10/5
Lithuania	15/5 (x)	10/0	10 (qqqq)
Luxembourg	15/10/5 (rrrr)	10/0	10/0 (jj)
Malaysia	15	15/0	15
Malta	15	15/0	10/0 (pppp)
Mexico	15/5 (n)	10/0	10/0 (cc)
Moldova	5/15 (zz)	10/0	10
Mongolia	15/5 (vv)	10/0	10/5 (jj)
Morocco	15	15/0	10/5 (yyy)
Namibia (kkkk)	15/5 (llll)	10/0	10/0
Netherlands	15/10/5 (kk)	10/0	10/0 (g)
New Zealand (vvvv)	5/15 (aaaaa)	10/0	5/10 (bbbbbb)
Nigeria	15/12.5 (v)	12.5/0	12.5
Norway	15/5 (xx)	10/0	10/0 (lll)
Oman	15/5 (oo)	10/0	10/0 (eee)
Pakistan	15	15/0	15
Papua New Guinea	15	10/0	10
Peru	15/10 (mn)	15/0	15
Philippines	15	15/0	10
Poland	15/5 (uuuu)	10/0	10/5 (hhhh)
Portugal	15/10 (gg)	10/0	10
Romania	15/5 (mmm)	10/0	10/5 (iii)
Russian Federation	15/10 (uuu)	10/0	10/0 (p)
Senegal	15	15/0	15
Serbia	15/5 (x)	10/0	10
Singapore	15	15/0	15
Slovak Republic	15/5 (tt)	10/0	10/0 (zzzz)
Slovenia	15/5 (pp)	10/0	10
South Africa	15/5 (pp)	10/0	10/6 (l)
Spain (vvv)	5/15 (wwww)	10/0	10/0 (zzzz)
Sri Lanka	15	15/0	10/0 (zzzz)
Sweden	15/10/5 (bb)	10/0	10/0 (jj)
Switzerland	15/5/0 (n)	10/0 (mmmm)	10/0 (jj)
Tanzania	25/20 (zzz)	15/0	20
Thailand	15	15/0	15/5 (yyy)
Trinidad and Tobago	15/5 (r)	10/0	10/0 (zzzz)
Tunisia	15	15/0	20/15/0 (aaaa)
Turkey	20/15 (oooo)	15/0	10
Ukraine	15/5 (j)	10/0	10 (a)
USSR (e)	15	15/0	10/0 (zzzz)
United Arab Emirates	15/5 (bbb)	10/0	10/0 (kkk)
United Kingdom (tttt)	15/5 (ddd)	10/0 (ww)	10/0 (fff)
United States (dddd)	15/5 (h)	0 (i)	10/0 (p)
Uzbekistan	15/5 (hh)	10/0	10/5 (jj)

<b>Residence of recipient</b>	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties (b)(c) %</b>
Venezuela	15/10 (ppp)	10/0	10/5 (qqq)
Vietnam	15/10/5 (s)	10/0	10/7.5 (bbbb)
Zambia	15	15/0	15
Zimbabwe	15/10 (u)	15/0	10
Non-treaty jurisdictions (k)	25	0	25

- (a) A 0% rate generally applies to royalties relating to computer software.
- (b) The lower rate usually applies to royalties on cultural works or to royalties relating to computer software, patents and know-how.
- (c) Withholding tax of 25% applies if the royalties relate to the use of real or immovable property, including resource property.
- (d) The treaty provides that the lower rate applies to dividends paid to a company that controls directly or indirectly at least 10% of the voting power in the payer. Interest on certain government-assisted debt and certain other categories of interest are exempt from withholding tax.
- (e) Belarus is honoring the USSR treaty, and consequently that treaty continues to be in force with respect to Belarus. Canada has entered into tax treaties with Estonia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, the Russian Federation, Ukraine and Uzbekistan. Canada has signed tax treaties with Azerbaijan and Armenia, but these treaties have not yet been ratified. The withholding rates under these treaties are listed in the above table. Tajikistan and Turkmenistan have announced that they are not honoring the USSR treaty, but negotiations for new treaties with these countries have not yet begun.
- (f) Mortgage interest on Egyptian property is not eligible for reduced rates under the treaty. As a result, the higher rate applies if such interest is not exempt under Canadian domestic law.
- (g) The 0% rate applies to certain copyright royalties and to royalties for the use of, or the right to use, computer software, patents or information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- (h) The 5% rate applies to dividends paid to corporate shareholders owning at least 10% of the voting shares of the Canadian company. The 15% rate applies to other dividends.
- (i) The fifth protocol to the 1980 tax treaty between Canada and the United States, which entered into force on 15 December 2008, generally provides for a gradual reduction to the withholding tax rate on interest paid or credited to non-arm's-length US residents. Under the protocol, the following withholding tax rates apply:
- 7% for interest paid during the 2008 calendar year
  - 4% for interest paid during the 2009 calendar year
  - 0% for interest paid after the 2009 calendar year
- The reduced rates retroactively apply for the entire calendar year in which the protocol was ratified (that is, effective for interest paid as early as 1 January 2008). For further information regarding the protocol, see footnote (dddd). Withholding tax is not imposed on interest paid or credited to arm's-length nonresidents after the 2007 calendar year.
- (j) The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 20% of the voting power in the payer.
- (k) In general, no withholding tax is imposed on interest paid to payees who are dealing at arm's length with the payer. However, withholding tax at a rate of 25% typically applies to interest paid or credited to related nonresidents (the rate may be reduced by a tax treaty). Other specific exemptions or specific inclusions may apply to change the general rules. In addition, most copyright royalties are exempt from withholding tax.
- (l) The 6% rate applies to royalties paid on cultural works, copyrights, computer software, patents and certain types of information.
- (m) The 5% rate applies if the dividends are paid by a Canadian corporation to a French corporation that controls directly or indirectly at least 10% of the votes of the payer.
- (n) The 5% rate applies to dividends paid to corporations owning at least 10% of the voting shares and capital of the payer. The 15% rate applies to other dividends. A protocol amending the tax treaty between Canada and Switzerland entered into force on 19 December 2011. The protocol provides that no tax will be withheld if a dividend is paid by a resident of a contracting state to a resident of the other contracting state that operates or administers pension or retirement plans for individuals who are resident in that other contracting state and if the dividend is not derived from the carrying on of a trade or a business.

- (o) The general rate is 15%, and payments for the use of, or the right to use, certain industrial, commercial or scientific equipment may qualify for a 10% rate.
- (p) The 0% rate applies to royalties on cultural works as well as to payments for the use of, or the right to use, computer software, patents and information concerning industrial, commercial and scientific experience.
- (q) The 5% rate applies if the beneficial owner of the dividends is a corporation that holds directly at least 25% of the capital of the payer. The 10% rate applies if the dividends are paid by a nonresident-owned investment corporation that is a resident of Canada to a beneficial owner that is a resident of Denmark and that holds directly or indirectly at least 25% of the capital of the company paying the dividend. The 15% rate applies in all other cases.
- (r) The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the voting power of the payer.
- (s) The 5% rate applies if the beneficial owner of the dividends controls at least 70% of the voting power of the payer. The 10% rate applies if the beneficial owner of the dividends controls at least 25% but less than 70% of the voting power of the payer.
- (t) The 10% rate applies if the recipient of the dividends is a company that controls directly or indirectly at least 10% of the voting power of the payer.
- (u) The 10% rate applies if the beneficial owner of the dividends is a corporation that controls directly or indirectly at least 25% of the voting power of the payer.
- (v) The 12.5% rate applies if the recipient is a company that controls directly or indirectly at least 10% of the votes of the payer.
- (w) The 5% rate applies to dividends paid to a resident of Croatia that controls at least 10% of the voting power of the payer or that holds at least 25% of the capital of the payer.
- (x) The 5% rate applies if the beneficial corporate owner of the dividends controls directly at least 25% of the voting power of the payer of the dividends.
- (y) The 0% rate generally applies to royalties for certain cultural works and copyrights. It also applies to royalties for computer software, patents and information concerning industrial, commercial and scientific experience, if the payer and recipient are not associated persons (as defined).
- (z) The 10% rate applies to dividends paid to a company holding at least 25% of the capital of the payer.
- (aa) The 5% rate applies if the recipient of the dividends controls directly or indirectly at least 10% of the voting power of the payer. The 10% rate applies to dividends that are paid by a nonresident-owned investment corporation resident in Canada to a company that is a resident of Hungary and that controls at least 25% of the voting power in the company paying the dividends and the beneficial owner of such dividends. The 15% rate applies to all other cases.
- (bb) The 5% rate applies if the beneficial owner of the dividends is a corporation that controls directly at least 10% of the voting power of the payer or that holds directly at least 25% of the capital of the payer. The 10% rate applies to dividends paid by a nonresident-owned investment corporation resident in Canada to a beneficial owner resident in Sweden that controls directly at least 10% of the voting power, or holds at least 25% of the capital, of the corporation paying the dividends. The 15% rate applies to other dividends.
- (cc) The 0% rate applies to copyright royalties and similar payments with respect to cultural, dramatic, musical or other artistic works.
- (dd) The 5% rate applies to dividends paid to a company that owns at least 25% of the voting shares of the payer for the last six months of the accounting period for which the distribution of profits takes place.
- (ee) The 10% rate applies if the recipient is a company that controls at least 10% of the votes of the payer.
- (ff) The treaty was signed on 29 December 1998, but it is not yet in force. The 5% rate for dividends will apply if the recipient is a company that controls at least 10% of the votes of the payer. The 5% rate for royalties will apply to royalties for certain cultural works, and royalties for certain computer software, patents and know-how if the payer and the payee are not related.
- (gg) The 10% rate applies if the recipient is a company that controls at least 25% of the voting power of the payer directly or indirectly.
- (hh) The 5% rate applies if the recipient is a company that controls at least 10% of the voting power in the payer.
- (ii) The 0% rate generally applies to royalties relating to computer software or patents.
- (jj) The lower rate applies to royalties for certain cultural works, and generally to royalties for computer software, patents and know-how.

- (kk) The 5% rate applies if the beneficial owner of the dividends owns at least 25% of the capital or controls, directly or indirectly, 10% of the voting power of the payer. The 10% rate applies to dividends paid by a nonresident-owned investment corporation that is a resident of Canada to a beneficial owner that is a company (other than a partnership) resident of the Netherlands and that owns at least 25% of the capital of, or controls directly or indirectly at least 10% of the voting power in, the company paying the dividends. The 15% rate applies to other dividends.
- (ll) The 5% rate applies to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer.
- (mm) The 5% rate applies if the recipient is a company that controls directly or indirectly at least 25% of the voting power in the payer.
- (nn) The 10% rate applies if the recipient is a company that controls directly or indirectly at least 10% of the voting power in the payer.
- (oo) The 5% rate applies if the recipient is a company holding directly or indirectly at least 10% of the capital of the payer.
- (pp) The 5% rate for dividends applies if the recipient is a company that controls directly or indirectly at least 10% of the voting power in the payer.
- (qq) The 10% rate applies if the recipient of the dividends is a company that holds directly 25% of the capital of the payer. The 15% rate applies in all other cases.
- (rr) The 5% rate applies to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer. The 15% rate applies in all other cases.
- (ss) The 5% rate applies if the recipient of the dividends is a company that owns at least 10% of the voting shares, or at least 25% of the value of the shares, of the payer.
- (tt) The 5% rate applies if the dividends are paid to a company that controls at least 10% of the voting power in the payer.
- (uu) The 5% rate applies to dividends if the beneficial owner of the dividends is a company that owns directly at least 10% of the voting stock of the payer. The 15% rate applies to other dividends.
- (vv) The 5% rate for dividends applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the voting power in the payer.
- (ww) Under the fourth protocol to the treaty, which was signed on 21 July 2014 but is not yet in force, interest paid to an arm's-length party is exempt from withholding tax.
- (xx) The 5% rate applies to dividends if the beneficial owner is a company that holds directly at least 10% of the voting power in the company paying the dividends.
- (yy) The 5% rate applies to dividends paid to a company (other than a partnership) that is a beneficial owner and controls directly at least 25% of the voting power in the payer.
- (zz) The 5% rate for dividends applies if the beneficial owner of the dividends is a company that controls at least 25% of the voting power in the payer.
- (aaa) The 10% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment.
- (bbb) The 5% rate applies to dividends paid to a company holding directly or indirectly at least 10% of the voting power of the payer. The 15% rate applies to other dividends.
- (ccc) This treaty was signed on 14 November 2002, but it has not yet been ratified.
- (ddd) The 5% rate applies to dividends paid to a company that controls at least 10% of the voting power of the payer.
- (eee) The 0% rate applies to royalties pertaining to certain cultural works, computer software, patents or know-how.
- (fff) Payments for the use of computer software, patents and certain know-how are exempt.
- (ggg) The 10% rate applies if the recipient is a company holding directly or indirectly at least 10% of the voting power of the payer.
- (hhh) The 5% rate applies to certain royalties pertaining to certain computer software, patents or know-how.
- (iii) The general withholding tax rate for royalties is 10%. A 5% rate applies to royalties pertaining to certain cultural works, computer software, patents and know-how.
- (jjj) The general withholding tax for royalties is 10%. Royalties pertaining to certain cultural works, computer software, patents and know-how are exempt.
- (kkk) The general withholding tax rate is 10%. Royalties pertaining to certain cultural works, computer software, patents and know-how are exempt.

- (lll) The general withholding tax rate for royalties is 10%. Royalties pertaining to certain cultural works, computer software, patents and know-how are exempt from withholding tax.
- (mmm) The 5% rate applies to dividends paid to a company holding directly or indirectly at least 10% of the voting power of the payer. The 15% rate applies to other dividends.
- (nnn) The 5% rate applies to dividends paid to a company holding directly or indirectly at least 10% of the voting power of the payer. The 15% rate applies to other dividends.
- (ooo) The 15% rate applies if the recipient is a company that holds an equity percentage of at least 10% in the payer of the dividends.
- (ppp) The 10% rate applies if the recipient is a company that controls directly or indirectly at least 25% of the voting power in the payer.
- (qqq) The 5% rate applies to royalties with respect to certain cultural works, and to royalties for certain computer software, patents and know-how if the payer and payee are not related.
- (rrr) The general withholding tax for royalties is 10%. Royalties pertaining to certain cultural works and computer software and royalties for information concerning industrial, commercial or scientific experience are exempt.
- (sss) The 3% rate applies to royalties paid for rights to use news. The 5% rate applies to royalties pertaining to certain cultural works. The 10% rate applies to royalties pertaining to patents, trademarks, designs or models, plans, secret formulas and technical assistance.
- (ttt) The general rate for royalties is 15%. The 25% rate applies to royalties pertaining to the use of trademarks.
- (uuu) The 10% rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the voting power in the payer of the dividends.
- (vvv) A protocol between Canada and Spain entered into force on 29 September 2015. The rates under the protocol are reflected in the above table.
- (www) The 15% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the voting power in the payer.
- (xxx) The 15% rate applies to dividends paid to a company that owns at least 10% of the voting shares of the payer during the six-month period immediately preceding the date of payment of the dividend.
- (yyy) The 5% rate applies to royalties pertaining to cultural works.
- (zzz) The 20% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 15% of the voting power in the payer.
- (aaaa) The 20% rate applies to the following:
  - Patent royalties
  - Royalties for the use of, or the right to use, trademarks, motion picture films and films or videotapes for use in connection with television
  - Payments for the use of, or the right to use, industrial, commercial, scientific or harbor equipment
- (bbbb) The 7.5% rate applies to fees for technical services.
- (cccc) The 5% rate applies if, at the time the dividend is declared, the recipient is a company holding directly at least 25% of the capital of the payer and if the capital invested by the recipient exceeds USD100,000. The 15% rate applies in all other cases.
- (dddd) On 15 December 2008, the fifth protocol to the 1980 tax treaty between Canada and the United States entered into force. The following are amendments contained in the protocol that affect cross-border payments:
  - The withholding tax on cross-border interest payments will be eliminated. The protocol provides that the withholding tax rate on interest payments is reduced to 0% (phased out over a three-year period with respect to debt between parties that are “related”). For further details, see footnote (i).
  - A “Hybrid Entity Clause” is introduced with respect to income, profits or gains derived through or from certain “fiscally transparent” entities. The protocol can extend treaty relief to income earned through certain “fiscally transparent” entities, such as limited liability corporations and certain other hybrid entities. The protocol may also deny treaty benefits with respect to income derived through or from certain “fiscally transparent” entities.
  - The protocol provides that the existing limitation on benefits (LOB) provisions, which are currently applicable for US tax purposes only, will also become operative for Canadian tax purposes. The comprehensive LOB article, designed to counter “treaty shopping” abuses, is a significant development in the Canadian tax landscape and could operate to deny treaty benefits in many situations in which treaty

- entitlement had never come under question, including situations in which treaty shopping was not a consideration. Consequently, an analysis is required in each case in which payments are made to an entity that may have non-qualifying US or Canadian owners or owners that are residents of other countries, including in certain circumstances, public companies.
- (eeee) The 0% rate applies to copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or artistic works.
- (ffff) A new tax treaty between Canada and Israel was signed on 21 September 2016 and entered into force on 21 December 2016. In general, for withholding taxes, the treaty is generally effective in Canada for amounts paid or credited to nonresidents on or after 1 January 2017; for other taxes, the treaty is effective for tax years beginning on or after 1 January 2017. The new tax treaty replaces the tax treaty signed on 21 July 1975.
- (gggg) The 5% rate applies if, at the time the dividend is declared, the recipient is a company holding directly or indirectly at least 10% of the voting power of the payer. The 15% rate applies in all other cases.
- (hhhh) The withholding tax rate is 5% for copyright royalties and other similar payments with respect to literary, dramatic or artistic works and royalties for right-to-use patents or know-how. A 10% rate applies to royalties in all other cases.
- (iiii) The 5% rate applies if, at the time the dividend is declared, the recipient is a company holding directly or indirectly at least 25% of the capital of the payer. The 15% rate applies in all other cases.
- (jjjj) The 0% rate applies to copyright royalties and similar payments with respect to the production or reproduction of cultural or artistic works (excluding royalties with respect to motion picture films and royalties with respect to works on film or videotape or other means of reproduction for use in connection with television broadcasting).
- (kkkk) This treaty was signed on 25 March 2010, but it is not yet in force.
- (llll) The 5% rate applies if the recipient of the dividends is a company that owns directly at least 25% of the shares, or controls directly or indirectly 25% of the voting power, of the payer.
- (mmmm) A protocol to the tax treaty between Canada and Switzerland entered into force on 19 December 2011. It provides that interest payments made to a beneficiary in the other contracting state are not subject to withholding tax if the beneficiary is not related to the payer.
- (nnnn) The general withholding tax rate for royalties is 10%. The 5% rate applies to certain royalties pertaining to computer software and information concerning industrial, commercial or scientific experience. The withholding tax rate is 0% for copyright royalties and for similar payments with respect to literary, dramatic or artistic works.
- (oooo) The 15% rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the voting power in the payer of the dividends.
- (pppp) The 0% rate applies to royalties pertaining to certain cultural works.
- (qqqq) The last paragraph of the royalties article contains a most-favored nation clause in favor of Canada.
- (rrrr) The 5% rate applies if the beneficial owner of the dividends is a corporation that holds directly at least 10% of the voting power of the payer. The 10% rate applies if the dividends are paid by a nonresident-owned investment corporation that is a resident of Canada to a beneficial owner that is a company (other than a partnership) resident in Luxembourg and that holds directly or indirectly at least 25% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (ssss) Tax treaty negotiations with the government of China began on 6 December 2010. The tax treaty is currently being renegotiated.
- (tttt) Negotiations to update the tax treaty with the United Kingdom began on 1 October 2011. On 21 July 2014, the fourth protocol to the treaty was signed, but it is not yet in force.
- (uuuu) The withholding tax rate for dividends is 5% if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends. A 15% rate applies to dividends in all other cases.
- (vvvv) A new tax treaty between Canada and New Zealand was signed on 26 June 2015 and entered into force on 1 August 2015. The rates under the new treaty are reflected in the above table.
- (wwww) The 5% rate applies to dividends with respect to a direct holding of 10% or more of the voting power. The 15% rate applies to other dividends.



- 
- (xxxx) The 5% rate applies to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer. A 15% rate applies to other dividends.
- (yyyy) Interest on certain government or government-assisted debt is exempt from withholding tax.
- (zzzz) The 0% rate applies to copyright royalties and other similar payments with respect to the production or reproduction of literary, dramatic, musical or other artistic works, but not including royalties with respect to the following:
- Computer software
  - Motion picture films
  - Works on film or videotape or other means of reproduction for use in connection with television broadcasting
- (aaaaa) The 5% rate applies to dividends paid with respect to holdings of 10% or more of the voting power. The 15% rate applies to other dividends.
- (bbbbb) The 5% rate applies to royalties for literary works, computer software, patents and information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.

# Cape Verde

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	1/25 (b)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	
Paid to Residents	0
Paid to Nonresidents	0/10 (c)(d)
Interest	
Shareholders' Loans	
Resident Shareholders	20 (e)(f)
Nonresident Shareholders	20 (c)
Private and Public Company Bonds	
Paid to Residents	10 (e)(f)
Paid to Nonresidents	10 (c)
Bank Deposits	
Paid to Residents	10 (e)
Paid to Nonresidents	20 (c)
Royalties	
Paid to Residents	20 (e)
Paid to Nonresidents	20 (c)
Payments for Services and Commissions	
Paid to Residents	0
Paid to Nonresidents	15 (g)
Rental Income	
Paid to Residents	0
Paid to Nonresidents	10 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	7 (h)

- (a) Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or IRPC) applies to resident companies and nonresident companies with permanent establishments (PEs) in Cape Verde. Micro- and small-sized companies can benefit from a 4% reduced rate, which is applied to their turnover. See Section B for details of other rates.
- (b) See Section B.

- (c) These rates may be reduced or eliminated by tax treaties.
- (d) The 0% rate applies to dividends distributed by companies subject to and not exempt from IRPC.
- (e) Income must be declared and is subject to the normal tax rates. Amounts withheld may be credited against IRPC due. See Section B.
- (f) A withholding tax exemption is available regarding interest from shareholder loans and corporate bonds if the shareholder is a pure holding company (*sociedade gestora de participações sociais*, or SGPS) holding a stake of at least 10% for at least one year in the affiliated company.
- (g) The 15% rate applies to most services and commissions and may be eliminated under a tax treaty.
- (h) The amount deductible each year is capped at 50% of the taxable profit for the year.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or IRPC) is levied on resident and nonresident entities.

*Resident entities.* Companies and other entities, including non-legal entities, whose principal activity is commercial, industrial or agricultural, are subject to IRPC on worldwide profits, but a foreign tax credit may reduce the amount of IRPC payable (see *Foreign tax relief*).

A 50% IRPC exemption applies to entities exclusively engaged in agricultural and fishing activities.

Companies and other entities, including non-legal entities, that do not carry out commercial, industrial or agricultural activities, are generally subject to tax on their worldwide income (for details regarding the calculation of the taxable profit of these entities, see Section C).

*Nonresident entities.* Companies or other entities that operate in Cape Verde through a PE are subject to IRPC on their profits attributable to the PE.

Companies or other entities without a PE in Cape Verde are subject to IRPC on their income deemed to be derived in Cape Verde.

The transfer of shares in a foreign or Cape Verdean company is subject to tax in Cape Verde if more than 50% of the assets owned by the company being transferred are composed directly or indirectly of immovable property located in Cape Verde.

For tax purposes, companies or other entities are considered to have a PE in Cape Verde if they have a fixed installation or a permanent representation in Cape Verde through which they engage in a commercial, industrial or agricultural activity. Under rules that generally conform to the Organisation for Economic Co-operation and Development (OECD) model convention, a PE may arise from, among others, the following:

- A building site or installation project, including coordination, inspection and supervision activities
- The performance of services (including consultancy) that last for more than 183 days
- The existence of a dependent agent

Double tax treaties may limit the scope of a PE in Cape Verde.

**Tax rates.** For 2018, IRPC is levied at the following rates.

Type of enterprise	Rate (%)
Companies or other entities with a head office or effective management control in Cape Verde, whose principal activity is commercial, industrial or agricultural	25
Micro- and small-sized companies with a head office or effective management control in Cape Verde	4
Entities other than companies with a head office or effective management control in Cape Verde, whose principal activity is not commercial, industrial or agricultural	25
PEs	25
Nonresident companies or other entities without a head office, effective management control or a PE in Cape Verde	
Income subject to withholding tax	10/20
Income not subject to withholding tax	25

Certain types of income earned by companies in the last category of companies listed above are subject to the following withholding taxes.

Type of income	Rate (%)
Interest payments	10/20
Royalties	20
Technical assistance	15
Income from shares (dividends)	0/10
Income from government bonds	10
Revenues derived from the use of, or the right to use, equipment	20
Other revenues from the application of capital	20
Payments for services rendered or used in Cape Verde	20

Applicable double tax treaties may reduce the above withholding tax rates.

A fire brigade surcharge (*imposto de incêndio*) is imposed on resident companies and nonresident companies with a PE in the municipalities of Mindelo (Island of São Vicente) and Praia (Island of Santiago). The fire brigade surcharge is applied at a rate of 2% to the taxable profit determined for IRPC purposes.

Companies licensed under the Cape Verdean International Business Centre (IBC) regime benefit from a reduced rate of IRPC. This tax benefit applies until 2030 and depends on the creation of a minimum of five jobs at the International Industry Center (CII) and the International Trade Center (CIC). The following are the reduced rates of IRPC:

- 5% for entities with 5 or more dependent workers
- 3.5% for entities with 20 or more dependent workers
- 2.5% for entities with 50 or more dependent workers

For companies operating in the International Services Center, the IRPC rate is 2.5% if the entity has at least two dependent workers.

The shareholders of the companies that are licensed under the IBC regime may benefit from exemptions on dividends received and on interest derived from shareholder loans. Customs duties

exemptions may also be available to entities licensed under the IBC regime.

Significant incentives are also available for qualifying investment projects under the Investment Law. Qualifying projects may enjoy the following tax benefits:

- A tax credit equal to 50% of relevant investments made in the health sector, the environmental sector, creative industries, tourism or tourism promotion industry and tourism property development, air and sea transportation services and port and airport services, renewable energy production, manufacturing and installation of renewable energy equipment, scientific research and investigation, and information and communication technology development
- A tax credit equal to 30% of relevant investments made in other areas
- An exemption from municipal real estate holding tax for buildings used in the project
- An exemption from property transfer tax for buildings used in the project
- An exemption from stamp duty with respect to financing necessary for the investment project
- An exemption from customs duties for certain goods and equipment

The above-mentioned tax credits can be used in the year of investment for up to 50% of the IRPC liability. Any excess can be carried forward for 10 years.

Further incentives may be available for investment projects that have a value exceeding CVE550 million, create at least 10 jobs and are relevant for the promotion and acceleration of the development of the Cape Verdean economy.

Cape Verdean tax law also provides for significant tax exemptions and deductions concerning investments toward internationalization (reduction of IRPC rate by 50%, as well as exemptions for stamp duty, value-added tax, customs duties, property transfer tax and legal costs, incentives in the savings and financial sector, incentives for the creation of jobs and incentives regarding training and culture.

Profits not distributed by financial institutions to strengthen their equity may benefit from an IRPC credit.

Certain customs duties incentives are also available for fishing and industry activities, as well as for, among others, transportation activities and social communication activities.

In addition, tax benefits (IRPC, stamp duty and property transfer tax exemptions) are also available with respect to recovery and insolvency processes.

To promote the regular registration of immovable property in Cape Verde, significant stamp duty and real estate tax exemptions have been introduced.

**Limitation of benefits.** The amount of tax payable cannot be lower than 90% of the amount that would be assessed if the taxpayer did not benefit from certain tax incentives and deduction of tax losses carried forward.

**Notional interest deduction.** Companies can benefit for a six-year period from a notional interest deduction of 10% on the amount of cash contributions or conversions of loans by shareholders to share capital that occur on or after 1 January 2018. The amount to which the notional interest deduction applies is capped at CVE100 million. The deemed interest deduction is considered for the net financial expenses limitation (see *Debt-to-equity rules* in Section E).

**Simplified regime of taxation.** Micro- and small-sized resident companies that have annual turnover not exceeding CVE10 million or no more than 10 employees and that meet certain other conditions may opt to be taxed under a simplified regime of taxation. Companies under the simplified regime of taxation are subject to a rate of 4% levied on the turnover.

**Capital gains.** Capital gains derived from the sale of investment properties, tangible fixed assets, intangible assets, non-current assets held for sale and financial assets are included in taxable income subject to IRPC. The capital gain equals the difference between the sales value, net of expenses incurred on the sale, and the acquisition value, adjusted by depreciation, impairment relevant for tax purposes and an official index.

Fifty percent of the capital gains derived from disposals of certain assets held for more than one year may be exempt if the sales proceeds are invested in tangible fixed assets, intangible assets, investment property and shares during the period beginning one year before the year of the disposal and ending two years after the year of the disposal. A statement of the intention to reinvest the gain must be included in the annual tax return for the year of disposal. The remaining 50% of the net gain derived from the disposal is subject to tax in the year of the disposal.

If only a portion of the proceeds is reinvested, the exemption is reduced proportionally. If, by the end of the second year following the disposal no reinvestment is made, the net capital gain that remains untaxed (50%) is added to taxable profit for that year, increased by 15% and compensatory interest applies. A similar adjustment occurs if the assets in which reinvestment is made are not maintained by the taxpayer for at least two years from year-end of the tax period in which the reinvestment is made.

Losses from the transfer for consideration of shareholdings in tax-haven entities are not allowed as deductions. Losses resulting from shares are also not deductible if the seller has resulted from a transformation, including a change of the business purpose, of an entity for which such losses would not be deductible and if less than three years have elapsed since the date of transformation.

The State Budget Law for 2018 introduced an exclusion from taxable income for capital gains (or losses) realized by resident entities and nonresident entities with a PE in Cape Verde that are derived from the disposal of shares (and other equity instruments), provided the shares have been held for a period of at least 12 months. Such exclusion does not apply to capital gains realized on the transfer of shares acquired from entities domiciled or with a place of effective management in a territory subject to a more favorable tax regime.

The State Budget Law for 2018 also introduced an exemption for gains realized by nonresident entities without a PE in Cape Verde on the disposal of shares and other securities.

Nonresident companies that do not have a head office, effective management control or a PE in Cape Verde are taxed at a 1% rate on the sales proceeds derived from disposals of real estate, shares and other securities. In general, the tax due is paid through withholding tax. Certain gains may be taxed at a 25% rate and require filing of a tax return.

**Administration.** The tax year is the calendar year.

All companies engaging in activities in Cape Verde must register with the tax department to obtain a taxpayer number. Companies, including foreign companies with a PE in Cape Verde and foreign companies without a PE that had not been subject to withholding tax, must file an annual tax return, together with their financial statements and other documentation, by 31 May in the year following the tax year.

Companies with a head office, effective management control or a PE in Cape Verde must make advance payments of IRPC. Companies whose principal activity is commercial, industrial, agricultural or fishing must make payments in March, August and November of the current tax year. The tax base for the payments is 30%, 30% and 20%, respectively, of the preceding year's tax liability. The tax rate of 25% is applied to this tax base to compute the amount of the advance payment. Each advance payment cannot be lower than CVE50,000.

Companies with a head office, effective management control or a PE in Cape Verde that have adopted a financial year other than the calendar year must make estimated payments as outlined above, but in the 3rd, 7th and 11th months of their financial year. They must file a tax return by the end of the fifth month following the end of that year.

Companies under the simplified regime of taxation must make advance payments at the end of April, at the end of October and at the end of January of the following year. The IRPC rate of 4% is applied to the preceding quarter's turnover.

If the total amount of the advance payments exceeds the tax due for the tax year, the excess may be carried forward as a tax credit against the tax payable in the following four years or refunded on the occurrence of certain events.

A nonresident company without a PE in Portugal must appoint an individual or company, resident in Cape Verde, to represent it with respect to its tax liabilities.

Penalties are imposed for the failure to file tax returns and satisfy other compliance obligations. If, on the final assessment, the tax authorities determine that a further payment is required and that the taxpayer is at fault, interest is imposed on the amount of the additional payment. Fines, which are generally based on the amount of tax due, are also imposed. If the tax due is not paid, additional interest is imposed from the date of the tax authorities' notice that an additional payment is due.

*Binding rulings.* The General Tax Code provides the taxpayer the possibility of obtaining a binding ruling. The binding ruling is limited to a certain time period, which is determined on a case-by-case basis by the tax authorities. The ruling is subject to the payment of a fee.

**Dividends.** Dividends paid by companies to residents and non-residents are generally subject to withholding tax at a rate of 10%.

On distributions to resident parent companies, the 10% withholding tax is treated as a payment on account of the final IRPC due.

A resident company or a nonresident company with a PE subject to and not exempt from IRPC may deduct 100% of dividends received from another resident company.

The above regime also applies, under similar conditions, to dividends distributed by foreign affiliates if the underlying profits have been subject to and not exempt from income tax.

If the recipient benefits from a reduced IRPC rate, the recipient may deduct only 50% of the dividends.

If a recipient qualifies for the 100% deduction, the payer of the dividends does not need to withhold tax.

A withholding tax exemption applies to dividends distributed to nonresident companies if the requirements described above are met.

Positive liquidation proceeds are treated as deemed dividends in the portion corresponding to the difference between the liquidation proceeds attributed and the associated capital contributions. Any excess is treated as a capital gain. If the amount is negative, it is treated as a capital loss. Losses from the liquidation of subsidiaries are deductible only if the shares have been held for at least three years.

**Foreign tax relief.** Foreign-source income is taxable in Cape Verde. However, direct foreign tax may be credited against the Cape Verdean tax liability, limited to the lower of the following amounts:

- The amount of tax incurred in the foreign country
- The amount of IRPC attributable to the foreign-source income

If an applicable double tax treaty reduces the withholding tax rates, the tax credit is limited by the applicable treaty clause. The foreign tax credit cannot be carried forward.

### C. Determination of trading income

**General.** Taxable profit is determined according to the following rules:

- For companies with a head office or effective management control in Cape Verde that are principally engaged in commercial, agricultural or industrial activities, the taxable profit is the net accounting profit calculated in accordance with Cape Verdean generally accepted accounting principles, as adjusted by the IRPC Code.
- For companies with a head office or effective management control in Cape Verde that do not principally engage in commercial, industrial or agricultural activities, the taxable profit is the net total of revenues from various categories of income described



in the Personal Tax (Imposto sobre o Rendimento das Pessoas Singulares, or IRPS) Code, less expenses.

- For PEs, the taxable profit is determined as outlined in the first bullet above. In calculating taxable profit, general administrative expenses that are attributable to the PE may be deducted as a cost if justified and acceptable to the tax authorities.

Expenses that are considered essential for the generation or maintenance of profits are deductible. However, certain expenses are not deductible for IRPC purposes including, but not limited to, the following:

- Illicit expenses
- Depreciation and amortization claimed that exceed the rates fixed in the Cape Verdean tax law
- Provisions and impairments (except for those contained in the Cape Verdean tax law)
- IRPC, stand-alone taxes and surcharges
- Penalties and interest charges
- Improperly documented expenses
- Health or personal injury insurance premiums, and expenses or losses with respect to life insurance, contributions to pension funds or supplementary social security systems, except when they are taxed under the IPRS Code or when they are mandatory by law or contracts
- Real estate taxes (except for companies engaged in real estate trading activities)
- Expenses concerning pleasure boats and tourism airplanes, except for those allocated to public transportation companies or used for rental purposes as part of the company's normal activities

Assets under financial leases are deemed to be owned by the lessee. Consequently, the lessee may deduct only applicable tax depreciation and any interest included in the rent payments. Special rules apply to sale-and-leaseback transactions.

Thirty percent of expenses related to passenger or mixed-use vehicles, which are depreciation, rent, insurance, repairs and fuel, and 50% of representation expenses, are not deductible for tax purposes.

Although representation expenses and expenses related to private cars are deductible with some limits, they are subject to a special stand-alone tax at a rate of 10% (this stand-alone tax may not apply in certain cases).

A 10% stand-alone tax rate also applies to tax-deductible daily allowances and compensation for costs incurred by employees when traveling in their own vehicles at the service of the employer if these amounts are not charged to clients and not subject to IRPS.

Undocumented expenses are not deductible. In addition, these expenses are subject to a special stand-alone tax rate of 40%.

A stand-alone tax at a rate of 10% also applies to certain fringe benefits attributed to the employer (if the amount exceeds CVE15,000), which are gifts made to employees, sales of vehicles to employees below market value, travel expenses paid to employees if not related to the company's activities and interest-free or low-interest-rate loans to employees.

The above stand-alone taxes are imposed regardless of whether the company earns a taxable profit or suffers a tax loss in the year in which it incurs the expenses. In addition, all stand-alone tax rates are increased by 10 percentage points if the taxpayer benefits from a privileged tax regime or incurs a tax loss in two consecutive years (with some exceptions).

**Inventories.** Inventories must be consistently valued by any of the following criteria:

- Effective cost of acquisition or production
- Standard costs in accordance with adequate technical and accounting principles
- Cost of sales less the normal profit margin
- Cost of sales of products cropped from biological assets, which is determined at the time of cropping, less the estimated costs at the point of sale, excluding transportation and other costs required to place the products in the market

Changes in the method of valuation must be justifiable and acceptable to the tax authorities.

**Provisions.** The following provisions, among others, are deductible:

- Bad and doubtful debts, based on a judicial claim or on an analysis of the accounts receivable
- Inventory losses (inventory values in excess of market value)
- Technical provisions imposed on insurance companies and financial institutions by the competent Cape Verdean regulatory authorities

**Depreciation.** In general, depreciation is calculated using the straight-line method. The declining-balance method may be used for new tangible fixed assets other than buildings, office furniture and automobiles not used for public transport or rental. Maximum depreciation rates are established by law. If rates that are less than 50% of the official rates are used, total depreciation will not be achieved over the life of the asset. The following are the principal official straight-line rates.

<b>Asset</b>	<b>Rate (%)</b>
Commercial buildings	3
Industrial buildings	5
Office equipment	12.5 to 33.33
Motor vehicles	12.5 to 20
Plant and machinery	16.66 to 20

Companies may request the prior approval of the tax authorities for the use of depreciation methods other than straight-line or declining-balance or rates up to double the official rates. Approval is granted only if the request is justified by the company's business activities.

**Relief for losses.** Tax losses may be carried forward for seven years. The amount deductible each year is capped at 50% of the taxable profit for the year. Loss carrybacks are not allowed.

Companies under the simplified tax regime cannot benefit from the relief for losses. Tax loss carryforwards are forfeited if the taxpayer states a zero annual turnover and does not obtain any

income from its normal business activity for two consecutive tax years.

**Groups of companies.** The Cape Verdean Tax Law does not provide a special tax regime for groups of companies.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax; levied on goods and services, other than exempt services	15%
Excise duties	
General rate	10%
Other rates	0% to 40%
Social security contributions; on salaries; paid by	
Employer	16%
Employee	8.5%
Self-employed workers	11%/19.5%
Property transfer tax; payable by purchaser	1.5%
Municipal real estate holding tax; local tax; imposed annually on the assessed tax value of the property on 31 December; tax payable by the owner of the property	1.5%
Stamp duty	
Credit operations	0.5%
Interest on bank loans and bank services	3.5%
Guarantees	0.5%
Insurance premiums	3.5%
Bills of exchange, promissory notes and other negotiable debt securities	0.5%
Notarial acts of registrations and procedures	15%
Administrative acts and contracts	CVE1,000
Touristic contribution; for every overnight stay in a touristic establishment, up to a maximum of 10 nights; children under 16 years old are not subject to this contribution	CVE220 per night
Ecologic charge; imposed on some products imported or produced domestically that are non-biodegradable or made out of metal, glass or plastic; charge varies depending on the quantity or weight of the goods; payable by the local producer or importer; exemptions are available, including packing material used in medicine or for packing essential food, such as corn, rice, sugar, flour and milk	CVE2 to CVE200 per kilogram

#### E. Foreign-exchange controls

**Foreign-exchange controls.** The currency in Cape Verde is the escudo (CVE).

Cape Verde imposes foreign-exchange controls in certain situations.

**Mergers and reorganizations.** Mergers and other type of corporate reorganizations may be tax neutral in Cape Verde if certain conditions are met.

**Controlled foreign entities.** A Cape Verdean resident owning, directly or indirectly, at least 25% in the capital, voting rights or rights to income or estate of a controlled foreign entity (CFE) is subject to tax on its allocable share of the CFE's net profit or income. For computing the 25% threshold, the capital and rights owned, directly or indirectly, by related parties are also considered.

Several rules, which are based on the nature of the activity and whether the activity is predominantly directed to the Cape Verdean market, may result in the non-imputation of profits or income.

**Payments by residents to nonresidents subject to a more favorable tax regime.** In general, payments made by Cape Verdean residents to nonresidents subject to a more favorable tax regime as provided by the General Tax Code are not deductible for tax purposes, and the payers are subject to a stand-alone tax rate of 60%. However, these payments may be deducted and are not subject to stand-alone taxation if the payer establishes the following:

- The payments were made in real transactions.
- The payments are normal.
- The amounts of the payments are not unreasonable.

**Related-party transactions.** For related-party transactions (transactions between parties with a special relationship), the tax authorities may make adjustments to taxable profit that are necessary to reflect transactions on an arm's-length basis.

A special relationship is deemed to exist if one entity has the capacity, directly or indirectly, to influence in a decisive manner the management decisions of another entity. This capacity is deemed to exist in the following relationships:

- Between one entity and its shareholders, or their spouses, ascendants or descendants, if they possess, directly or indirectly, 20% of the capital or voting rights of the entity
- Between two entities in which the same shareholders, their spouses, ascendants or descendants hold, directly or indirectly, a participation of not less than 20% of the capital or voting rights
- Between any entities bound by dominance relations
- Between a nonresident entity and its Cape Verdean PE
- Between a resident entity and an entity located in territory with a favorable tax regime according to the General Tax Code

**Foreign PE profits.** Transactions between the head office and a foreign PE must respect the arm's-length principle.

**Debt-to-equity rules.** A limitation to the deduction of interest expenses (net of interest revenues) applies. The tax deduction for net financial expenses is capped by the higher of the following amounts:

- CVE110 million
- 30% of the earnings before interest, taxes, depreciation and amortization

The nondeductible excess, as well as the unused fraction of the 30% threshold, may be carried forward to the following seven years.

**F. Treaty withholding tax rates**

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Guinea-Bissau	5	10	10
Macau SAR	10	10	10
Portugal	10	0/10*	10
Non-treaty jurisdictions	0/10	10/20	20

\* The 0% rate applies to interest paid by the state of one contracting country or derived by the state of the other contracting country.

# Cayman Islands

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## A. At a glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0

## B. Taxes on corporate income and gains

The Cayman Islands does not impose taxes on income, profits, wealth or capital gains.

## C. Corporate license fees

**Ordinary resident company.** An ordinary resident company may transact foreign and domestic business from within the Cayman Islands. A Trade and Business License is required if business is to be conducted within the Cayman Islands unless the business is exempted (see Section D). If Caymanians or persons with Cayman status do not own at least 60% of the issued share capital, hold 60% of board positions or otherwise control such a company, the company must also obtain a Local Companies (Control) Law License before it can do business in the Cayman Islands, unless the business is exempt from this requirement.

Incorporation fees range from a minimum of KYD300 to a maximum of KYD500. Annual fees range from a minimum of KYD300 to a maximum of KYD500. The fees are based on authorized capital.

**Ordinary nonresident company.** An ordinary nonresident company is similar to a resident company, but it is not permitted to conduct business within the Cayman Islands. However, it may transact within the Islands all matters necessary to conduct its business outside the Islands; for example, it can negotiate contracts or open bank accounts.

Incorporation fees range from a minimum of KYD575 to a maximum of KYD815. Annual fees range from a minimum of KYD675 to a maximum of KYD915. The fees are based on authorized capital.

**Exempted company.** An exempted company is the most common form of company used by the offshore investor. An exempted company, similar to an ordinary nonresident company, may not conduct business within the Cayman Islands, but may transact from within the Islands all the matters necessary to conduct its business outside the Islands. An exempted company has certain advantages over an ordinary resident or nonresident company, including the availability of a Tax Exemption Certificate, which make the exempted company attractive to an offshore investor. A Tax Exemption Certificate provides that no law enacted in the Cayman Islands imposing any tax on income, profits, capital gains or appreciations will apply to the exempted company and that no such tax, estate duty or inheritance tax will be payable on or with respect to the shares, debentures or other obligations (or the income derived from such instruments) of the exempted company. The exemptions provided in the certificate are for a renewable 20-year period.

Incorporation fees range from a minimum of KYD600 to a maximum of KYD2,668. Annual fees range from a minimum of KYD700 to a maximum of KYD2,568. The minimum fee applies to companies with authorized capital of up to KYD42,000; the fee increases on a sliding scale for authorized capital in excess of this amount until it reaches the maximum of KYD2,568, which applies to companies with authorized capital exceeding KYD1,640,000.

An exempted company, through its memorandum and articles of association, may be established as a company limited by shares, a company limited by guarantee or a limited duration company (LDC). LDCs may be treated by the authorities of the United States and other jurisdictions as partnerships for tax and other purposes. An exempted company is classified as an LDC if its corporate existence terminates on the happening of one or more specified events and if it has a maximum life of 30 years. If a company limited by shares has more than one share class, it may be established on the basis that some of its classes will have limited liability and some will have unlimited liability. LDCs must pay a fee of KYD200 on registration in addition to the regular fees described above.

#### **D. Miscellaneous matters**

**Foreign-exchange controls.** The currency of the Cayman Islands is the Cayman Islands dollar (KYD). The exchange rate of the US dollar against the Cayman Islands dollar is fixed at USD1.2 = KYD1.

The Cayman Islands has no foreign-currency exchange control regulations.

**Business licenses.** Unless exempted, every person or company carrying on a trade or business must have an annual license for each place where such trade or business is carried on. The amount of the fee depends on the type and location of the business, as well as on the number and type of employees.

Companies that engage in certain types of business, such as banking and insurance, may be required to be licensed or registered under relevant laws. These laws may expressly eliminate the requirement that a company obtain a Trade or Business License or a Local Companies (Control) Law License.

The following are the annual license renewal fees payable by insurance companies and banks registered in the Cayman Islands.

<b>Insurance companies (KYD)</b>	
Class A (locally incorporated)	75,000
Class A (approved external insurer)	75,000
Class B(I) (at least 95% of the net premiums written originate from the insurer's related business)	8,500
Class B(II) (over 50% of the net premiums written originate from the insurer's related business)	9,500
Class B(III) (50% or less of the net premiums written originate from the insurer's related business)	10,500
<b>Banking and trust companies (KYD)</b>	
Class A (unrestricted)	1,000,000
Class A (restricted)	300,000 or 350,000
Class B (unrestricted)	60,000 to 100,000
Class B (restricted)	37,000 or 40,000

The fees for Class B banking and trust licenses depend on the corporate structure of the relevant bank (the structures are branches, subsidiaries and private/affiliated companies) and slightly higher fees may be payable on the application and grant of the license. Restricted trust companies must pay an annual fee of KYD7,000 for a restricted trust license alone.

Mutual funds registered or licensed under the Mutual Funds Law must pay an annual license fee of KYD3,500. Mutual fund administrators must pay the following license renewal fees:

- Restricted license: KYD7,000
- Unrestricted license: KYD30,000 or KYD35,000 (depending on the number of funds under administration)

Company managers and corporate service providers licensed under the Companies Management Law must pay an annual license fee. For managers, the annual license fee ranges from KYD750 to KYD20,000 (depending on the number of companies under management), plus KYD150 per managed company. For corporate service providers, the annual license fee ranges from KYD500 to KYD10,000, plus KYD75 per company.



**Stamp duties.** Stamp duties are charged on transfers of real property, leases, mortgages and the execution of various other documents within the Cayman Islands. Transfer duty is payable on transfers of shares in Cayman Islands companies that hold real property in the Cayman Islands, subject to certain exemptions.

**Common Reporting Standards.** On 16 October 2015, the Cayman Islands published The Tax Information Authority (International Tax Compliance) (Common Reporting Standards) Regulations, 2015, for the implementation of the Common Reporting Standards (CRS) Regulations. The CRS Regulations entered into force on 1 January 2016.

**Country-by-Country Reporting.** The Cayman Islands has indicated it will be adopting Country-by-Country Reporting (CbCR) in accordance with the Base Erosion and Profit Shifting (BEPS) Action Plan. At the time of writing, the regulations and guidelines were expected to be issued in late 2017.

## **E. Tax treaties**

As of October 2017, the Cayman Islands has entered into bilateral tax information arrangements with Argentina, Aruba, Australia, Belgium, Brazil, Canada, China, Curaçao, the Czech Republic, Denmark, the Faroe Islands, Finland, France, Germany, Greenland, Guernsey, Iceland, India, Ireland, Isle of Man, Italy, Japan, Malta, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Qatar, Seychelles, Sint Maarten, South Africa, Sweden, the United Kingdom and the United States.

The Cayman Islands has also entered into a double tax treaty with the United Kingdom.

On 5 November 2013, the Cayman Islands and the United Kingdom signed an intergovernmental agreement (IGA) to enable the exchange of information for tax purposes, including on an automatic basis.

On 29 November 2013, the Cayman Islands and the United States signed and released a Model 1 IGA for the implementation of the US Foreign Account Tax Compliance Act.

# Chad

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## A. At a glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35 (a)(c)
Withholding Tax (%)	
Dividends	20 (d)(e)
Interest	20/25 (f)
Royalties from Patents, Know-how, etc.	25
Fees for Technical Services, Professional Activities and All Other Services Paid Abroad	25 (g)
Certain Payments to Resident Individuals	20 (h)
Rent under Leases Paid to Individuals	15/20 (i)
Branch Remittance Tax	20 (j)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) The minimum tax equals 1.5% of turnover. For further details, see Section B.
- (b) In certain circumstances, the tax is deferred or reduced (see Section B).
- (c) An optional final withholding tax is available for CIE Petroleum Contractors and Subcontractors (foreign companies that have entered into subcontracts with oil companies registered in Chad). The rate of this final withholding tax is 25% of the net amount of the contract.
- (d) This withholding tax also applies to directors' allowances, nondeductible expenses and adjustments or reinstatements following a tax reassessment.
- (e) This withholding tax applies to residents and nonresidents.
- (f) The withholding tax rate is 20% if the interest is paid to a resident and 25% if it is paid to a nonresident.
- (g) This withholding tax applies to payments by Chadian resident companies to nonresidents.
- (h) This withholding tax applies to payments made to individuals in the self-employed professions, trade intermediaries, door-to-door salespersons and representatives of the law (attorneys, bailiffs and notaries).

- (i) The withholding tax rate is 15% if the beneficiary of the landlord is a tax resident and 20% if the beneficiary is a tax nonresident.
- (j) The income subject to tax corresponds to the net profit after corporate income tax.

## B. Taxes on corporate income and gains

**Corporate income tax.** Chadian companies are taxed on the territoriality principle. As a result, Chadian companies carrying on a trade or business outside Chad are not taxed in Chad on their foreign-source profits. Chadian companies are those registered in Chad, regardless of the nationalities of their shareholders or where they are managed and controlled. Foreign companies with activities in Chad are subject to Chadian corporate tax on Chadian-source profits.

**Tax rates.** Under the General Tax Code, the standard corporate income tax rate applicable to all companies is a flat rate of 35% of taxable income. Corporate income tax is calculated by applying the tax rate to taxable income, which is based on income reported in the audited financial statements.

Oil and gas contractors are subject to higher rates.

The minimum tax is paid on a monthly basis at a rate of 1.5% of the turnover of the previous month. The payment must be made by the 15th day of the month following the month of realization of the turnover.

Sales made by wholesale dealers to individuals are subject to withholding tax at a rate of 4%. Wholesale dealers must pay the amount due to the tax authorities by the 15th day of the following month. Purchases made by companies from individuals are also subject to withholding tax at the same rate.

Profits realized in Chad by branches of foreign companies are subject to a branch withholding tax of 20% levied on the net profit after corporate income tax.

Newly incorporated companies or new businesses conducted by existing companies can be exempt from corporate income tax for five years if they satisfy the following conditions:

- The newly incorporated company or new business must be operating in specific sectors, which are the industry, mining, agriculture, forestry and real estate sectors.
- The newly incorporated company or new business must demonstrate a particular interest for Chad development.
- The newly incorporated company or new business must not compete in any way with existing companies.
- The newly incorporated company must have a regular accounting conducted in Chad.

If the above-mentioned conditions are met, the application can be submitted to the Ministry of Finance and Budget.

**Capital gains.** Capital gains are taxed at the regular corporate rate. Capital gains include gains on the sale of real estate, corporate shares and business assets. However, the tax can be deferred or eliminated in the event of a merger under certain conditions.

For a business that is totally or partially transferred or discontinued (such as through a liquidation or sale of the business), only one-third of the net capital gains is taxed if the event occurs more

than five years after the beginning or purchase of the business, and only one-half of the gains is taxed if the event occurs within the five years following the beginning or purchase of the business.

**Administration.** The fiscal year runs from 1 January to 31 December.

Companies must file income tax returns by 30 April of the year following the fiscal year. Late returns are subject to a penalty of 1.5% per month, up to 50% of the tax due. An additional penalty of 100% or 150% applies in case of bad faith or in case of fraud discovered through a tax audit. Corporate income tax must be paid by the deadline for filing tax returns. Late payments are subject to a penalty of 2% per month of delay, excluding the application of an additional penalty.

**Dividends.** Dividends paid to resident individuals in Chad are subject to a 20% withholding tax. Resident individuals must include the gross dividend in taxable income, but they receive a corresponding 20% tax credit to prevent double taxation. Dividends received by resident companies are included in their taxable income and are subject to corporate income tax at the regular rate of 35%. Dividends paid to nonresidents are subject to a final 20% withholding tax.

The participation exemption regime may exempt up to 90% of the dividends received from a 50%-owned subsidiary if the parent company and the subsidiary have their registered offices in a Central African Economic and Monetary Community (Communauté Économique et Monétaire de l'Afrique Centrale, or CEMAC) member state. The CEMAC member states are Cameroon, Central African Republic, Chad, Congo (Republic of), Equatorial Guinea and Gabon.

**Foreign tax relief.** In general, foreign tax credits are not allowed. The income of residents and nonresidents subject to foreign tax that is not exempt from Chadian tax under the territoriality principle is taxable, net of the foreign tax.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the Organization for the Harmonization of Business Law in Africa (L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires, or OHADA) standard statements.

Business expenses are generally deductible unless specifically excluded by law. Expenses that are not deductible include the following:

- Head office overhead, research costs, and technical, financial and administrative assistance fees paid to nonresidents that exceed 10% of taxable profits before their deduction. This limitation does not apply to technical assistance fees related to the assembly of a factory, which are deductible in their entire amount. In addition, if the payments are made in a tax-haven country or territory, the deductible head office overhead cannot exceed 50% of the gross amount reported as a charge. The tax-haven countries and territories are defined with reference to the Organisation for Economic Co-operation and Development (OECD) blacklist of non-cooperative or privileged tax regime countries and territories. Interest paid to the head office with respect to intercompany

loans are included in the calculation of head office overhead deductible costs.

- Charges from transactions with related parties, if the appropriate transfer-pricing documentation is not filed.
- Rent expenses for movable equipment paid to a shareholder that manages the company in fact or by right and holds, directly or indirectly, more than 10% of the capital.
- Interest paid to shareholders in excess of the central bank annual rate plus two points.
- Commissions and brokerage fees for services on behalf of companies located in Chad that exceed 5% of purchased imports and sales of exports.
- Amounts set aside for self-insurance.
- Certain specific charges (such as contributions other than those for retirement paid to a foreign social security organization, which are deductible up to 15%, and health insurance premiums paid to companies located abroad), gifts, subsidies and penalties (to some extent).
- Expenses paid to local suppliers without reference to a Chadian tax identification number.
- Disallowed expenses, such as personal expenses, family expenses, nonbusiness-related expenses, provisions for redundancy for economic purposes and for self-insurance and unsupported expenses.

**Inventories.** Inventory is normally valued at the acquisition cost or at the lower of cost or market value. Cost must be determined on a weighted-average cost-price method. The first-in, first-out (FIFO) method is also generally acceptable.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Insurance companies may deduct technical provisions provided by the Conférence Interafricaine des Marchés d' Assurance (CIMA) Code to the extent that the General Tax Code does not contain any limitation for such deduction.

Credit institutions may deduct provision for bad debts. Such deduction is limited to 25% for the first year, 50% for the second year and 25% for the third year, if the concerned debt is not covered by a guarantee. If the bad debt is covered by a real guarantee, the deductibility is limited to 15% for the first year, 30% for the second year, 30% for the third year and 25% for the fourth year.

**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. Accordingly, if the rates used for accounting purposes are greater than the prescribed rates, the excess is disallowed for tax purposes.

**Relief for tax losses.** Losses may be carried forward for three years. However, losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** The Chadian tax law does not provide for the fiscal integration of Chadian companies equivalent to a consolidated filing position.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on transactions carried out in Chad; certain transactions are exempt	
Standard rate	18
Exports	0
African Union Tax; on imports from outside Africa	0.2
Business license; rate varies depending on the amount of turnover	Various
Registration duties, on transfers of real property or businesses	3 to 10
Social security contributions on an employee's annual gross salary, limited to XAF6 million	
Family allowances, paid by employer	7.5
Old age, disability and survivor's pension; paid by Employer	5
Employee	3.5
For job-related accidents; paid by employer	4
Inclusive tax; on gross salary and effective value of benefits in kind; paid by employer	7.5
Training tax; on gross salary and effective value of benefits in kind; paid by employer	1.2

#### E. Foreign-exchange controls

Exchange-control regulations exist in Chad for financial transfers outside the franc zone, which is the monetary zone including France and its former overseas colonies. A CEMAC rule (No. 0200/CEMAC/UMAC/CM, dated 29 April 2000) applies to all of the CEMAC countries.

#### F. Treaty withholding tax rates

Chad has a limited tax treaty network. Chad has only entered into the CEMAC multilateral tax treaty, dated 13 December 1966. Under this treaty, the following are the withholding tax rates.

	Dividends %	Interest %	Royalties %
Cameroon	20 (a)	20 (a)	– (b)
Central African Republic	20 (a)	20 (a)	– (b)
Congo (Republic of)	20 (a)	20 (a)	– (b)
Equatorial Guinea	20 (a)	20 (a)	– (b)
Gabon	20 (a)	20 (a)	– (b)
Non-treaty jurisdictions	20	25	25

(a) Payments from a Chadian source are subject to withholding tax under Chadian domestic tax law.

(b) Withholding tax is not levied. The income is subject to tax in the state of the recipient.

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## A. At a glance

Corporate Income Tax Rate (%)	25/27 (a)
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	25/27 (a)
Withholding Tax (%)	
Dividends	35 (a)(b)(c)
Interest	35 (b)(d)
Royalties from Patents, Trademarks, Formulas and Similar Items	0/15/20/30 (b)(e)
Technical Services	0/15/20 (f)
Other Fees and Compensation for Services Rendered Abroad	35 (b)
Branch Remittance Tax	35 (a)(g)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) See Section B.
- (b) The tax applies to payments to nonresidents.
- (c) The 35% tax applies to the amount of the grossed-up dividend. Up to 100% of the corporate tax paid by the company can be used as a credit against the withholding tax, depending on the tax regime of the company.
- (d) A reduced rate of 4% applies to certain interest payments including, but not limited to, interest paid on loans granted by foreign banks, insurance companies, financial institutions, and interest paid with respect to import operations.
- (e) No withholding tax is imposed on payments related to standard software if certain requirements are met. A reduced withholding tax rate of 15% applies to payments with respect to the following:
- Invention patents
  - Models
  - Industrial drawings and designs
  - Layout sketches or layouts of integrated circuits
  - New vegetable patents
  - Use or exploitation of computer programs (software)
- The reduced tax rate does not apply to payments made to companies resident in jurisdictions considered to be preferential regimes. As a result, the withholding tax rate for such payments is 30%. A reduced withholding tax rate of 20% applies to payments for television broadcasting and cinematographic materials.
- (f) A 15% rate applies to payments for engineering, technical assistance, professional and other technical services rendered in Chile or abroad. However, if the payments are being made to a company domiciled in a jurisdiction considered to be a preferential regime, the withholding tax rate is 20%. Exceptionally, payments abroad made as consideration for technical assistance may be exempted from withholding tax if ruled by Customs to be linked to the exportation of services.
- (g) The 35% tax applies to the amount of the grossed-up dividend. Up to 100% of the corporate tax paid by the branch can be used as a credit against the withholding tax, depending on the tax regime of the branch.



## B. Taxes on corporate income and gains

**Corporate income tax.** Chilean resident corporations and branches of foreign entities are subject to income tax on their worldwide income. A resident corporation is one that is incorporated in Chile. The corporate income tax is applied to accrued net income, with the exception of foreign-source income, which is computed on a cash basis. The taxable results of foreign branches and passive income of controlled foreign corporations (see Section E) are also included in the tax base.

**Rates of corporate tax.** The corporate income tax rate is 25% or 27%, depending on the tax regime elected by the company. The corporate tax paid by the company is creditable against the withholding tax applicable to the distribution of profits to the company's partners or shareholders.

**Dividends.** Dividends or profit distributions between resident entities are not subject to tax. Dividends received from foreign subsidiaries are taxed as ordinary income. A foreign tax credit is available with respect to such dividends.

Dividends paid by a Chilean company to a nonresident entity or individual are subject to a 35% tax. However, the 25% or 27% corporate tax is creditable against the withholding tax (up to 100% of the corporate tax may be creditable depending on the tax regime of the company). This withholding tax rate is not reduced by tax treaties.

**Tax regimes.** Two different corporate tax regimes are available. New companies must notify the Internal Revenue Service (IRS) of their election at the moment of the start-up of their business and must remain under the elected regime for at least five years.

*Attributed Income Regime.* Under the Attributed Income Regime (Regime A), income received or accrued by a company is annually attributed to its shareholders or partners, regardless of the effective dividend distributions. Companies are subject to a 25% corporate income tax. The corporate income tax paid by the company is fully creditable against the tax imposed on the shareholders, resulting in a 35% overall rate in the case of nonresident owners. This regime is available only to companies entirely held by Chilean individuals or nonresidents (individuals or entities). In any case, corporations (*sociedades anónimas*, or SAs) are excluded from this regime.

*Distributed Income Regime.* Under the Distributed Income Regime (Regime B), shareholders or partners are taxed only on the actual distribution of dividends or profits by the company. Companies are subject to a 27% corporate income tax. Under Regime B, shareholders or partners are able to use 65% of the corporate income tax paid by the company as a credit against the withholding tax. As a result, nonresident shareholders are taxed at a 44.45% overall rate unless they are domiciled in a treaty country, in which case the corporate income tax is fully creditable.

**Mining tax.** A special tax on mining activities is imposed on individuals or legal entities that extract minerals subject to concession and sell these minerals in any state of production. The tax is imposed at progressive rates ranging from 0% to 14%, depending

on the amount of the sales and the operational margin of the taxpayer. The tax base is corporate income with certain adjustments.

Sales made by related mining entities are attributed to the taxpayer for purposes of determining the tax rate.

The mining tax is imposed in addition to the income tax. However, the mining tax may be deducted as an expense for income tax purposes for the year in which the tax is due.

**Capital gains.** In general, capital gains realized by foreign investors are subject to a 35% overall tax.

Sales of shares of companies listed on the stock exchange are exempt from income tax under certain conditions. Under certain double tax treaties, the tax rate on capital gains may be reduced to 20%, 17% or 16%.

Indirect transfers of Chilean shares are subject to capital gains tax at a rate of 35% if a nonresident entity transfers its indirect interest in Chile under either of the following conditions:

- The nonresident seller transfers at least 10% of its shares in the indirect holding entity and either of the following circumstances exists:
  - At least 20% of the fair market value of the total shares held by the seller derives from the fair market value of the Chilean underlying assets.
  - If, at the date of the transfer, the fair market value of Chilean underlying assets is equal to or greater than approximately USD180 million proportionally.
- The seller is incorporated in a jurisdiction considered preferential (with certain exceptions).

Limitations apply to the measure if the indirect transfer is made within a group reorganization process and if no capital gains are triggered.

**Administration.** All accounting periods in Chile must end on 31 December. Income taxes must be paid during the month of April.

Provisional monthly payments on account of final annual income tax are due on the 12th day of each month.

**Foreign tax relief.** A foreign tax credit may be claimed up to a limit of 25%, 27%, 32% or 35% of the foreign-source income, depending on the nature of the income and the existence of a double tax treaty.

### C. Determination of trading income

**General.** Taxable income, determined in accordance with generally accepted accounting principles, includes all profits, with the exception of specified items that are not considered income for tax purposes.

In general, all necessary expenses for producing income, sustained and justified, may be deducted to determine taxable income. However, expenses related to automobiles are not deductible. Interest associated with investment in Chilean companies is deductible for corporate tax purposes.

Payments to related parties of royalties and interest, for freight, insurance, and leases and of the types of income indicated in Article 59 of the Income Tax Law can only be deducted on a cash basis if the following requirements are met:

- The applicable withholding tax, if any, is declared and paid.
- The remittance of funds abroad is effectively made.

In addition, royalty payments to a related party abroad (a relationship strictly for the purposes of the application of this rule) may be subject to additional deductibility restrictions.

**Inventories.** For inventory valuation, the first-in, first-out (FIFO) method and the weighted average cost method are accepted by law. A corresponding monetary correction must be added to cost.

**Monetary correction.** The Income Tax Law contains monetary adjustment rules. These rules, known as monetary correction, require taxpayers to revalue certain assets and liabilities annually based on the changes reflected in the consumer price index (CPI) and in foreign-exchange rates. The different indices that are used to adjust assets and liabilities may result in taxable profits or losses.

The following adjustments must be made for monetary correction purposes:

- The initial net value of fixed tangible assets is restated based on the change in the CPI, which is fixed monthly by the National Statistical Service. Depreciation is computed on the value of the assets after restatement.
- Inventories existing at the balance-sheet date are restated to their replacement cost.
- Credits, rights and liabilities that are in a foreign currency or linked to price indices are adjusted based on the change in the foreign-exchange rate or the relevant index. Investments in foreign entities are treated as foreign-currency denominated assets.

**Depreciation.** Depreciation must be calculated using the straight-line method. The tax authority has established the following normal periods of depreciation.

<b>Manufacturing industry and trade</b>	<b>Years</b>
Machinery	15
Heavy tools	8
Light tools	3
General installations	10
Trucks	7
Cars, pickups, station wagons and buses	7
Computers, computer systems, peripherals and similar items	6
<b>Building and mining industries</b>	<b>Years</b>
Solid buildings	80
Semisolid buildings	20 to 50
Buildings of light materials	10
Bulldozers, tractors, Caterpillars and other machines employed in heavy construction	8
Drilling equipment, internal combustion engines, soldering equipment and similar equipment	6
Machines employed in mining activities (general rate)	9

Annual depreciation rates must be applied after the revaluation of fixed assets according to the rules of monetary correction (see *Monetary correction*). Accelerated depreciation may be applied to new or imported fixed assets and to imported fixed assets with normal useful lives of three years or more. The accelerated method allows the calculation of depreciation based on a useful life for an asset equivalent to one-third of the normal useful life established by the Chilean tax authorities. However, accelerated depreciation may be used only in determining trading income for corporate tax purposes.

Immediate depreciation is available for micro-companies and small-sized companies, while medium-sized companies can benefit from depreciation rates of up to 1/10 of the useful life.

**Relief for losses.** Losses may be carried forward without a time limit. If a qualified change of ownership occurs, accumulated tax losses may not be deducted from income generated after the ownership change.

The carryback of losses is not available.

#### **D. Value-added tax**

Value-added tax (VAT) applies to sales and other transactions regarding tangible personal property, as well as to payments for certain services. It also applies to the habitual sale of real estate. The general tax rate is 19%. VAT is imposed under a credit-debit system.

#### **E. Miscellaneous matters**

**Foreign-exchange controls.** The Central Bank of Chile must be informed of all transactions exceeding USD10,000. Other annual information requirements are imposed.

Taxpayers must report annually (by a sworn statement that must be filed each year) their permanent investments in foreign companies, investments in foreign branches and details regarding their foreign-source income.

Individuals or entities domiciled or resident in Chile must inform the Chilean IRS if they become trustees or administrators of trusts created in accordance with foreign law.

**Transfer pricing.** Chilean transfer-pricing regulations are in line with the Organisation for Economic Co-operation and Development (OECD) guidelines.

Acceptable transfer-pricing methods include the following:

- Comparable uncontrolled price
- Resale price
- Cost-plus
- Profit-split
- Transactional net margin

Any other method may be used if none of the above methods applies to the transaction. The most suitable method should be used, taking into account the facts and circumstances of each related-party transaction.

Taxpayers must file an annual sworn statement identifying related-party transactions and transfer-pricing methods, and providing other information requested by the Chilean IRS through regulations. In addition, taxpayers must keep all relevant information supporting compliance with the transfer-pricing rules.

County-by-Country (CbC) regulations have been in force in Chile since 2017.

**Debt-to-equity rules.** Excess indebtedness exists if the “debt” of a Chilean entity exceeds three times its tax equity (*capital propio tributario*; financial equity with certain adjustments). “Debt” includes all debt, regardless of whether it is foreign or local or related or unrelated, as well as the debt at the level of the company’s permanent establishments abroad.

If excess indebtedness is triggered, a 35% surtax applies on interest if both of the following circumstances exist:

- The interest is paid abroad due to related-party debt.
- The interest benefits from a reduced withholding tax rate (4% under domestic law or tax treaty rate).

In this case, the applied withholding tax may be used as a credit by the Chilean debtor who must bear the 35% penalty tax. The concept of relationship also includes any type of guarantee.

**Controlled foreign corporations.** In general, foreign-source income is taxed on a cash basis. However, under the controlled foreign corporation (CFC) rules, Chilean resident taxpayers are taxed on an accrual basis on passive income received or accrued by a CFC.

Under the CFC rules, passive income includes the following:

- Dividends or profit distributions from non-controlled entities
- Interest (unless the controlled entity is a bank or financial institution)
- Royalties
- Capital gains
- Income from the lease of real property (unless the exploitation of real property is the principal activity of the controlled entity)
- Income from the assignment of certain assets
- Specified Chilean-source income

Control of a foreign entity is deemed to exist in any of the following circumstances:

- 50% or more of the capital, profit or voting rights is directly or indirectly owned by a Chilean taxpayer.
- The Chilean taxpayer has a decisive influence on the administration of the foreign entity.
- The foreign entity is domiciled in a country or territory with a preferential tax regime, unless proven otherwise (that is, a foreign entity is deemed controlled if it is domiciled in a tax haven or preferred jurisdiction, unless the Chilean taxpayer demonstrates that it does not control it).

## F. Treaty withholding tax rates

The table below lists the withholding tax rates under the Chilean treaties in force. All of these treaties are based on the OECD model convention.

	<b>Dividends</b>	<b>Interest (f)</b>	<b>Patent and know-how royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Argentina	10/15 (a)	4/12/15 (b)	3/10/15
Australia	15 (a)	4/15 (b)	5/10 (c)
Austria	15 (a)	4/15	5/10
Belgium	15 (a)	4/15 (b)	5/10 (c)
Brazil	10/15 (a)	4/15	15
Canada	10/15 (a)	4/15 (b)	15 (c)
China (mainland)	10 (a)	4/10 (b)	2/10
Colombia	0/7 (a)	4/15	10 (c)
Croatia	5/15 (a)	4/15	5/10
Czech Republic	15 (a)	5/15	5/10
Denmark	5/15 (a)	4/15 (b)	5/15 (c)
Ecuador	5/15 (a)	4/15 (b)	10/15 (c)
France	15 (a)	4/15	5/10
Ireland	5/15 (a)	4/15 (b)	5/10 (c)
Italy	5/10 (a)	5/15 (b)	5/10 (c)
Japan	5/15 (a)	4/15 (b)	2/10 (c)
Korea (South)	5/10 (a)	4/10/15 (b)	5/15 (c)
Malaysia	5/15 (a)	4/15 (b)	10
Mexico	5/10 (a)	4/15 (b)	15 (c)
New Zealand	15 (a)	4/10/15 (b)	10 (c)
Norway	5/15 (a)	4/15 (b)	5/15 (c)
Paraguay	10 (a)	4/10/15 (b)	15 (c)
Peru	10/15 (a)	4/15	15 (c)
Poland	5/15 (a)	4/15 (b)	5/15 (c)
Portugal	10/15 (a)	4/10/15 (b)	5/10
Russian Federation	5/10 (a)	4/15 (b)	5/10
South Africa	5/15 (a)	5/15	5/10
Spain	5/10 (a)	4/15 (b)	5/10 (c)
Sweden	5/10 (a)	4/15	5/10
Switzerland	15 (a)	4/15 (b)	5/10 (c)
Thailand	10 (a)	4/10/15	10/15
United Kingdom	5/15 (a)	3/15 (b)	5/10 (c)
Non-treaty jurisdictions	35 (e)	4/35 (f)	15/30 (d)

- (a) With respect to Chile, the treaty withholding tax rates for dividends do not apply to the 35% withholding tax applicable under domestic law as long as the corporate tax is creditable against the withholding tax.
- (b) These treaties have a most-favored nation (MFN) clause with respect to interest.
- (c) These treaties have an MFN clause with respect to royalties. In the case of the Peru treaty, the clause applies after a five-year period beginning on the effective date of the Chile-Peru treaty.
- (d) The withholding tax rate is reduced to 15% for payments with respect to the following:
- Invention patents
  - Models
  - Industrial drawings and designs
  - Layout sketches or layouts of integrated circuits
  - New vegetable patents
  - The use or exploitation of computer programs (software)
- The reduced tax rate does not apply to payments made to companies resident in jurisdictions considered to be preferential regimes. The withholding tax rate for such payments is 30%.
- (e) The 35% tax applies to the amount of the grossed-up dividend. Up to 100% of the corporate tax paid by the Chilean company is creditable against the withholding tax borne by the nonresident shareholder, depending on the tax regime of the Chilean company.

- (f) Under Chilean domestic law, a reduced 4% tax rate applies to the following interest payments:
- Interest paid on loans granted by foreign banks, financial institutions and insurance companies
  - Interest paid on bonds
  - Interest paid with respect to import operations

Chile has signed tax treaties with the United States and Uruguay, which are awaiting ratification by Chile.

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*This chapter refers only to the taxation of entities under the tax laws of Mainland China. The tax laws in the Special Administrative Regions (SARs) of Hong Kong and Macau and in Taiwan are separate sets of rules that are completely distinct from those in Mainland China. For information concerning the tax laws in Hong Kong, Macau and Taiwan, see the chapters concerning such jurisdictions in this guide.*

*Effective from 1 January 2008, a unified China Enterprise Income Tax Law applies to both domestic enterprises and business operations with foreign investment. The unified law replaces the previous Enterprise Income Tax Law (applicable to domestic enterprises) and Foreign Investment Enterprise and Foreign Enterprise Income Tax Law (applicable to business operations with foreign investment). Under the unified law, differences no longer exist between the taxation of domestic-owned enterprises and the taxation of foreign-owned enterprises.*

**A. At a glance**

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25
Withholding Tax (%) (b)	
Dividends	10 (c)
Interest	10
Royalties from Patents, Know-how, etc.	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) Capital gains derived by foreign enterprises from disposals of interests in foreign investment enterprises are subject to a final withholding tax of 10% instead of income tax. This rate may be reduced by applicable tax treaties.



- (b) The statutory rate is 20%, which is reduced to 10% by the Enterprise Income Tax Law Implementation Regulations.
- (c) Effective from 1 January 2017, foreign investors are eligible for dividend withholding tax deferral treatment if they directly reinvest the attributable or distributable profits from its Chinese tax resident investees or portfolio companies in China, subject to meeting certain required conditions (see Section B).

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate residents of China are taxed on their worldwide income, including income from business operations, investment and other sources. A foreign tax credit is allowed for income taxes paid in other countries. This credit is capped at the China income tax payable on the same income calculated under the corporate income tax law.

In general, a company is regarded as tax resident in China if it is incorporated in China or effectively managed in China. “Effective management” is defined as overall management and control over the production, business, personnel, accounting, and assets of a company.

Nonresident companies are taxed on China-source income only. However, if the nonresident company has an establishment in China, non-China source income effectively connected with the China establishment is also taxed.

The term “establishment” is broadly defined to include the following:

- A place of management
- A branch
- An office
- A factory
- A workshop
- A mine or an oil and gas well or any other place of extraction of natural resources
- A building site
- A construction, assembly, installation or exploration project
- A place for the provision of labor services
- A business agent

**Rates of corporate tax.** The statutory rate of enterprise income tax is 25%. The withholding tax rate on passive income (including dividends, interest, royalties and capital gains) of non-China tax residents is 10%.

A reduced tax rate applies to the following enterprises, subject to the satisfaction of certain conditions:

- 20% rate and 50% reduction of annual taxable income for qualifying small and less-profitable enterprises, provided that they have annual taxable income not exceeding CNY500,000 for the period of 1 January 2017 through 31 December 2019. Before 1 January 2017, the threshold was CNY300,000.
- 15% for High and New Technology Enterprises (HNTEs).
- 15% for qualifying Technologically Advanced Service Companies nationwide (effective from 1 January 2017).
- 15% for qualifying integrated circuit production enterprises.
- 10% for key software enterprises, key animation and comics enterprises and integrated circuit designing enterprises.

- 15% for western region enterprises and enterprises in Ganzhou in Jiangxi Province engaging in and deriving 70% of their total income from certain encouraged industries as stipulated in a new western region catalog (from 1 October 2014 to 2020).
- 15% for qualifying enterprises that are registered in the Guangdong Hengqin New Area (Hengqin), the Fujian Pingtan Comprehensive Pilot Zone (Pingtan) or the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (Qianhai) (for further details, see below).

**Tax incentives.** A five-year tax holiday (exemption for the first two years and 50% reduction for the next three years) is granted to newly established and qualified HNTes that are incorporated after 1 January 2008 and that are located in the Shanghai Pudong New Area or one of the five Special Economic Zones (SEZs), which are Hainan Province, Shantou, Shenzhen and Zhuhai in Guangdong Province, and Xiamen in Fujian Province. A five-year tax holiday also applies to qualifying software enterprises, animation and comics enterprises, integrated circuit designing enterprises and integrated circuit production enterprises. For qualified integrated circuit production enterprises, the tax holiday can be extended to 10 years (exemption for the first 5 years and 50% reduction for the next 5 years) under certain conditions. The above 5-year or 10-year tax holiday starts from the tax year when a qualifying enterprise begins making profits. If a software enterprise, animation and comics enterprise or integrated circuit designing or production enterprise cannot satisfy the relevant requirements in a profit-making tax year, the enterprise enjoys the remaining tax holiday from its initial tax year in which it satisfies the relevant requirements.

During the period from 2010 to 2020, certain specified industries in selected areas of Xinjiang, such as agriculture and forestry, irrigation, coal production and related industries, electricity, new energy, oil and gas, production of certain metals and related industries, petrochemical, pharmaceutical, transportation, modern logistics, environmental protection and resources conservation, can also benefit from a five-year tax holiday based on the statutory rate of 25%. A five-year exemption applies to qualifying enterprises located in the Kashi and Huoerguosi Special Economic Development Zones of Xinjiang.

During the period of 1 January 2014 through 31 December 2020, enterprises that are established in Hengqin, Pingtan or Qianhai (the covered areas) and that engage in encouraged industries can be subject to a reduced corporate income tax rate of 15%. Enterprises engaging in encouraged industries are enterprises that satisfy the following conditions:

- They have their core businesses in the covered area.
- Their businesses relate to industries and projects stipulated in preferential corporate income tax catalogs.
- Their income derived from such core businesses account for more than 70% of their total income.

If enterprises have establishments both inside and outside the covered areas, only the income attributable to establishments inside the covered areas is eligible for the preferential corporate income tax rate of 15%. In determining whether enterprises meet the above-mentioned conditions for preferential corporate in-

come tax rates, only their establishments inside the covered areas are counted; their establishments outside the covered areas are not considered.

Effective from 1 January 2016, China provides pretax super deductions of 150% on an expanded scope of qualifying research and development expenditures (RDEs) actually incurred by China tax resident enterprises during the year; alternatively, if related qualifying RDEs are incurred for developing intangible assets, the companies may amortize the capitalized intangible assets based on 150% of the actual cost incurred on developing the intangible assets.

During the period of 1 January 2017 through 31 December 2019, an additional 75% of the actually incurred qualifying RDEs by technology-based small and medium-sized enterprises may be taken as tax deductions in accordance with the corporate income tax regulations; alternatively, if related qualifying RDEs are incurred for developing intangible assets, the enterprises may amortize the capitalized intangible assets based on 175% of the actual cost incurred on developing the intangible assets.

Other tax incentives are available to enterprises engaged in industries, projects, or activities encouraged by national policies. The incentives granted to these encouraged industries, projects and activities typically include the following:

- Income from agriculture, forestry, animal husbandry and fishery projects is eligible for a full tax exemption or 50% reduction of tax, depending on the type of projects.
- Income from infrastructure projects is eligible for a full tax exemption for the first three years and a 50% reduction of tax for the next three years beginning with the first income-generating year. If certain requirements are met, enterprises that invest in a qualifying public infrastructure project and are approved to perform the project in phases are allowed to calculate the corporate income tax based on the taxable income of each phase and enjoy the tax holiday for different phases of the project separately.
- Income from environmental protection or water or energy conservation projects is eligible for a full tax exemption for the first three years and 50% reduction of tax for the following three years.
- Income from technology transfer is eligible for a tax exemption for the first CNY5 million and a 50% reduction for the amount over that threshold.
- 150% of qualified costs incurred for the research and development of new technologies and products can be tax deductible.
- 200% of qualified wages for disabled people can be tax deductible.
- Venture capital companies investing in the equity of unlisted small or medium-sized High and New Technology Companies can use 70% of its investment cost to offset the taxable income for the year in which the holding period reaches two years.
- Income derived from recycling business is eligible for a 10% reduction in calculating taxable income.
- 10% of the cost incurred in purchasing environmental protection, water and energy saving or production safety equipment can be credited against income tax payable for the year of the purchase.

**Capital gains and losses.** In general, capital gains and losses are treated in the same manner as other taxable income and losses, and are taxed at the normal income tax rate of 25%. However, China-source capital gains derived by nonresident enterprises, such as gains from the disposal of a foreign investment enterprise (FIE), are subject to a 10% withholding tax. In addition to income tax, real property gains tax is imposed on gains derived from transfers of real properties (see Section D).

**Administration.** The tax year in China is the calendar year.

An annual corporate income tax return, together with audited financial statements issued by a certified public accountant registered in China and a set of annual reporting forms for related-party transactions, is due within five months after the end of the tax year. Enterprises must settle all outstanding tax liabilities within the same period.

In addition, enterprises must also file quarterly provisional corporate income tax returns within 15 days after the end of each quarter, together with payments of provisional tax based on actual profits. If an enterprise has difficulty in filing a provisional tax return based on the actual quarterly profits, it may pay tax based on estimated profits. The estimated profits are normally computed by reference to one-quarter of the enterprise's actual taxable profits for the preceding year. Otherwise, they are computed under other methods approved by the tax bureau.

Late filing or late payment triggers a surcharge of 0.05% per day and a discretionary penalty of 50% to 500% of the unpaid tax liabilities. For adjustments made under anti-avoidance provisions, such as adjustments with respect to transfer pricing, thin capitalization and controlled-foreign corporations (see Section E), an interest charge is imposed on a daily basis, beginning on 1 June of the year following the tax year to which the tax underpayment is related and ending on the day the tax underpayment is settled. This charge is based on the renminbi yuan (CNY) loan base rate published by the People's Bank of China (PBOC) plus 5%. If contemporaneous documentation and other prescribed documentation are provided or if the contemporaneous documentation is not needed in accordance with the relevant regulations but other relevant documents are provided as required by the tax authorities, the interest charge may be reduced to an amount based only on the CNY loan-based rate published by the PBOC.

Effective from 1 January 2015, the administrative approval requirements for tax incentives were removed and replaced by a record-filing mechanism.

**Dividends.** Profits of FIEs distributed as dividends are subject to withholding tax at a rate of 10% (this rate may be reduced under a tax treaty or arrangement) when the dividends are actually paid. Effective from 1 November 2015, the investor may determine and enjoy the treaty benefits itself when filing a tax return or making a withholding declaration through a withholding agent, and accept the subsequent post-filing administration from the in-charge tax authorities. Dividends paid between qualified resident companies may be exempted. For this purpose, resident companies are qualified if one tax resident has made a direct investment in the

other tax resident. Dividends attributable to publicly traded shares are also treated as tax-exempt investment income if the holding period of the shares is longer than 12 months.

Effective from 1 January 2017, if a foreign investor makes an investment directly with the profits that it obtains from a Chinese resident enterprise in an investment project in an encouraged industry, the withholding tax deferral policy applies provided that certain requirements are fulfilled. If the foreign investor recovers the investment by means of equity transfer, repurchase, liquidation or other ways from a direct investment that has enjoyed benefits from the withholding tax deferral policy, it must declare and pay the deferred tax amount to the tax authority within seven days after actually receiving the relevant payments.

**Foreign tax relief.** A tax credit is allowed for foreign income taxes paid, or indirectly borne, by China resident enterprises, but the credit is generally limited to the amount of China corporate income tax payable on the foreign-source portion of an enterprise's worldwide taxable income. A nonresident enterprise with an establishment or place of business (generally referred to as a permanent establishment [PE]) in China that derives foreign-source income effectively connected to the PE can also claim a tax credit for income taxes paid in foreign jurisdictions, but the credit is limited to China corporate income tax payable on such income. Excess foreign tax credits may be carried forward for a period of five years. Effective from 1 January 2017, Chinese companies may claim an indirect foreign tax credit with respect to five tiers of controlled overseas subsidiaries (previously three tiers). Also, effective from the 2017 tax year, Chinese companies may adopt a comprehensive basis instead of the current country-by-country basis to calculate its foreign tax credit limit. The comprehensive basis is perceived to be more favorable to taxpayers than the country-by-country basis in many cases. Under the country-by-country method, the tax credit limit for each country is calculated by apportioning the total income tax on worldwide taxable income through the application of an apportionment ratio of the taxable income sourced in the relevant country to worldwide taxable income. Under the comprehensive method, the tax credit limit is calculated based on the taxable income derived from all foreign jurisdictions. The enterprise may not change the method within five years after adopting one of the methods.

### C. Determination of trading income

**General.** Taxable income is defined as total revenue less the following:

- Non-taxable income
- Tax-exempt income
- Allowable deductions
- Tax losses

No major differences exist between tax and accounting methods for income computation purposes. Dividends, bonuses, interest, royalties, rent and other income are included in taxable income.

In general, all necessary and reasonable expenses incurred in carrying on a business are deductible for tax purposes. However, specified limits apply to the deductibility of advertisement

expenses, entertainment expenses, union fees, employee welfare costs, employee education expenses, commissions and handling fees, supplementary pensions and supplementary medical insurance. Charitable donations of up to 12% of the total annual profit are deductible.

Management fees paid between enterprises, rental and royalty fees paid between business units of an enterprise, and interest paid between business units of nonbank enterprises are not deductible. Interest paid on related-party borrowing that does not meet debt-to-equity ratio rules (see Section E) may not be deductible. Other nondeductible expenses include the following:

- Sponsorship expenses
- Dividends and returns on equity investments
- Income tax payments including penalties and surcharges
- Donations not fulfilling prescribed requirements
- Provisions not yet approved
- Other expenses not related to production or business operations

For an establishment in China of an enterprise that is not a resident for tax purposes, reasonable expenses allocated from the overseas head office are deductible if these expenses are incurred by the head office for the production or business operations of such establishment and are supported by proper documents issued by the head office.

**Inventories.** For tax purposes, the cost of inventories is determined in accordance with the following rules:

- The cost of inventories that are paid for in cash is the sum of the purchase price and the related taxes and charges actually paid.
- The cost of inventories that are not paid for in cash is determined based on the fair market value of the consideration and the related taxes and charges actually paid.
- The cost of agricultural products generated from biological assets (for example, animals or woods) is determined based on the necessary raw material, labor and relevant overhead expenditure actually incurred.

Cost may be determined on a first-in, first-out (FIFO), weighted average, or specific identification basis. The last-in, first-out (LIFO) basis is not acceptable for tax purposes. The method chosen must be applied consistently.

**Provisions.** Provisions that have not been approved by the tax authorities are generally not deductible. These include various provisions and allowances for asset impairment and risk reserves.

**Tax depreciation.** Depreciation of tangible assets is generally computed using the straight-line method. The following are minimum useful lives for various assets.

<b>Asset</b>	<b>Years</b>
Buildings and structures	20
Aircraft, trains, vessels, machinery, equipment and other production plants	10
Appliances, tools, furniture and other assets related to production and business operations	5
Means of transport other than aircraft, trains and vessels	4
Electronic equipment	3

Asset	Years
Productive biological assets in the nature of trees	10
Productive biological assets in the nature of livestock	3
Acquired software (subject to approval)	2

Accelerated depreciation is allowed with respect to certain fixed assets subject to rapid technological obsolescence and fixed assets exposed to constant shock and erosion. A qualified company can follow either the general depreciation rule or the accelerated depreciation rule.

Effective from 1 January 2014, accelerated depreciation or a shortened depreciation life is available with respect to specific industries, research and development (R&D) projects, and fixed assets with a unit value not exceeding CNY5,000. Effective from 1 January 2015, accelerated depreciation or a shortened depreciation life applies to four newly added specific industries.

Intangible assets, including technical know-how, patents and trademarks, are amortized over the contractual term or over a period of no less than 10 years if a time period is not specified. Self-developed goodwill cannot be amortized or deducted. Acquired goodwill is deductible only if the entire business is transferred or liquidated.

**Relief for losses.** Tax losses may be carried forward for up to five years. Carrybacks are not allowed.

**Groups of companies.** In general, consolidated returns of enterprises are not allowed, and all companies must file separate tax returns, unless specifically approved by government authorities. Tax resident enterprises in China must adopt combined filing for units (branches and establishments without legal person status) operating in different areas of China. On approval by the relevant tax authorities, nonresident enterprises that have two or more establishments in China may select a main establishment to file a combined tax return.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT)	
Standard rate	17
Rate on specified products (primarily basic necessities), agricultural products and utility services	11
Nationwide VAT pilot reform, effective from 1 May 2016, with expanded scope to cover the construction industry, real estate industry, finance industry and lifestyle services industry (China Business Tax has been phased out)	
Leasing of tangible properties	17
Transportation services, postal services, basic telecommunication services, construction services, immovable property (operating and financial) leasing services, sales of immovable property and transfers of land-use rights	11

Nature of tax	Rate (%)
Modern services (including R&D and technology services, information and technology services, cultural and creative services, logistics auxiliary services, verification and consulting services, radio, film and television services, business supporting services and other modern services), value-added telecommunication services, financial services (including loan services, financial services with direct service charges, insurance services and trading of financial instruments), lifestyle services (including cultural and sports services, education and medical services, tourism and entertainment services, catering and accommodation services, residents, daily services and other life services) and sales of intangible assets other than land-use rights	6
Other reduced levy rates (applicable to small-scale VAT payers or general VAT payers who choose to adopt the simplified computation method; a levy rate of 5% can be chosen for the supply of certain services)	3/5
International transportation and space transportation services, cross-border VAT-payable supplies conducted by domestic entities or individuals for overseas entities that are consumed entirely outside China	0
Postal and collection and delivery services and insurance services provided for the exportation of goods, specified supplies of services and intangible assets that are provided to foreign entities and consumed entirely outside China, international transportation services provided by non-transport operating carriers (transportation operators that enter into transportation service agreements with their customers, charging freight and assuming carriers' responsibilities, and then subcontract the transportation services to real carriers that perform the transportation services for the customers), financial services with direct service charges provided between foreign entities that are not related to any goods, intangible assets or real estate in China	Exempt
(VAT previously paid on the purchase of raw materials, parts and taxable services that are used in the production of export goods or in the provision of certain export services is refundable; applicable refund rates depend on types of goods or services that are exported.)	
Consumption tax (CT); on the production and importation of certain luxury items, such as cigarettes, gasoline, alcoholic beverages, jewelry, high-end cosmetics (including high-end beauty and makeup cosmetics, high-end skin care cosmetics and cosmetics sets), motor vehicles, motor vehicle tires, golf balls and equipment, luxury watches and yachts	Various



Nature of tax	Rate (%)
Real property gains tax; imposed on real property transfers (after various deductions)	30 to 60
City construction tax; based on indirect taxes (including VAT and CT) actually paid	
Taxpayers located in urban areas	7
Taxpayers located in county or township areas	3
Taxpayers located in rural areas	1
Education surcharge (ES); based on indirect taxes (including VAT and CT) actually paid	3
Local education surcharge (LES); based on indirect taxes (including VAT and CT) actually paid	2

## E. Miscellaneous matters

**Foreign-exchange controls.** In general, the Chinese government permits the free convertibility of current account items of China incorporated enterprises. Current account items are defined as transactions occurring daily that involve international receipts and payments. Current account foreign-exchange receipts and payments include trading receipts and payments, service receipts and payments, unilateral transfers and dividends paid from after-tax profits.

Recently, China has been relaxing its foreign-exchange controls in phases by permitting settlement in renminbi yuans (CNY) for cross-border trading transactions, including cross-border trades in commodities, services and other current account items, on a nationwide basis and then extending the CNY settlement to both inbound and outbound investments. Remittances of dividends to foreign investors and other items including income derived from share transfers, capital reductions, liquidations and early withdrawals of investments may be settled in renminbi yuans.

*Remittances of dividends and profits.* Remittances of after-tax profits or dividends to foreign investors in FIEs must be supported by written resolutions of the board of directors and audited financial statements, and may not be made until a tax clearance is issued by the tax authorities.

*Remittances of interest and principal.* Interest payments on foreign loans are considered current account items. In general, after performing a tax-record filing with the tax authorities, these payments may be made through the enterprise's special foreign-exchange bank account or through conversion at designated foreign-exchange banks.

Since 13 May 2013, enterprises are not required to submit any formal application to the State Administration for Foreign Exchange for the approval of principal repayments. In general, the enterprise may repay the principal from its special foreign-exchange bank account or through conversion at designated foreign-exchange banks.

*Remittances of royalties and fees.* Instead of applying for tax clearance for settling outbound payments that exceed USD50,000, effective from 1 September 2013, enterprises can file a record with the responsible state tax authorities by submitting copies of contracts (stamped by the official seal) together with registration forms before making payments of royalties and fees, either out of

the enterprise's special foreign-exchange bank account or through currency conversion and payment at a designated foreign-exchange bank. With respect to royalties, the investor may determine and enjoy the treaty benefits when filing a tax return or making a withholding declaration through a withholding agent, and accept the subsequent post-filing administration from the in-charge tax authorities. Proper documentation (such as royalty agreements, invoices and other tax and business documents) is required for all payments of royalties and fees.

**Debt-to-equity requirements.** For FIEs in China, the following debt-to-equity ratios are applicable for the purpose of obtaining foreign-currency loans from foreign parties (including foreign related parties) and meeting corporate law requirements:

- For investment projects of up to USD3 million, the capital contribution must equal or exceed 70% of the total investment.
- For investment projects of over USD3 million but not exceeding USD10 million, the minimum capital requirement is 50% of the total investment, but not less than USD2,100,000.
- For investment projects of over USD10 million but not exceeding USD30 million, the minimum capital requirement is 40% of the total investment, but not less than USD5 million.
- For investment projects in excess of USD30 million, the minimum capital requirement is 33.3% of the total investment, but not less than USD12 million.

The New Law provides for a separate set of debt-to-equity rules for tax purposes. Subject to certain exceptions, in general, the debt-to-equity ratio for financial institutions is 5:1 and the ratio for non-financial institutions is 2:1. The interest expense on funds loaned by a related party that exceed the maximum debt calculated under the debt-to-equity ratio is not deductible for tax purposes.

In addition, the deduction of expenses on a loan from an investor may be limited if the investor has not yet paid up its committed investment capital. The nondeductible interest expense is calculated by apportioning the total interest expenses based on the ratio of the outstanding capital commitment to the total loan balance.

**Transfer pricing.** China has introduced transfer-pricing rules under which all amounts paid or charged in business transactions between related parties must be determined based on an arm's-length standard. If the parties fail to meet this requirement, the tax bureau may make reasonable adjustments by using one of the following methods:

- Comparable uncontrolled price (CUP)
- Resale price method (RPM)
- Cost-plus method (CPM)
- Transactional net margin method (TNMM)
- Profit split method (PSM)
- Other methods that are consistent with the arm's-length principle

On 29 June 2016, the State Administration of Taxation (SAT) issued SAT Notice [2016] No. 42 (Bulletin 42), replacing the following items of 2009's Implementation Measures for Special Tax Adjustments (Trial Version; Guoshuifa [2009] No. 2 (Circular 2):

- Chapter 2: Related-Party Transaction (RPT) Reporting
- Chapter 3: Documentation Requirements
- Article 74: Cost Sharing Agreements (CSAs) Documentation
- Article 89: Thin Capitalization Documentation

It also replaced the Annual RPT Forms of Enterprises of the People's Republic of China (Guoshuifa [2008] No. 114), governing RPT disclosure in annual income tax filings. The provisions in Bulletin 42 apply for the 2016 fiscal year and thereafter.

Chinese enterprises must disclose RPTs in RPT forms, which should be submitted to the in-charge tax bureau together with the annual tax return by the due date for the annual return (that is, before 31 May of the following year).

Bulletin 42 replaces Circular Guoshuifa [2008] No. 114 and introduces significant new disclosure requirements with respect to RPTs. The major changes introduced by Bulletin 42 are described below.

*Additions to disclosure.* Bulletin 42 increases the number of disclosure forms from 9 to 22, and the new required forms include the following:

- Reporting Entity Information Form
- Financial Assets Transaction Form
- Equity Investment Form
- CSA Form
- Overseas Related Party Information Form
- Financial Analysis Form of Annual Affiliated Transactions between Enterprises (unconsolidated)
- Financial Analysis Form of Annual Affiliated Transactions between Enterprises (consolidated)
- Three forms related to Country-by-Country Reporting (CBCR); the CBCR forms need to be completed in both Chinese and English)

*Adjustments to disclosure requirements.* Amended forms combine the previous Form 3 (Sales and Purchases), Form 5 (Transfer of Intangible Assets) and Form 6 (Transfer of Tangible Assets) into a form on Transfers of Ownership or Right to Use of Intangible or Tangible Assets.

The disclosure threshold is adjusted from 10% of the total transaction volume to the top five by transaction volume. The amended forms also reduce the items to be disclosed in Form 9 (Outbound Payment Form) from 17 disclosure items to 9 disclosure items.

*Reductions in disclosure requirements.* The previous Form 8 (Outbound Investment Form) is deleted.

Disclosures regarding corporate income tax withheld and preferential tax treatment from the previous Form 9 (Outbound Payment Form) are removed.

Disclosure requirements regarding the transfer-pricing policy are removed, as well as overseas unrelated-party names and relevant transaction volumes.

*Documentation structure.* Bulletin 42 adopts the three-tiered documentation structure set out in the final reports under Action 13 of the Organisation for Economic Co-operation and Development (OECD) Base Erosion Profit Shifting (BEPS) Action Plan.

This structure consists of a CBCR (disclosed as part of the RPT Forms), a Master File and a Local File. In addition, special item

files are required for taxpayers entering or implementing CSAs or falling under the thin-capitalization requirements.

Taxpayers that meet the conditions outlined below need to prepare a Master File and a Local File.

A Master File is required if annual RPTs exceed CNY1 billion, if any cross-border RPTs occur and the entity's ultimate parent already prepares a Master File.

A Local File is required if RPTs during the year meet any of the following conditions:

- Annual RPTs of physical goods exceed CNY200 million (in the case of toll manufacturing [toll manufacturing refers to an arrangement under which raw materials or component parts are mainly purchased in the name of a foreign principal for use by a Chinese manufacturer in the production of finished goods], the value is based on annual import and export prices for customs purposes)
- Annual RPTs involving the transfer of financial assets exceed CNY100 million
- Annual RPTs involving the transfer of rights to intangibles exceed CNY100 million
- Annual RPTs of other types (for example, related-party service transactions, royalties for use of intangibles and related-party financing transactions) in aggregate exceed CNY40 million

Taxpayers that only deal with domestic related parties can be exempted from preparing the Master File, the Local File and any special item file.

Local Files and special item files are not required for RPTs that are covered under an Advance Pricing Agreement (APA). Furthermore, the amount of these covered transactions is not included when calculating Local File thresholds.

Bulletin 42 provides that resident enterprises that meet one of the following criteria should submit CBCR:

- The resident enterprise is the ultimate holding company of the multinational enterprise group, and total revenue of all kinds from the last fiscal year's consolidated financial statement was over CNY5,500,000.
- The resident enterprise is designated to submit CBCR by the multinational enterprise group.

If multinational enterprises are required to prepare CBCR according to relevant provisions of other countries' laws, the Chinese tax authorities can ask for CBCR from the Chinese subsidiaries when undertaking a special tax investigation under the following circumstances:

- The multinational enterprise has not submitted a CBCR to any country.
- The multinational enterprise has submitted a CBCR to another country, but China has not established an Information Exchange Mechanism with the country.
- The multinational enterprise has submitted a CBCR to another country, and China has established an Information Exchange Mechanism with that country, but CBCR has not in fact been exchanged with China.

Bulletin 42 stipulates the deadline for the Master File is 12 months after the close of the financial year of the ultimate parent company; the deadline for the Local File and any special item file is 30 June of the year following the close of the taxpayer's year.

Bulletin 42 provides that contemporaneous documentation should be submitted to the tax authorities within 30 days on the request of the tax authorities.

Taxpayers may apply for APAs in China. An APA is an agreement between a taxpayer and one or more tax authorities regarding how transfer prices will be calculated in the future. Effective from 1 December 2016, SAT Bulletin Gonggao [2016] No. 64 (Bulletin 64) governs the administration of APAs in China. The APA process has the following six steps:

- Pre-filing meeting
- Intention discussion
- Analysis and evaluation
- Formal application
- Negotiation and conclusion of the arrangement
- Execution monitoring

In contrast to Circular 2, Bulletin 64 does not allow the pre-filing meeting to be anonymous and does not specify the time periods between each of the steps. It is noteworthy that extensive interactions between the taxpayer and the tax authorities occur well before the APA application is formally accepted. Taxpayers must be prepared to perform significant analysis and provide extensive documentation during the process.

Bulletin 64 makes numerous references to the analysis of the value chain and of Location Specific Advantages (LSAs), such as location savings and market premiums. This is in keeping with the contemporaneous documentation requirements that the SAT put in place under Bulletin 42. Bulletin 64 provides that the role of LSAs is one of the topics for discussion at pre-filing meetings. Both value-chain analysis and analysis of LSAs are required elements of the draft application materials submitted before the intention discussion.

On 17 March 2017, the SAT issued SAT Bulletin [2017] No. 6 (Bulletin 6), "Supervisory Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures." Bulletin 6 entered into force on 1 May 2017.

Bulletin 6 contains long-awaited guidance on the application of the arm's-length principle, including guidance with respect to intangible property transactions, intercompany service transactions, location-specific advantages, transfer-pricing methods and various procedural matters. Detailed guidance on mutual agreement procedures (MAPs) under double taxation treaties is provided.

Bulletin 6 reflects the importance that the SAT places on double taxation treaties and on the international consensus that has developed over the course of the BEPS project led by the OECD. Bulletin 6 moves Chinese transfer-pricing rules and proposed rules into closer alignment with the new international standards developed during the BEPS project in a number of aspects.

**Anti-avoidance rules.** The general anti-avoidance rules (GAAR) apply to transactions if the transactions may be considered to have been undertaken or arranged primarily for other than bona fide purposes and if the sole and dominant purpose for a company to enter into such transactions was the obtaining of tax benefits. The Administration Measures of GAAR, which are procedural guidelines on the application of the GAAR, are effective from 1 February 2015.

**Controlled foreign corporations.** The corporate income tax law contains controlled foreign corporation (CFC) rules, which are designed to counter income deferral strategies. A resident company that holds an interest in a CFC incorporated in a jurisdiction with an effective tax rate of lower than 12.5% may be taxed on its share of profits of the CFC, regardless of whether a dividend has been declared. A nonresident company is considered to be controlled by a China resident company if either of the following conditions is satisfied:

- The China resident company directly or indirectly holds 10% or more of the voting shares in the nonresident company and jointly holds an interest of 50% or more in the nonresident company.
- The China resident company exercises effective control over the nonresident company by means of shares, capital, business operations, purchases and sales or other mechanisms.

China has issued a white list showing jurisdictions that are not subject to CFC rules, including Australia, Canada, France, Germany, India, Italy, Japan, New Zealand, Norway, South Africa, the United Kingdom and the United States. The CFC rules do not apply if one of the following conditions is satisfied:

- The CFC is located in one of the jurisdictions in the white list.
- The CFC carries out substantial and positive business activities.
- The CFC reports an annual profit of CNY5 million or less.

## F. Treaty withholding tax rates

The following table provides Chinese withholding tax rates for dividends, interest and royalties paid from Mainland China to residents of various treaty countries and arrangement jurisdictions (Hong Kong and Macau SARs). The rates reflect the lower of the treaty rate and the rate under domestic law. The following table is for general guidance only.

	Dividends	Interest	Royalties
	%	%	%
Albania	10	10	10
Algeria	5/10 (a)	7	10
Armenia	5/10 (a)	10	10
Australia	10	10	10
Austria	7/10 (d)	7/10 (h)	6/10 (i)
Azerbaijan	10	10	10
Bahrain	10	10	10
Bangladesh	10	10	10
Barbados	5/10 (a)	10	10
Belarus	10	10	10
Belgium	5/10 (f)	10	7
Brazil	10	10	10
Brunei Darussalam	5	10	10
Bulgaria	10	10	7/10 (k)
Canada	10	10	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Chile	10	4/10 (t)	2/10 (u)
Croatia	5	10	10
Cuba	5/10 (a)	7.5	5
Cyprus	10	10	10
Czechoslovakia (m)	10	10	10
Czech Republic	5/10 (a)	7.5	10
Denmark	5/10 (a)	10	7/10 (j)
Ecuador (r)	5	10	10
Egypt	8	10	8
Estonia	5/10 (a)	10	10
Ethiopia	5	7	5
Finland	5/10 (a)	10	10 (j)
France	5/10 (a)	10	10
Georgia	0/5/10 (e)	10	5
Germany	5/10/15 (p)	10	6/10 (i)
Greece	5/10 (a)	10	10
Hong Kong SAR	5/10 (a)	7	5/7 (s)
Hungary	10	10	10
Iceland	5/10 (a)	10	7/10 (j)
India	10	10	10
Indonesia	10	10	10
Ireland	5/10 (c)	10	6/10 (i)
Iran	10	10	10
Israel	10	7/10 (h)	7/10 (j)
Italy	10	10	7/10 (j)
Jamaica	5	7.5	10
Japan	10	10	10
Kazakhstan	10	10	10
Korea (South)	5/10 (a)	10	10
Kuwait	5	5	10
Kyrgyzstan	10	10	10
Laos	5	10	10
Latvia	5/10 (a)	10	7
Lithuania	5/10 (a)	10	10
Luxembourg	5/10 (a)	10	6/10 (i)
Macau SAR	5/10 (a)	7	5/7 (s)
Macedonia	5	10	10
Malaysia	10	10	10
Malta	5/10 (a)	10	7/10 (j)
Mauritius	5	10	10
Mexico	5	10	10
Moldova	5/10 (a)	10	10
Mongolia	5	10	10
Morocco	10	10	10
Nepal	10	10	10
Netherlands	5/10 (a)	10	6/10 (i)
New Zealand	10	10	10
Nigeria	7.5	7.5	7.5
Norway	10	10	10
Oman	5	10	10
Pakistan	10	10	10
Papua New Guinea	10	10	10
Philippines	10	10	10
Poland	10	10	7/10 (j)
Portugal	10	10	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Qatar	10	10	10
Romania (q)	3	3	3
Russian Federation	5/10 (v)	0	6
Saudi Arabia	5	10	10
Seychelles	5	10	10
Singapore	5/10 (a)	7/10 (h)	6/10 (i)
Slovenia	5	10	10
South Africa	5	10	7/10 (j)
Spain	10	10	6/10 (i)
Sri Lanka	10	10	10
Sudan	5	10	10
Sweden	5/10 (a)	10	7/10 (j)
Switzerland	5/10 (a)	10	9
Syria	5/10 (a)	10	10
Tajikistan	5/10 (a)	8	8
Thailand	10	10	10
Trinidad and Tobago	5/10 (a)	10	10
Tunisia	8	10	5/10 (l)
Turkey	10	10	10
Turkmenistan	5/10 (a)	10	10
Ukraine	5/10 (a)	10	10
United Arab Emirates	7	7	10
United Kingdom	5/10 (a)	10	6/10 (i)
United States	10	10	7/10 (j)
Uzbekistan	10	10	10
Venezuela	5/10 (b)	5/10 (g)	10
Vietnam	10	10	10
Yugoslavia (o)	5	10	10
Yugoslavia (former) (n)	10	10	10
Zambia	5	10	5
Zimbabwe	2.5/7.5 (w)	7.5	7.5
Non-treaty jurisdictions	10	10	10

- (a) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (b) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (c) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the voting shares of the company paying the dividends. The 10% rate applies to other dividends.
- (d) The 7% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the voting shares of the company paying the dividends. The 10% rate applies to other dividends.
- (e) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the capital of the company paying the dividends and that has invested more than EUR2 million in the capital of the company paying the dividends. The 5% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 10% of the capital of the company paying the dividends and that has invested more than EUR100,000 in the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (f) The 5% rate applies if the beneficial owner of the dividends is a company that, before the moment of the payment of the dividends, directly held for an uninterrupted period of at least 12 months at least 25% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (g) The 5% rate applies to interest paid to banks. The 10% rate applies to other interest payments.



- (h) The 7% rate applies to interest paid to banks or financial institutions. The 10% rate applies to other interest payments.
- (i) Payments for the use of industrial, commercial or scientific equipment are taxed on the basis of 60% of the gross payments. Consequently, the effective rate for such payments is 6%.
- (j) Payments for the use of industrial, commercial or scientific equipment are taxed on the basis of 70% of the gross payments. Consequently, the effective rate for such payments is 7%.
- (k) The 7% rate applies to royalties paid for the use of, or the right to use, industrial, commercial and scientific equipment. The 10% rate applies to other royalties.
- (l) The 5% rate applies to royalties paid for technical or economic studies or for technical assistance. The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works including cinematographic films, films or tapes for radio or television broadcasting, patents, trademarks, designs or models, plans, or secret formulas or processes, or for the use of, or the right to use, industrial, commercial or scientific experience.
- (m) China is honoring the Czechoslovakia treaty with respect to the Slovak Republic until a new treaty is signed.
- (n) After the partition of the former Yugoslavia, China is honoring the double tax treaty with the former Yugoslavia with respect to Bosnia and Herzegovina.
- (o) China entered into a treaty with the Federal Republic of Yugoslavia. It has been indicated that China considers Serbia to have inherited the Yugoslavia treaty and that China is also honoring the treaty with respect to Montenegro. However, it is suggested that taxpayers check with the relevant tax authorities before relying on this treaty.
- (p) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies if the dividends are paid out of income or gains derived directly or indirectly from immovable property and such income or gains from such immovable property is exempted from tax. The 10% rate applies to other dividends.
- (q) The tax treaty with Romania entered into force on 4 July 2016 and applies to income derived on or after 1 January 2018.
- (r) On 10 March 2014, the SAT released SAT Announcement [2014] No. 16, which announced that the new tax treaty with Ecuador and its protocol, which were signed on 21 January 2013, entered into force on 6 March 2014. The Ecuador treaty and its protocol apply to income derived on or after 1 January 2015. The withholding tax rates under the new treaty are reflected in the table. In addition, the protocol states that the term “interest” also includes other income treated as income from money lent by the tax law of the contracting state in which the income arises if the income is from some type of debt-claim. In the case of divergence of interpretation, the contracting states must resort to the mutual-agreement procedure.
- (s) The 5% rate applies to royalties paid to aircraft and ship leasing businesses. The 7% rate applies to other royalties.
- (t) The 4% rate applies to interest paid to banks, insurance companies and other financial institutions. The 10% rate applies to other interest payments.
- (u) The 2% rate applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (v) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital, valued at least EUR80,000, of the company paying the dividends. The 10% rate applies to other dividends.
- (w) The 2.5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 25% of the company paying the dividends. The 7.5% rate applies to other dividends.

Mainland China has signed tax treaties with Uganda (11 January 2012), Botswana (11 April 2012), Cambodia (13 October 2016) and Kenya (21 September 2017), but these treaties have not yet been ratified. On 25 August 2015, Mainland China signed a double tax agreement with Taiwan, which has not yet been ratified.

# Colombia

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**A. At a glance**

Corporate Income Tax Rate (%)	33 (a)
Corporate Income Tax Surtax (%)	4 (b)
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	33 (c)
Withholding Tax (%)	
Dividends	0/5/10 (d)
Interest	0/5/15 (e)
Royalties	
Software	26.4
Other	15
Technical Services, Technical Assistance and Consulting Services	15
Management and Direction (Overhead) Charges	15
Branch Remittance Tax	5 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	12 (g)

- (a) The income tax rate for 2017 was 34% plus a 6% income tax surtax.
- (b) The income tax surtax applies to taxable income in excess of COP800 million. The income tax surtax rate for 2017 was 6%. For 2018, it is 4% and will not apply as of 2019 (for details, see Section B).
- (c) Branches and permanent establishments (PEs) are also subject to the income tax surtax on their taxable income in excess of COP800 million.
- (d) Dividends paid to nonresidents are subject to a 5% dividend withholding tax. In the case of dividends paid to individual residents, the dividend tax rate can be 0%, 5% or 10%, depending on the amount distributed. This dividend withholding tax applies only to the distributions of profits generated in 2017 and onward. In addition, if the dividends are paid to nonresidents out of profits that were not subject to tax at the corporate level, a 35% recapture tax applies; in this case, the dividend tax is applied to the amount of the distribution after it is reduced by the 35% tax. Dividends paid between domestic corporations are not subject to tax if the company generating the profits out of which the dividends are paid is taxed on these profits in Colombia. Otherwise, the dividends are subject to a 20% withholding tax, and the dividends must be included in the taxable income of the Colombian recipient of the dividends.
- (e) Interest paid or accrued on loans payable to foreign entities is generally subject to a 15% withholding tax. Interest paid on loans that have a term equal or greater than eight years and that are related to certain infrastructure projects are subject to a 5% withholding tax. Interest paid by Colombian financial institutions and interest paid by Colombian residents to foreign entities with respect to international trade operations are deemed to be foreign-source income and are accordingly exempt from withholding tax. Certain qualified loans executed before 31 December 2010 do not generate Colombian-source income. As a result, interest on such loans is exempt from withholding tax.

- (f) The remittances of profits out of a branch are subject to the same tax treatment as dividends. Consequently, if the distribution is made out of profits that were not subject to tax at the entity level, a 35% recapture tax applies; in this case, the dividend tax (5%) is applied to the amount of the distribution after it is reduced by the 35% tax.
- (g) For net operating losses generated until 2016, a grandfathering rule allows an unlimited carryforward.

## B. Taxes on corporate income and gains

**Corporate income tax.** National corporations are taxed on worldwide income and capital gains. National corporations are corporations that have their principal domicile in Colombia or are organized under Colombian law or that during the respective tax year or period have their effective place of management in Colombia (holding board meetings in Colombia is not enough to qualify as a national company).

Foreign companies that obtain more than 80% of their income (other than passive income) in the jurisdiction of incorporation are not considered to have their effective place of management in Colombia. These companies are known as “80% Foreign Income Companies.” Foreign companies that have issued stock or bonds in the Colombian stock exchange or in a recognized foreign stock exchange are not considered to have their effective place of management in Colombia. The subsidiaries of such companies are also not considered to have their effective place of management in Colombia to the extent they are consolidated in the financial statements of its parent; however, such subsidiaries can elect to be treated as a national corporation unless they are 80% Foreign Income Companies.

Branches of foreign corporations and PEs are taxed on Colombian-source income and capital gains only. Attribution is based on domestic tax accounting records, which should be supported by an analysis of functions, assets, risks and personnel.

**Corporate income tax rates.** The standard corporate income tax rate is 33%. In addition, an income tax surtax applies to taxable income in excess of COP800 million. The income tax surtax rate for 2018 is 4% and will not apply as of 2019.

Foreign companies receiving Colombian-source income that is not attributable to a branch office or PE and that is not fully taxable through withholding tax are subject to income tax at the above-mentioned rates.

A reduced corporate income tax rate of 20% applies to legal entities qualified as Industrial Users of Goods and/or Services in a free-trade zone. No surtax applies to these taxpayers. Commercial Users in a free-trade zone are subject to the general corporate income tax rate.

A special reduced rate of 9% applies to certain activities that in the past had some tax benefits or exemption, such as certain services in new or refurbished hotels, eco-tourism activities and some leasing agreements with respect to housing, as well as for publishers of scientific and cultural content.

Certain tax credits are available (see *Foreign tax relief*).

**Capital gains.** The following gains are considered capital gains, which are subject to tax at a rate of 10%:

- Gains on the transfer of fixed assets owned for more than two years
- Gains resulting from the receipt of liquidation proceeds of corporations in excess of capital contributed if the corporation existed for at least two years

**Administration.** The tax year is the calendar year.

Each year, the Colombian government sets the due dates for the filing of income tax returns and payment of taxes due. Tax payments are made in three installments between February and October for Larger Taxpayers (large corporations, according to conditions set by the tax authorities) and in two installments between April and June for other legal entities. Advance payments for the current tax year, which generally represent 20% of the income tax payable for the prior tax year after withholdings, must be made with these installments.

Interest on the late payment of taxes is accrued at the daily effective rate of usury certified by the Superintendency of Finance for the consumption credits, less two points. A penalty for late filing is levied on the amount of tax assessed in the corresponding tax return at a rate of 5% or 10% for each month or a fraction thereof. The penalty for late filing cannot exceed 100% or 200% of the difference of the tax to be paid or the balance in favor, depending on the timing of the filing. The penalty for amending a return may be 10% or 20% of the difference between the amount shown on the original tax return and the correct amount, depending on the timing of the amendment.

Under certain circumstances, the applicable tax penalty can be reduced.

**Dividends.** Distributions of dividends to nonresidents are subject to dividends tax at a rate of 5%. The dividends tax rate for resident individuals is 0%, 5% or 10%, depending on the amount of the distribution. No dividend tax applies to distributions to resident companies. The dividends tax applies to the distribution of profits generated in 2017 and future years.

In addition, if the dividend distribution is made out of profits that were not taxed at the entity level, the distribution to nonresidents is subject to a 35% withholding tax (recapture tax). In this case, the 5% dividends tax applies to the distributed amount after it is reduced by the 35% tax.

A 20% withholding tax is imposed on dividends paid to residents (including companies and individuals) out of profits not taxed at the corporate level if the taxpayer is required to file an income tax return.

If the profits subject to tax at the corporate level in a given year are higher than the commercial profits of that year, the difference can be carried back for two years or carried forward for five years to offset the profits of such periods, in order to reduce or eliminate the amount of the distribution subject to the 35% withholding tax (or the 20% withholding tax on payments to residents). This carryforward or carryback should not reduce the amount of

the distribution to nonresidents subject to the dividends tax of 5% (or the 5% or 10% dividends tax applicable for distributions to resident individuals).

**Foreign tax relief.** For national corporations and resident individuals, a credit for foreign taxes paid on foreign-source income is granted, up to the amount of Colombian corporate income tax payable on the foreign-source income.

An indirect tax credit is also granted for foreign taxes paid on income at the level of the foreign company that is distributing corresponding dividends to Colombian shareholders or quota holders. This tax credit equals the amount resulting from the application of the income tax rate of the foreign company to the amount of distributed dividends. If the foreign company distributing the dividends has received dividends from other companies domiciled in the same or other jurisdictions, the tax credit equals the amount resulting from the application of the income tax rate of the foreign company to the amount of the dividends received by the Colombian taxpayer. The sum of the direct tax credit and indirect tax credit may not exceed the corporate income tax payable in Colombia on such dividends.

To be entitled to the direct and indirect tax credit, the domestic taxpayer must prove that the corresponding tax was effectively paid in each relevant jurisdiction. In addition, for the indirect tax credit, the investments must be qualified as fixed assets for the taxpayer and possessed for a minimum of two years.

The tax credit may be claimed in the tax year in which the foreign tax is paid or in any of the following four years.

### **C. Determination of taxable income**

**General.** Taxable income is determined in accordance with the following calculation: gross income, minus non-taxable income, returns, rebates and discounts, equals net income, minus costs and expenses, equals taxable income. In the first instance, such values must be determined in accordance with the Colombian generally accepted accounting principles, which generally follow International Financial Reporting Standards and are subject to several adjustments provided in the tax rules.

In general, to be deductible, expenses must be related to the activity that generates taxable income and must be proportional and necessary with respect to the productive activity of the taxpayer. Some limitations and prohibitions may apply to the deductibility of certain expenses.

Payments to entities resident outside Colombia are deductible if they meet the general rules above and, for expenses related to Colombian-source income, if the applicable withholding tax is paid. In general, if no withholding tax applies, the expenses are allowed as deductions, up to a maximum of 15% of the taxpayer's net income before taking into account all costs and expenses abroad not subject to Colombian withholding tax. Costs or expenses incurred abroad that are related to foreign-source income subject to income tax in Colombia are deductible if the general requirements are met, even if withholding tax is not imposed, and the 15% limitation mentioned above does not apply.

Royalty payments between related parties for the use of intangibles that were formed in Colombia and royalty payments related to the acquisition of finished goods are not deductible.

Interest and other financial expenses resulting from liabilities owed to foreign related companies are deductible if they comply with the transfer-pricing rules (see Section E) and thin-capitalization provisions.

Payments made to foreign related parties that comply with the transfer-pricing rules (see Section E) may be deductible even if no income tax withholding is required. However, the 15% limitation described above applies to such payments.

Management and direction (overhead) expenses are deductible for Colombian tax purposes if all of the following conditions are satisfied:

- They are related to services rendered.
- The withholding tax has been applied.
- They are supported by transfer-pricing studies.

Income generated from the following activities is exempt from income tax:

- Income received from another country in the Andean Community (Bolivia, Ecuador and Peru)
- Fluvial transportation services
- Certain new forest plantations
- Energy generated from wind and biomass sources, and agriculture disposal
- Construction and financing of low-income housing

**Presumptive income.** Under the Colombian tax law, the tax base for corporate income tax purposes is the higher of actual taxable income (see *General*) or minimum presumptive income, which is equal to 3.5% of the net equity as of 31 December of the preceding tax year. Certain assets may be excluded from this calculation, and certain taxpayers are not required to calculate presumptive income.

The amount of income tax payable after tax credits may not be less than 75% of the income tax determined under the presumptive income rules, before taking into account tax credits.

**Inventories.** Inventories are generally valued using the permanent or periodic inventory methods.

**Provisions.** Provisions are not allowed as deductions in determining taxable income, except for provisions for accounts receivables, which are subject to special tax rules.

**Depreciation.** Depreciation for tax purposes should follow the depreciation for accounting purposes. However, the annual depreciation rate for tax purposes cannot exceed certain percentages, depending on the type of asset.

If machinery and equipment are used daily in 16-hour shifts, the taxpayer may request an additional 25% on the depreciation rate. If the use exceeds 16 hours, proportional additional depreciation can be requested. Land is generally not depreciable or amortizable.



The balance of the assets pending to be depreciated as of 31 December 2016 should be depreciated under the old rules applicable before 2017.

**Amortization.** In general, amortization of ordinary and necessary investments used for the purposes of the business is allowed under certain requirements. The amortization of the investments should be made during the time that the related income is expected to be earned, but the amortization period may not be less than five years.

Advance payments should be amortizable as the prepaid services are received.

Identifiable intangibles can be generally amortized to the extent they have a useful limited life. Certain limitations on amortization may apply to identifiable intangibles acquired from related parties.

Goodwill is not amortizable.

Amortizable costs and expenses for the oil industry can be amortized using the units-of-production method. If investments in exploration are unsuccessful, the costs and expenses may be claimed as deductions in the year in which this is determined or in the following two years. Investments made between 2017 and 2027 with respect to the evaluation and exploration stages are amortizable using a five-year, straight-line method.

Assets and investments pending to be amortized as of 31 December 2016 should be amortized under the old rules applicable before 2017.

**Relief for tax losses.** Tax losses may be carried forward for 12 years. Tax losses generated up to 2016 can be carried forward with no time limitation.

Restrictions apply to the transfer of losses in mergers or spin-offs (tax-free events for the participating companies for Colombian tax purposes if certain requirements are observed). The surviving entity can offset losses originated in the merged entities, but only up to the percentage of the equity participation of the merged entity in the surviving entity's equity. Similar rules apply to spin-offs of companies.

The special treatment of tax losses in mergers and spin-offs applies only if the economic activity of the companies involved remains the same after the merger or spin-off occurs.

Tax losses generated do not affect the entity's presumptive income for the respective tax year.

**Inflation adjustment.** An optional tax readjustment of fixed assets may be applied. This readjustment is calculated by applying the percentage certified by the government for the adjustment of the tax unit. The readjustment affects the tax basis for the transfer of fixed assets, presumptive income and the determination of taxable net equity. Although the inflation adjustments were eliminated, the accumulated inflation adjustments can be depreciated.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax; imposed, unless expressly excluded by law, on sales of tangible assets and intangibles related to industrial property, on imports of movable tangible assets and on most services rendered in Colombia or from abroad to a Colombian recipient of the services	
General rate	19%
Basic products, such as coffee and wheat	5%
National consumption tax, imposed on, among others items, food services in restaurants, mobile phone services and certain cars; the tax paid is a deductible expense for income tax purposes	4% to 16%
Industry and commerce tax; a municipal tax on annual or bimonthly net revenue (other tax periods may apply, depending on the jurisdiction); rates vary depending on the company's activity and municipality; tax effectively paid during the year is a 100% deductible expense for income tax purposes	
Bogotá	0.414% to 1.38%
Municipalities other than Bogotá	0.2% to 1%
Signs and Posters Tax; imposed on enterprises with advertisements in public places; tax rate applied to the industry and commerce tax due; tax effectively paid during the year is a 100% deductible expense for income tax purposes	15%
Tax on Visible Advertisement Hoardings; imposed on each advertisement on hoardings or billboards with a size equal to or larger than 8 square meters (86,111 square feet)	5 minimum wages
(The minimum wage for 2018 is COP781,242 [approximately US280].)	
Debit tax (financial transactions tax); imposed on the amount of each financial transaction, such as disposals of funds from savings accounts, current bank accounts and deposit accounts, which involve cash withdrawals by checks and through other mechanisms, and on the amount of certain accounting entries; tax effectively paid during the year is 50% deductible for income tax purposes	0.4%
Social security contributions and payroll taxes	
Pension (foreigners who remain in Colombia in accordance with an employment agreement may voluntarily enroll in the pensions system); contributions calculated on the monthly ordinary salary of the employee; if the monthly salary	

Nature of tax	Rate
is more than 25 times the minimum wage, contributions to the social security regime are calculated on a maximum base of 25 minimum wages; for employees earning integral (all-inclusive) salary, 70% of the salary is the base, but the maximum limit described above applies	
Employer	12%
Employee	4%
Health; contribution calculated on the monthly ordinary salary of the employee; subject to the same maximum limitation and integral salary rules as the pension contributions	
Employer	8.5%
Employee	4%
(Employers are not required to pay the 8.5% health contribution for employees earning less than 10 minimum legal wages	
Solidarity Fund; payable by employer on the monthly ordinary salary of the employee; contribution required only for employees who earn a monthly salary greater than 4 minimum wages; subject to same maximum limitation and integral salary rules as pension contributions; rates vary according to the amount of monthly salary earned by employee	
Employees earning up to 16 minimum wages	1%
Employees earning between 16 and 17 minimum wages	1.2%
Employees earning between 17 and 18 minimum wages	1.4%
Employees earning between 18 and 19 minimum wages	1.6%
Employees earning between 19 and 20 minimum wages	1.8%
Employees earning between 20 and 25 minimum wages	2%
Labor risk; payable by employer on monthly ordinary salary; rate depends on a legally established scale based on the degree of risk represented by the economic activity of the company; the Social Security office makes the classification at the time of enrollment; subject to same maximum limitation and integral salary rules as pension contributions	0.348% to 8.7%
Payroll taxes to National Learning Service (SENA), Colombian Family Welfare Institute (ICBF) and Family Compensation Fund; payable by employer on the monthly ordinary salary earned by the employee; no ceiling applies; subject to same integral salary rules as pension contributions; reduced and progressive rates apply to small businesses	

Nature of tax	Rate
(Employers are not required to pay the SENA [2%] and ICBF [3%] contributions with respect to employees earning less than 10 minimum legal wages. However, for these employees, employers are still required to pay the Compensation Fund contribution [4%.])	9%
Custom duty, on Cost, Insurance, Freight (CIF) value; general rates	0% to 15%
Real estate tax; municipal tax imposed on the ownership of land or immovable property; tax rate is applied to the commercial value of the property; rate set by the municipality and varies according to the location and use of the property; the tax effectively paid during the tax year is 100% deductible for income tax purposes; general range of rates	0.4% to 3.5%

## E. Miscellaneous matters

**Foreign-exchange controls.** A controlled exchange market and a free market exist. The controlled exchange market primarily covers external indebtedness, foreign investment in Colombia and Colombian investment abroad. Commercial banks and financial institutions administer the controlled exchange market. Currently, foreign-trade operations (imports and exports of goods) are part of the controlled exchange market; however, under a proposal, these operations would be moved to the free market.

Exchange operations that are not covered by the controlled market are conducted through the free market. These operations include the purchase of foreign currency that is used to open free-market bank accounts abroad.

Foreign investors may receive abroad, without limitation, annual profits derived from an investment that is registered with the Colombian Central Bank (Banco de la República de Colombia).

Effective from October 2011, Colombian residents may receive foreign loans from non-Colombian residents without any restriction. However, nonresident individuals are authorized to do so only under certain circumstances (for work capital and pre-financing of exports). Before October 2011, only financial institutions recognized as such by the Colombian Central Bank could lend money to Colombian residents.

**Controlled foreign companies.** The controlled foreign company (CFC) regime applies to Colombian tax residents (individuals or entities) that directly or indirectly hold an interest equal to or greater than 10% of the capital or of the profits of a foreign entity that is considered a CFC.

CFCs are corporations, as well as investment vehicles, such as trusts, collective-investment funds, and private interest foundations, which meet the conditions to be considered a related party for transfer-pricing purposes.

For income tax purposes, Colombian taxpayers should immediately recognize the net profits of the CFC derived from passive income, in proportion to their participation in the CFC's capital or

profits, without the need to wait to receive a distribution of profits in Colombia.

Under this regime, passive income generally includes the following:

- Dividend and profit distributions from a company or investment vehicle
- Interest
- Income derived from the exploitation of intangibles
- Income originated from the sale of assets that generates passive income
- Income from the sale or lease of immovable property
- Income derived from the sale or purchase of tangible goods acquired from (or sold to) a related party if the manufacturing and consumption of the goods occurs in a jurisdiction different from the one in which the CFC is located or is tax resident
- Income from the performance of certain services in a jurisdiction different from the one in which the CFC is located or is tax resident

A Colombian tax resident that recognizes taxable income under the application of the CFC regime may request a tax credit for taxes paid abroad with respect to the passive income.

Dividends and benefits that are distributed by a CFC and that have been already taxed in Colombia, should be considered non-taxable income for the Colombian taxpayer.

**Debt-to-equity rules.** Interest paid on loans (with third parties or related parties) that in average exceeds a 3:1 debt-to-equity ratio is not deductible. For this purpose, the equity taken into account is the taxpayer's net equity for the preceding year, and the debt taken into account is debt that accrues interest.

**Transfer pricing.** The transfer-pricing regime includes several of the methods contained in the Organisation for Economic Co-operation and Development (OECD) rules. However, as a result of rulings of the Constitutional Court, the OECD guidelines may not be directly referred to for purposes of interpretation of the Colombian transfer-pricing rules and are considered auxiliary criteria for interpretation. Significant aspects of the transfer-pricing system in Colombia include the following:

- All events that create economic linkage are specifically mentioned in the tax code.
- The rules do not cover local operations between related companies established in Colombia, except for transactions between local entities and free-trade zone users.
- Parties that have gross equity exceeding 100,000 tax units as of the last day of the tax year or gross revenues for the year in excess of 61,000 tax units must prepare contemporaneous documentation and file transfer-pricing information returns. In addition, information regarding comparables must be sent to the tax authorities in electronic form.
- For supporting documentation purposes, transactions above a certain threshold, by type of transaction, are subject to transfer-pricing analysis if the total amount of intercompany transactions exceeds 61,000 tax units. For financing transactions with related parties, the amount of the debt must be considered when determining the total transaction amount.

- Transactions with residents or those domiciled in tax havens are subject to transfer-pricing analysis if the total amount of such transactions exceeds 10,000 taxable units. The tax haven jurisdiction list is issued by the Colombian government.
- Penalties are imposed for not meeting filing requirements, submitting erroneous or incomplete reports or failing to meet other requirements.

Local transfer-pricing documentation must include a Master File with the multinational group's global relevant information.

In addition, for multinational groups with a Colombian parent entity, a Country-by-Country Report (CbCR) must be completed under the following circumstances:

- The parent is resident in Colombia.
- The parent has affiliates, subsidiaries, branches or PEs abroad.
- The parent is not a subsidiary of another entity resident abroad.
- The parent is required to prepare, submit and disclose consolidated financial statements.
- The parent has annual consolidated revenue equal to or exceeding 81 million tax units.

A non-Colombian parent can designate an entity resident in Colombia or a resident abroad with a PE in Colombia as the responsible party for providing the CbCR to the Colombian tax authority.

**Anti-abuse rules.** Under anti-abuse rules, tax abuse is defined as the use or implementation of a transaction or several transactions without apparent commercial or economic purpose and with the aim of obtaining a tax benefit.

The tax authority can recharacterize any abusive transaction. It is understood that a transaction has no commercial or economic purpose if the following circumstances exist:

- The transaction is developed in a way that is not economically or commercially reasonable.
- The transaction gives rise to a high tax benefit that is not in line with the economic or business risks assumed by the taxpayer.
- The legal agreement is not aligned with the real will of the parties.

## F. Tax treaties

Colombia has entered into a multilateral tax treaty with Bolivia, Ecuador and Peru, which follows the source criteria. In addition, Colombia has double tax treaties in effect with Canada, Chile, the Czech Republic, India, Korea (South), Mexico, Portugal, Spain and Switzerland, which are based on the OECD model convention.

Colombia has entered into tax treaties covering certain international air transportation services with several countries, including Argentina, Brazil, France, Germany, Italy, Panama, Turkey, the United States and Venezuela.

Colombia has also signed double tax treaties with France and the United Kingdom, which are not yet in effect.

The following table presents the withholding tax rates for dividends, interest and royalties under the Canada, Chile, Czech

Republic, India, Korea (South), Mexico, Portugal, Spain and Switzerland treaties.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Canada	5/15	5/10	10
Chile	0/7/35 (a)	5/15	10
Czech Republic	5/15/25	0/10	10
India	5/15	0/5/10	10
Korea (South)	5/10/15	0/5/10	10
Mexico	0/33	5/10	10
Portugal	10/33	0/10	10
Spain	0/5/35 (a)	0/5/10	10
Switzerland	0/15	0/5/10	10
Non-treaty jurisdictions (b)	5/35	0/5/15	15/26.4 (c)

(a) Dividends that are not taxed at a corporate level are subject to a tax rate of 35% at the shareholder level. However, the 35% rate may be reduced if the dividends are exempt from income tax at the corporate level and are reinvested for a three-year term.

(b) For details regarding these rates, see Section A.

(c) The 26.4% rate applies to software.

# Congo, Democratic Republic of

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## A. At a glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35
Branch Tax Rate (%)	35
Withholding Tax (%) (b)	
Dividends	20 (b)
Interest	20 (c)
Royalties	20 (d)
Services	14 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (f)

- (a) The corporate income tax rate is 30% for mining companies.
- (b) The rate of dividend withholding tax for mining companies is 10%. A dividend withholding tax applies to branches. The rates of this tax are 8% for public limited liability companies and 10% for other limited liability companies.
- (c) Interest on loans abroad to mining companies is not subject to withholding tax.
- (d) The net amount of royalties is subject to tax. For this purpose, net royalties equal gross royalties minus professional expenses, or 30% of gross royalties (resulting in an effective tax rate of 14%).
- (e) This withholding tax applies to payments for services provided to Congolese companies by foreign companies and individuals without a permanent establishment in the Democratic Republic of Congo. The tax base is the gross amount of the applicable invoice.
- (f) See Section C.



## B. Taxes on corporate income and gains

**Corporate income tax.** Congolese companies are taxed on the territoriality principle. As a result, companies carrying on a trade or business outside the Democratic Republic of Congo (DRC) are not taxed in the DRC on the related profits. Congolese companies are those registered in the DRC, regardless of the nationality of the shareholders or where the company is managed and controlled. Foreign companies (for example, branches) engaged in activities in the DRC are subject to Congolese corporate tax on Congolese-source profits only.

A company is considered to have a permanent establishment in the DRC if it satisfies either of the following conditions:

- It possesses a fixed or permanent place (for example, head office, branch office, factory, plant, workshop, or buying and selling counter).
- In the absence of such place, it carries out a professional activity under its corporate name for at least six months in the DRC.

**Rates of corporate tax.** The regular corporate income tax rate is 35%.

The minimum tax payable is 1% of the annual turnover for larger corporations.

For small corporations with annual revenues of less than CDF10 million, the corporate income tax is set at CDF50,000. For average-sized corporations with annual revenues between CDF10 million and CDF80 million, the corporate income tax rate is 1% of the annual revenue for sales of goods and 2% for the provision of services.

The corporate income tax rate is 30% for companies holding mining or quarry titles.

**Capital gains.** Increases resulting from capital gains and depreciation that are realized and either realized or expressed in the accounts or inventories are included in profits and are subject to tax at a rate of 35%.

Increases resulting from unrealized capital gains that are expressed in the accounts or inventories and that are not treated as profits are not yet taxable. This rule applies only if the taxpayer holds a regular accounting and if it fulfills its declarative obligations.

Increases resulting from realized capital gains on buildings, tools, materials and movable assets (regardless of whether they result from rent payments), as well as on participations and portfolios, are taxable to the extent that the sales price exceeds the acquisition price or cost. A deduction is made from the amount of the depreciation that has already been claimed for tax purposes.

**Administration.** The fiscal year extends from 1 January to 31 December. Tax returns must be filed by 30 April.

Corporate tax must be paid in two installments before 1 August and 1 December. Each installment must equal 40% of the preceding year's tax (increased by any tax reassessment received by the tax office during the current year). The balance of tax due must be paid by the following 30 April.

A penalty of 4% per month is assessed for late payment of tax. Tax is fixed automatically if a tax return is not filed.

**Dividends.** In general, dividends paid are subject to a 20% withholding tax. The rate of dividend withholding tax for mining companies is 10%. A dividend withholding tax applies to branches. The rates of this tax are 8% for public limited liability companies and 10% for other limited liability companies.

**Foreign tax relief.** In general, foreign tax credits are not allowed. Income subject to foreign tax that is not exempt from Congolese tax under the territoriality principle is taxable.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared in accordance with principles set by the Organization for the Harmonization of Business Law in Africa (Organisation pour l'Harmonisation en Afrique du Droit des Affaires, or OHADA) Accounting Act, except for banks and insurance companies. The net amount of income is taxed. This amount equals gross income minus business expenses incurred during the tax year to acquire and retain the income. Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office, remuneration or management fees for services paid to nonresidents that are not justified
- Head office overhead or remuneration for certain services (studies and technical assistance) paid to nonresidents
- Expenditure of a personal nature, such as maintenance of household, appraisal fees, holidays and other expenses not necessary for the profession
- Corporate income tax, as well as real tax (tax on movable assets, tax on vehicles or tax on mining concessions), to the extent that the real tax does not constitute an operating expense
- All judicial or administrative fines, and fees and charges relating to breaches by income beneficiaries
- Certain specific charges, gifts, subsidies and penalties
- Directors' fees allocated under the Corporations Act to members of the General Council
- Expenditures on leased property, including depreciation of the property
- Provisions for losses, expenses or depreciation of assets, excluding provisions for the recovery of mineral deposits and provisions for the recovery of bank capital
- Commissions and brokerage fees if it cannot be proven that the tax on turnover (see Section D) has been paid for these items
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director)

**Inventories.** Inventories are normally valued at their historical cost or acquisition cost.

**Provisions.** In determining accounting profit, companies must implement certain provisions, such as a provision for risk of loss or for certain expenses. These provisions are not deductible for tax purposes. However, provisions for recovery of bank capital and provisions for the recovery of the mineral deposit are deductible for tax purposes.

**Tax depreciation.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by tax law. The following are some of the specified annual rates.

Asset	Rate (%)
Buildings	2 to 5
Office equipment	10
Motor vehicles	20 to 25
Plant and machinery	10

Companies can also opt for a regressive method for tax depreciation of specific assets with an annual rate of two to three times the straight-line rate.

**Relief for tax losses.** Tax losses incurred in a tax year may be carried forward indefinitely. However, the deduction of the available tax losses is capped at 60% of the annual taxable income.

**Groups of companies.** The DRC does not have a fiscal integration system equivalent to a consolidated filing position.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	16
Payroll taxes	
Annual income not exceeding CDF22,956,000; progressive rates	0 to 40
Annual income exceeding CDF22,956,000; flat rate	30
Exceptional income tax for expatriates (IERE)	
Mining companies	10
Other companies	25
Social Security National Institute (Institut national de sécurité sociale, or INSS) contributions; payable monthly	
Employers	5
Employees	3.5
National Institute for Professional Preparation (Institut national de préparation professionnelle, or INPP); payable monthly by employers	1 to 3
National Agency for Labor (Office National de l'Emploi or ONEM); payable monthly by employers	0.2

#### E. Miscellaneous matters

**Foreign-exchange controls.** The currency in the DRC is the Congolese franc (CDF). The exchange rate is variable.

In the DRC, the Central Bank of Congo regulates foreign-exchange controls. It also supervises the regulation on the transfer of currency. Cash transfers from or into the DRC are not subject to restrictions if they do not exceed the equivalent of USD10,000. An exchange control fee of 0.2% is levied on payments to or from abroad.

**Debt-to-equity rules.** The DRC does not have any thin-capitalization rules, but several measures may apply to related-party transactions (see *Transfer pricing*).

**Transfer pricing.** The DRC has several measures applicable to related-party transactions that are not conducted on an arm's-length basis.

These provisions include the disallowance of loan interest with respect to rates exceeding the annual average of the effective rates charged by the credit institutions of the country in which the lending company is established and the repayment of principal beyond five years.

Management fees paid to a related party may be deducted from the corporate income tax base if the following conditions are satisfied:

- The services rendered can be clearly identified (that is, they are genuine services that are effectively rendered and directly related to operating activities).
- The services cannot be rendered by a local company (that is, overhead expenses recharged to the local entity are excluded).
- The amount paid for the services corresponds to the remuneration paid in identical transactions between independent companies.

These arm's-length requirements are consistent with those set forth in the Mining Code.

The 2015 Finance Law introduced transfer-pricing documentation requirements. As a result, companies must put at the disposal of the tax administration during a tax audit, general and specific information on an affiliated group of companies (Master File and Local File), including the following:

- General description of the deployed activity, including changes that occurred during the year
- A general description of the legal or operational structures of the affiliated group of companies, including identification of the related companies engaged in transactions involving the company established in the DRC (local company)
- A general description of the function performed and risk assumed by the affiliated companies as soon as they affect the local company
- A list of the main intangible assets owned, including patents, trademarks, trade names and know-how, relating to the local company
- A general description of the group's transfer-pricing policy
- A description of transactions made with other affiliated companies, including the nature and amount of cash flows, such as royalties
- A listing of the cost-sharing agreement, copies of preliminary agreements related to transfer pricing that are concluded under the conditions of the regulation, and the prescription relating to the determination of transfer pricing, affecting the results of the local company
- Presentation of the method or methods for determining transfer pricing, in compliance with the arm's-length principle, including an analysis of the functions performed, assets used and risks assumed, and an explanation concerning the selection and application of the methods used

- An analysis of comparative elements considered as relevant by the company if the selected method requires it.

Under the 2017 Finance Law, the transfer-pricing documentation must be filed with the tax administration within six months after the filing of the corporate income tax return.

In addition, the corporate income tax law disallows branches from deducting overhead charges incurred by the parent company and charged back to the branch.

## F. Tax treaties

The DRC has entered into double tax treaties with Belgium and South Africa. The following are the withholding tax rates under the treaties.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Belgium	10/15 (a)	10	10
South Africa	5/15 (b)	10	10
Non-treaty jurisdictions (c)	20	20	20

- The 10% rate applies if the Belgian recipient company was eligible under the Investment Code or another investment incentive and if it holds at least 25% of the capital of the payer. Otherwise, the rate is 15%.
- The 5% rate applies if the South African recipient company holds at least 25% of the capital of the payer. Otherwise, the rate is 15%.
- For further details, see Section A.

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## A. At a glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	15 (c)
Withholding Tax (%)	
Dividends	15 (d)
Interest	20
Royalties from Patents, Know-how, etc.	20
Payments for Non-commercial Services and Activities	5
Revenues Earned by Certain Foreign Companies	7.7/20 (e)

Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) The minimum tax is 1% of turnover. The corporate income tax rate is 25% for agricultural companies.
- (b) In certain circumstances, the tax is deferred or reduced (see Section B).
- (c) The branch tax is calculated on the basis of the net profit decreased by the amount of the corporate income tax, to which a tax rebate of 30% is applied.
- (d) This tax also applies to directors' fees, nondeductible expenses and adjustments of profits following a tax examination. For directors' fees, the rate is 22%.
- (e) For details, see Section B.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Congolese companies are taxed on the territoriality principle. As a result, Congolese companies carrying on a trade or business outside Congo are not taxed in Congo on the related profits. Congolese companies are those registered in Congo, regardless of the nationality of the shareholders or where the company is managed and controlled. Foreign companies engaged in activities in Congo are subject to Congolese corporate tax on Congolese-source profits only.

**Tax rates.** The regular corporate income tax rate is 30%.

The minimum tax payable is 1% of the annual turnover and cannot be less than XAF1 million (or XAF500,000 if turnover is less than XAF10 million a year). A 2% minimum tax is payable by companies that incur tax losses in two consecutive years. It appears that the 2% rate is applied to the sum of gross turnovers and products and benefits realized by the company in the most recent year in which it earned a profit. In general, the 2% tax is not deductible for corporate income tax purposes. However, in the company's first profit-making year after incurring the losses, one-half of the 2% tax is deductible.

The corporate income tax rate is 25% for agricultural companies, micro-finance companies and private educational institutions registered as companies.

The corporate income tax rate is 30% for mining companies and real estate companies.

The branch tax is imposed at a rate of 15%. It is calculated on the basis of the net profit decreased by the amount of the corporate income tax, to which a tax rebate of 30% is applied.

A withholding tax at a rate of 7.7% is imposed on the turnover of foreign companies without a registered branch in Congo that are engaged in legally authorized activities there. A 20% withholding tax is imposed on income sourced in Congo that is derived by foreign companies not engaged in activities in Congo.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies depending on the nature of the project and the level of investments.

The Charter of Investments may grant a tax exemption for a three-year period for new activities in industry, agriculture, forestry and mining. In addition, under the General Tax Code, a tax exemption for a two-year period may be granted for such new activities.

**Capital gains.** Capital gains are taxed at the regular corporate rate. The tax, however, can be deferred if the proceeds are used to acquire new fixed assets in Congo within three years or in the event of a merger.

If the business is totally or partially transferred (directly or indirectly) or discontinued, only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased. The total gain is taxed, however, if the business is not carried on in any form by any person.

Capital gains derived by natural or legal entities domiciled abroad on the sale of all or part of their shares in the capital of companies registered under Congolese law are subject to a special tax at a rate of 20%. This withholding tax is payable at the time of registration of the deed of assignment.

**Administration.** The fiscal year extends from 1 January to 31 December. Tax returns must be filed by 20 May.

Companies must pay the minimum tax between 10 March and 20 March, and corporate tax must be paid in four installments between the 10th and 20th days of February, May, August and November. Each installment must be equal to 20% of the preceding year's tax. The balance of tax due must be paid by the following 20 May.

A 50% penalty is assessed for late payment of tax.

**Dividends.** Dividends paid are subject to a 15% withholding tax. Resident corporations are taxed on the gross dividend; a corresponding 15% tax credit is available for double tax relief.

After three years, profits credited to the non-compulsory reserve are considered to be dividends and are accordingly subject to the 15% withholding tax on dividends.

A parent corporation may exclude the net dividends received from a Congolese or foreign subsidiary if the following conditions are satisfied:

- The parent company is a Congolese joint stock company or limited liability company that holds 30% or more of the capital of the subsidiary, which is also a joint stock company or limited liability company.
- The subsidiary carries on only industrial, agricultural, mining, forestry, large-scale fishing or stock-breeding activities.

No withholding credit is allowed if the net dividends are excluded.

A Congolese joint stock company or limited liability company may exclude 90% of the net dividends received from a joint stock company or limited liability company located in Congo or another Central African Economic and Monetary Community (CEMAC) country if the parent company holds 25% or more of the capital of the payer of the dividends.

**Foreign tax relief.** In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from Congolese tax under the territoriality principle is taxable net of the foreign tax. A tax treaty with France, however, provides a tax credit on dividends.



### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the standard statements of the Organization for Harmonization of Business Law in Africa (OHADA) treaty. The members of OHADA are Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Congo (Democratic Republic of), Congo (Republic of), Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office overhead or remuneration for services paid to non-residents that exceeds 20% of taxable income before the deduction of such items
- Head office fees or remuneration for certain services (studies and technical assistance) paid to nonresidents by companies engaged in building and public works, by engineering firms and by accounting firms, to the extent that the expenses exceed 2% of turnover
- Royalties from patents, brands, models or designs paid to a non-resident corporation participating in the management of, or owning shares in, the Congolese corporation
- Interest paid to a shareholder in excess of the central bank annual rate plus two points and, if the shareholder is in charge of management, interest on the portion of the loan exceeding one-half of the capital stock
- Commissions and brokerage fees exceeding 5% of purchased imports
- Certain specific charges, gifts, subsidies and penalties
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director)
- Corporate income tax

**Inventories.** Inventory is normally valued at the lower of cost or market value.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are likely to occur and if they appear in the financial statements and in a specific statement in the tax return.

**Tax depreciation.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by tax law. The following are some of the specified annual rates.

<b>Asset</b>	<b>Rate (%)</b>
Commercial and industrial buildings	5
Office equipment	15
Motor vehicles	20 to 33.33
Plant and machinery	10 to 33.33

Heavy new assets acquired for manufacturing, transformation, transport and handling qualify for a special depreciation allowance at a rate of 40% in the year of acquisition if all of the following conditions are satisfied:

- The assets are used only in industrial, forestry or agricultural activities.
- The assets can be used for a period exceeding three years.
- The total value of the assets exceeds XAF40 million.
- The assets will be intensively used.

**Relief for tax losses.** Losses may be carried forward for three years. Losses attributable to depreciation may be carried forward indefinitely, but they must be reported on the depreciation table. Losses may not be carried back.

**Groups of companies.** The Congolese tax law provides for a fiscal integration system and a fiscal regime for holding companies with tax exemptions, particularly with respect to capital gains, dividends and interest on loans.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	18.9
Business activity tax ( <i>patente</i> ); calculated based on annual turnover according to sliding scale	0.040
Registration duties, on transfers of real property or businesses	4 to 10
Tax on salaries (TUS)	7.5
Social security contributions, on annual salaries; paid by	
Employer	
Family allowance contribution	10.035
Work accident insurance	2.25
Old-age pension	8
Employee	
Old-age pension	4

## E. Miscellaneous matters

**Foreign-exchange controls.** The Congolese currency is the CFA franc BEAC (XAF). The fixed exchange rate for the CFA franc BEAC is XAF655,957 = EUR1.

Exchange-control regulations exist in Congo for financial transfers outside the franc CFA zone (XAF zone), which is the monetary zone including France and its former overseas colonies.

**Transfer pricing.** The Congolese tax law contains the transfer-pricing measures described below.

Amounts paid by a Congolese company to a company or a group of companies located outside Congo are considered indirect transfers or profits if the payer is dependent *de jure* or *de facto* on the recipient of the payments and if the tax authorities establish that the payments are excessive or unjustified. This measure applies to certain transactions, including the following:

- Overcharges for purchases
- Payments of excessive royalties
- Loans that are interest-free or have unjustifiable rates
- Discounts of debts
- Advantages granted out of proportion with the benefit provided by a service provider

Payments for the use of patents, marks, drawings and models, interest payments and payments for services made by a Congolese company to a nonresident company located in a country with low or no taxation, are considered indirect transfers of benefits unless the Congolese company proves that the payments correspond to real operations and that they are not excessive.

**F. Treaty withholding tax rates**

The withholding rates under a treaty with France are listed in the following table.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
France	15	0 *	15
Non-treaty jurisdictions	15	20	20

\* Interest is subject to tax in the recipient's country. Withholding tax is not imposed in the country of source.

# Costa Rica

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**A. At a glance**

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	0/30 (a)(b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	5/15 (c)
Interest	15 (d)(e)
Royalties from Know-how and Technical Services	25 (d)
Transportation and Telecommunications	8.5 (d)(f)
Salaries and Pensions	10 (d)
Fees and Commissions	15 (d)(e)
Reinsurance	5.5 (d)(f)
News Services, Videos and Films	20 (d)(f)
Advance Payments	
Credit and Debit Card Payments	2 (g)
Payments for Professional Services Used During the Formalization Process for Financial Products	2 (h)
Other	30 (d)
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	3/5 (i)

- (a) The 30% rate is reduced to 10% or 20% for companies whose annual gross income does not exceed specified amounts (see Section B).
- (b) See Section B.
- (c) This withholding tax applies to dividends paid to non-domiciled business entities and to domiciled and non-domiciled individuals (see Section B). The withholding tax is considered a final tax. If the shares of the company paying the dividends were purchased through a local stock exchange, the withholding tax rate is reduced to 5%.
- (d) This is a final withholding tax that is imposed on non-domiciled companies and non-domiciled individuals.
- (e) For details regarding withholding tax on interest, fees and commissions, see Section B.
- (f) Non-domiciled companies engaged in these types of activities through a permanent establishment in Costa Rica that do not comply with requirements to report income or to file an income tax return may be subject to an imputed amount of taxable income equivalent to 15% of their total gross income derived in Costa Rica. Imputed taxable income is subject to the ordinary corporate income tax rate. For further details, see Section C.

- (g) Resolution DGT-R-036-2014 established a 2% withholding requirement for debit or credit card payments processed by financial institutions in Costa Rica. The amounts withheld by the financial institutions are treated as advance payments of the recipient's final income tax liability. The 2% withholding requirement applies only to 88% of the amount of the transaction made with a debit or credit card. The following persons are exempted from this withholding requirement:
- Entities not subject to income tax
  - Companies under the simplified tax regime
  - Transporters of persons or goods
  - Gas stations
  - Taxpayers engaged in agricultural activities that do not have an obligation to make partial income tax payments
  - Taxpayers that generally do not have an obligation to make partial income tax payments
- (h) Resolution DGT-R-35-2014 established that financial entities must withhold 2% on payments made for "professional services" used during the formalization process for financial products.
- (i) Industrial companies may carry forward net operating losses incurred in the first five years of operations for five years. They may carry forward net operating losses incurred in subsequent years for three years. Agricultural companies may carry forward net operating losses for five years.

## B. Taxes on corporate income and gains

**Corporate income tax.** The Costa Rican tax system is a territorial regime; consequently, income derived from Costa Rican sources is subject to tax.

**Corporate income tax rates.** The corporate tax rate for the 2018 fiscal year is 30% for resident and nonresident companies. However, companies with annual gross income of up to CRC53,113,000 (approximately USD93,150) are subject to an income tax rate of 10%. Companies with annual gross income between CRC53,113,001 and CRC106,835,000 (approximately USD187,430) are subject to an income tax rate of 20%. These tax brackets are adjusted annually.

Companies operating under the Free Trade Zone Regime that are located in the Great Extended Metropolitan Area (GEMA) benefit from an income tax exemption of 100% for the first eight years and of 50% for the next four years. Companies located outside the GEMA benefit from an income tax exemption of 100% for the first 12 years and of 50% for the next 6 years. The Ministry of National Planning and Economic Policy specifies which areas are considered part of the GEMA.

On 13 July 2007, the World Trade Organization Committee on Subsidies and Countervailing Measures agreed to adopt the text of a draft decision of the General Council to continue procedures for the extension until 2015 of the transition period for the elimination of the export subsidy programs of 19 developing countries, including Costa Rica. Based on the above action and to comply with Costa Rica's commitments as a member of the World Trade Organization, on 22 January 2010, the executive branch of the Costa Rican government published Law 8794, which amends and adds certain sections to the Free Trade Zone Regime Law No. 7210. This law created a new category of companies that can apply for the Free Trade Zone Regime. This category is for companies that produce or process goods, regardless of whether the goods are for exportation. Companies in this category are subject to income tax at reduced rates (0%, 5%, 6% or 15%) for a specified number of

years depending on whether the company is located inside or outside the GEMA or depending on the amount of the investment.

**Capital gains.** Capital gains are taxable and capital losses are deductible if they result from the transfer of depreciable assets or from the transfer of non-depreciable assets in the ordinary course of a trade or business. Taxable capital gains are treated as ordinary income and are subject to tax at the normal corporate income tax rate.

**Administration.** The statutory tax year runs from 1 October through 30 September. Companies must file annual corporate income tax returns and pay any tax due within 2 months and 15 days after the end of the tax year. Some entities may request to use the calendar year as their tax year (for example, subsidiaries of foreign companies). Taxpayers that report under the statutory tax year have a filing deadline of 15 December. Taxpayers that report under the calendar year have a filing deadline of 15 March.

The current year tax liability must be paid in quarterly installment payments, which are based on the preceding year's income tax paid or the average of the last three years' tax liability, whichever is higher. If a company did not file a return for the last three years, the installment payments are calculated based on the tax liability from the last year a return was filed. New companies must make quarterly payments based on their first-year projected income, which must be reported to the tax authorities on or before the last day of January. If no projected income is reported, the tax authorities determine the quarterly tax payments based on an imputed income amount.

Companies defined by the tax authorities as National Large Taxpayers or Large Territorial Companies must file audited financial statements on request from the tax authorities. The audited financial statements must be submitted within three months after the request of the tax authorities. The period to respond may be extended by three months if approved by the tax authorities.

In addition, Resolution No. DGT-R-30-2014 requires National Large Taxpayers to update their relevant tax information using a web-based platform called AMPO within 10 business days after information changes. Taxpayers that become classified as National Large Taxpayers must submit the tax information within 15 days after being notified of their National Large Taxpayer status by the tax authorities. The relevant tax information to be provided includes, among other items, the following:

- Agencies
- Branches or commercial premises
- Mergers
- Royalty payments for the use of intangible assets
- Equity participation in other entities
- Participations in economic groups

**Dividends.** Dividends paid between resident corporations, limited liability companies and partnerships with stock are not taxable. A 15% withholding tax is imposed on dividends paid to domiciled and non-domiciled individuals or to non-domiciled business entities. If the shares on which dividends are paid were purchased

through a local stock exchange, the withholding tax rate is reduced to 5%. Distributions by companies of their own shares are not taxable. Under the Income Tax Law, domiciled companies include companies incorporated in Costa Rica and companies that have a permanent establishment in Costa Rica.

**Interest.** Interest, commissions, financial expenses and lease payments of capital assets paid to non-domiciled individuals or legal entities are subject to a 15% withholding tax rate. Interest, commissions, financial expenses and lease payments for capital assets paid to foreign banks that are part of a Costa Rican financial group or conglomerate regulated by the Costa Rican Financial System (Consejo Nacional de Supervisión del Sistema Financiero, or CONASIFF) are subject to a withholding tax rate of 5.5% during the first year of application of a law that entered into force on 27 November 2014, 9% during the second year, 13% during the third year and 15% beginning with the fourth year. Interest, commissions and financial expenses paid by entities regulated by the Superintendence of Financial Entities (Superintendencia General de Entidades Financieras, or SUGEF) to foreign entities that are also regulated and supervised in their jurisdictions are subject to a 5.5% withholding tax rate. An exemption applies to interest, commissions and financial expenses paid to multilateral development banks and other institutions of multilateral or bilateral development, as well to other nonprofit entities that are not subject to tax.

**Foreign tax relief.** The current position of the tax authorities is that Costa Rican taxpayers cannot deduct foreign taxes paid abroad in calculating their taxable income.

### **C. Determination of trading income**

**General.** Income tax is determined in accordance with International Accounting Standards (IAS), subject to adjustments required under the Costa Rican Income Tax Law and general resolutions issued by the tax authorities. Taxable income includes all income derived from Costa Rican sources, such as income from industrial, agricultural and trade activities in Costa Rica, income from services rendered in Costa Rica and income derived from real estate transactions, assets, capital, goods and rights invested or used in Costa Rica.

**Imputed income.** The tax authorities may assess imputed income in the cases described below.

*Non-domiciled companies that do not file tax returns.* Non-domiciled companies engaged in certain types of activities in Costa Rica through a permanent establishment that do not comply with requirements to report income or file income tax returns are subject to an imputed income assessment equal to a specified percentage of their Costa Rican gross income, unless they provide evidence of a lower amount of actual income. For example, documentation supporting an allocation of income between Costa Rica and other countries would prove that all income is not Costa Rican source. The amount of the imputed income assessment is subject to tax at the normal income tax rate. The following are some of the presumed amounts of taxable income:

- Transport and telecommunications: 15% of gross income



- Reinsurance: 10.5% of the net value of the reinsurance undertakings, guarantees and premiums of any type
- Media, cinema and international news: 30% of gross income

*Airlines, maritime shipping and transportation companies.* Airlines, maritime shipping and transportation companies may enter into an agreement with the tax authorities to compute Costa Rican taxable income using a special formula based on the company's worldwide and local revenues.

*Loan and financing transactions.* Unless the taxpayer provides evidence to the contrary, loan and financing transactions are deemed to derive a minimum amount of interest based on the highest active interest rate fixed by the Banco Central de Costa Rica (central bank) for lending and financial transactions or, if this rate is not available, on the average market rate being charged in the Costa Rican banking system. The tax authorities do not allow any exceptions to this rule unless the parties entered into a formal written loan or financing agreement.

**Inventories.** The Costa Rican Income Tax Regulations provide that acquisition cost must be used to record assets. The acquisition cost may be computed using several valuation methods, such as the first-in, first-out (FIFO) and weighted average cost methods. The tax authorities eliminated last-in, first-out (LIFO) as a valid inventory valuation method for tax purposes as of 3 February 2015.

**Provisions.** In general, provisions, including provisions for contingent liabilities such as doubtful accounts and severance pay, are not deductible expenses. However, actual payments of such liabilities are considered to be deductible expenses.

**Tax depreciation.** Depreciation may be computed using the straight-line or the sum-of-years' digits method. The tax authorities may allow a special accelerated depreciation method in certain cases. The tax authorities may authorize other methods based on the type of asset or business activity. The method chosen must be applied consistently. Depreciation is computed based on the useful life of the asset as specified in the Income Tax Regulations. The following are some of the straight-line rates.

Asset	Rate (%)
Buildings	2/4/6
Plant and machinery	7/10/15
Vehicles	10/15/34
Furniture and office equipment	10
Tools	10

**Relief for losses.** Industrial companies may carry forward net operating losses incurred in their first five years of operation for five years and they may carry forward net operating losses incurred in subsequent years for three years. Agricultural companies may carry forward net operating losses for five years. Net operating losses may not be carried back.

**Groups of companies.** Costa Rican law does not allow the filing of consolidated income tax returns or provide any other tax relief to consolidated groups of companies.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Sales tax	13%
Real estate transfer tax; the definition of “transfer” includes indirect transfers in addition to direct transfers of immovable property; indirect transfers are the transfer of control over the legal owner of immovable property	1.5%
Vehicle transfer tax	2.5%
Customs duties	
Agricultural products; average rate	12.72%
Industrial products; average rate	4.69%
Certain raw materials and machinery and equipment (Certain specified goods and merchandise are subject to higher rates of customs duty.)	0
Real estate tax (assessed and collected by the municipalities)	0.25%
Payroll taxes; withheld by employers; paid by employee; rate depends on compensation level	0%/10%/15%
Social security contributions	
Employer	26.33%
Employee	9.84%
Municipal taxes (varies by municipality)	Various
Solidarity Tax for the Strengthening of Housing Programs; (Solidarity Tax) contained in Law No. 8683; effective from 1 October 2009 through 1 October 2019; purpose of the tax is to finance public housing programs; tax applicable to residential property that is used habitually or occasionally or for recreational purposes, that the taxpayer owns or has the right to use and that is located in Costa Rica; taxpayers are subject to the tax if the value of the infrastructure (permanent structures, such as houses, swimming pools and parking lots) exceeds CRC126 million (approximately USD224,343); the value of the infrastructure must be updated every 3 years during the first 15 calendar days of the corresponding tax year in accordance with the parameters established by the tax authorities; if the taxpayer is subject to the tax (that is, meets value threshold for the infrastructure) the tax base is computed as the total value of the infrastructure (not just the excess of CRC126 million) plus the value of the land as of 1 January, based on a specific zoning model determined by tax authorities; hotel businesses may be subject to the tax depending on their operating model and the type of infrastructure; the tax is paid annually	

<b>Nature of tax</b>	<b>Rate</b>
and is due on 15 January of the current tax year (for example, for a fiscal year-end of 31 December 2016, the tax is due by 15 January 2017); Solidarity Tax is independent from the other real estate taxes and is not deductible for income tax purposes; the tax rates are progressive	0.25% to 0.55%
Annual Tax on Legal Entities; applies to all business entities and branches that are registered in the Mercantile Registry; amount of tax depends on whether the entity is registered as a taxpayer and on its gross income in its last corporate income tax return if so registered; tax rate is applied to a base salary; base salary is a monetary point of reference updated each year by the Ministry of Finance and is typically used in certain laws as a reference for tax computations (for example, tax penalties); in 2017, a base salary was CRC106,550 (approximately USD187); payable by 30 January of each year	
Entities not registered as taxpayers or inactive	15%
Entities with gross income of less than 120 base salaries	25%
Entities with gross income between 120 and 279 base salaries	30%
Entities with gross income equal to or in excess of 280 base salaries	50%

### **E. Foreign-exchange controls**

The currency in Costa Rica is the colón (CRC). As of 23 November 2018, the exchange rate of the colón against the US dollar was CRC568.06 = USD1.

No restrictions are imposed on foreign-trade operations or foreign-currency transactions.

### **F. Tax treaties**

Costa Rica has income tax treaties in effect with Germany and Spain.

Costa Rica signed an income tax treaty with Mexico on 12 April 2014. It will enter into effect after both countries complete their respective legislative approval processes.

The following are the withholding tax rates under Costa Rica's tax treaties with Germany and Spain.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Germany	5/15 (a)	5 (b)	10
Spain	5/12 (a)	5/10 (c)	10
Non-treaty jurisdictions (d)	15	15	25

- (a) The 5% rate applies if the beneficial owner of the dividends is a company that owns directly at least 20% of the capital of the entity paying the dividends.
- (b) Interest paid from Germany to the Costa Rican government is exempt from German taxes. Interest paid from Costa Rica under a loan guaranteed by Germany for exportation or foreign direct investment or paid to the German government, the Deutsche Bundesbank, the Kreditanstalt für Wiederaufbau or the Deutsche Investitions-und Entwicklungsgesellschaft is exempt from Costa Rican taxes. Interest can only be taxed in the contracting state of which the recipient is a resident if the interest is paid in connection with any of the following:
  - The sale of commercial or scientific equipment on credit
  - The sale of goods by an enterprise to another enterprise on credit
  - A loan of any type made by a bank resident in one of the contracting states
- (c) The 5% rate applies if the term of the loan agreement under which the interest is derived is five years or longer.
- (d) For further details, see Section A.

# Côte D'Ivoire (Ivory Coast)

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (b)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	2/10/15 (c)
Directors' Fees and Nondeductible Expenses	12
Interest	18 (d)
Royalties from Patents, Know-how, etc.	20
Payments for Services	20 (e)

Branch Remittance Tax	7.5 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) For details concerning the minimum tax, see Section B.
- (b) See Section B.
- (c) For details concerning these rates, see Section B.
- (d) The withholding tax rate is 6.75%, 8.25%, 13.5% or 16.5% in certain cases if the income is received through a bank or if the income is deposited by a holding company. The withholding rate on "lots" (exceptionally high bond discounts given only for certain specified bonds selected at random) is 25%. The withholding tax is imposed on the amount of the discount.
- (e) This withholding tax applies to payments by resident companies for services rendered by nonresidents who do not maintain a professional office in Côte d'Ivoire. For premiums paid to nonresident reinsurance companies, the rate is 12.5%.
- (f) On one-half of the before-tax profit (18% if the profit is exempt from corporate tax). See Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are taxed on the territoriality principle. As a result, companies carrying on a trade or business outside Côte d'Ivoire are not taxed in Côte d'Ivoire on the related profits. Resident companies are those registered in Côte d'Ivoire, regardless of the nationality of the shareholders or where they are managed and controlled. Foreign companies with activities in Côte d'Ivoire are subject to corporate tax on local-source profits if they have a permanent establishment in Côte d'Ivoire.

**Tax rates.** The regular corporate income tax rate is 25%.

The minimum tax is 0.5% of turnover. For oil-producing, electricity and water-producing companies, the rate is reduced to 0.1%. The rate is reduced to 0.15% for banks and financial companies and for insurance companies. The minimum tax may not be less than XOF3 million or more than XOF35 million. New corporations are exempt from the minimum tax for their first fiscal year, and mining companies are exempt from the minimum tax during the exploration phase.

Profits realized in Côte d'Ivoire by branches of foreign companies are deemed to be distributed and therefore are subject to a branch withholding tax on one-half of the before-tax profit at a rate of 15% (effective rate of 7.5%).

Corporations may apply for various categories of priority status and corresponding tax exemptions. Priority status varies depending on the nature of the project and the level of investments. Corporate tax reductions and temporary tax exemptions are granted to new industrial businesses for investments in industrial buildings and building sites, land for development, and industrial and agricultural establishments.

**Capital gains.** Capital gains are taxed at the regular corporate rate. The tax, however, can be deferred if the proceeds are used to acquire new fixed assets in Côte d'Ivoire within three years or in the event of a merger (or other acquisition).

If the business is totally or partially transferred or discontinued, only one-half of the net capital gain is taxed if the event occurs less

than five years after the start-up or purchase of the business, and only one-third of the gain is taxed if the event occurs five years or more after the business is begun or purchased.

The total gain is taxed, however, if the business is not carried on in any form by any person.

Capital gains derived by holding companies are exempt or are taxed at a rate of 12% if certain conditions are satisfied.

**Administration.** The financial year is from 1 January to 31 December. Corporate financial statements and corporate results must be filed by 15 April of the year following the financial year.

Companies must pay corporate income tax in three equal installments, which are due on 15 April, 15 June and 15 September of the year following the financial year.

Most companies must provide an audited financial statement to the tax authorities.

The tax center with which taxpayers must file tax returns depends on the company's turnover. The following are the relevant rules:

- Taxpayers with annual turnover below XOF400 million must file with their local tax center.
- Taxpayers with turnover ranging from XOF400 million to XOF3 billion must file with the medium-sized enterprises center (CME).
- Taxpayers with turnover exceeding XOF3 billion must file with the large corporation tax center (DGE).

Companies must use a unified tax form to file their tax return. This tax return includes in one form all of the taxes to which the company is subject. The deadline to file the unified tax return for companies reporting to the CME or DGE depends on the company's industry. The following are the deadlines:

- Manufacturing, oil and mining companies: 10 April
- Commercial companies: 15 April
- Service companies: 20 April

Late payments are subject to a penalty of 5% for the first month, plus 0.5% for each additional month or part of a month.

Late submissions of financial statements are subject to a penalty of XOF1 million plus XOF100,000 for each month or part of a month of the delay.

If the lateness of a submission exceeds three months, the penalty is XOF2 million plus XOF200,000 for each month or part of a month of the delay.

**Dividends.** Dividends paid by listed companies out of profits taxed at the 25% corporate tax rate are subject to a 10% withholding tax. A 15% withholding tax is imposed on dividends paid by other companies out of profits taxed at the 25% corporate tax rate. A special withholding tax rate of 2% applies to certain types of bonds issued in Côte d'Ivoire.

A parent company may exclude up to 95% of dividends received from a 10%-owned subsidiary (regime of holding companies and subsidiaries). If less than a 10% interest is held, a listed company

may exclude 90% of the dividends received while an unlisted company may exclude 50%.

**Foreign tax relief.** In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from tax in Côte d'Ivoire under the territoriality principle is taxable, net of the foreign tax. However, a tax treaty may provide for a tax credit.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to the Accounting System of the Organization for African Business Law Harmonization. Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Gifts (except those granted to certain associations engaged in social, sporting, scientific or cultural development)
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director)
- Subsidies
- Corporate tax
- Penalties

Services fees and royalties paid by Ivorian companies to resident and nonresident parent companies are deductible if the following conditions are satisfied:

- The payer proves that the payments are related to real operations and that the amount of the payments is normal.
- The amount of the payments does not exceed 5% of the turnover and 20% of the overhead of the payer.

Payments to resident companies are also subject to the same two conditions mentioned above.

Under certain tax treaties of Côte d'Ivoire, amounts paid to nonresident companies are deductible for tax purposes based on the same conditions as those applicable to payments to resident companies. Even if such treaties apply, the payer must satisfy the two conditions mentioned above in order to deduct the payments.

The deduction of services fees and royalties paid by resident companies to other resident companies is subject to the second condition mentioned above (5% of the turnover and 20% of the overhead). As a result, the nondiscrimination clause provided for by certain tax treaties does not apply, and services fees and royalties paid by resident companies to nonresident companies are deductible under the conditions mentioned above.

**Inventories.** Inventory is normally valued at the lower of cost or market value. Cost must be determined on a weighted average cost price method. A first-in, first-out (FIFO) basis is also generally acceptable.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.



**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at the following rates.

Asset	Rate (%)
Buildings	5
Light construction	10
Loud machinery	10
Stationary machinery	20
Fixtures	10
Office and home chattels	10
Office equipment	20 to 25
Motor vehicles	33.33
Other specified vehicles and engines	20 to 25
Computers and software	20 to 50

**Relief for tax losses.** Losses may be carried forward five years. Losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** The law does not contain any provision for the fiscal integration of related companies equivalent to a consolidated filing position. However, a parent-subsidiary tax regime exempts dividends and capital gains from tax under certain conditions.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on goods and services sold in Côte d'Ivoire	18
Turnover tax (tax on banking operations), on interest paid to and services rendered by banks and financial companies	10
Special tax on equipment; based on turnover; applicable to all companies	0.1
Business activity tax ( <i>patente</i> ), based on the turnover and the rental value of tangible assets	Various
Withholding tax, on amounts invoiced by importers, producers and sellers to persons subject to commercial or agriculture tax (entitles the buyer to a credit against withholding tax or VAT payable on its sales)	Various
Registration duties, on transfers of real property or businesses	1 to 10
Special tax on subcontractors of petroleum companies; a global tax including income tax, payroll taxes, a tax on shares, a national solidarity tax and an insurance tax; on taxable turnover	5.786
Payroll tax, paid by employers on salaries of	
Employees from Côte d'Ivoire	2.8
Expatriates	12
Social security contributions	
Retirement, on monthly salaries up to XOF1,647,315; paid by	

Nature of tax	Rate (%)
Employer	7.7
Employee	6.3
Family allowances, on monthly salaries up to XOF70,000; paid by employer	5.75
Industrial injuries, on monthly salaries up to XOF70,000; paid by employer	2 to 5

### E. Miscellaneous matters

**Foreign-exchange controls.** Exchange control regulations apply to financial transfers outside the franc zone, which is a monetary zone including France and its former overseas colonies.

**Transfer pricing.** Côte d'Ivoire does not have transfer-pricing regulations, but it has provisions addressing tax avoidance.

### F. Treaty withholding tax rates

Côte d'Ivoire has signed a multilateral tax treaty with the other members of the West African Economic Community (Communauté Economique de l'Afrique de l'Ouest, or CEAO), which are Burkina Faso, Mali, Mauritania, Niger and Senegal.

The country also signed a multilateral tax treaty in the framework of the Common African and Mauritian Organization (Organisation Commune Africaine et Mauricienne, or OCAM). This treaty was also signed by Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo (Democratic Republic of), Congo (Republic of), Gabon, Madagascar, Mauritius, Niger, Rwanda, Senegal and Togo.

The two international organizations mentioned above have been dissolved. However, the Ivorian tax administration considers the above multilateral tax treaties to be still applicable, provided that reciprocity exists.

Côte d'Ivoire has signed a new treaty with the countries of the West African Economic and Monetary Union (WAEMU). This tax treaty has applied for some tax items since 2009. It is wholly applicable, effective from 1 January 2010. The members of WAEMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

	Dividends %	Interest %	Royalties %
Belgium	15	16	10
Benin	10	15	15
Burkina Faso	10	15	15
Cameroon	15	18	0
Canada	15	15	10
Central African Republic	15	18	0
Chad	15	18	0
Congo (Democratic Republic of the)	15	18	0
Congo (Republic of the)	15	18	0
France	15	15	10
Gabon	15	18	0
Germany	15	15	10
Italy	15	15	10
Madagascar	15	18	0

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Mali	10	15	15
Mauritania	15	18	0
Niger	10	15	15
Norway	15	16	10
Rwanda	15	18	0
Senegal	10	15	15
Switzerland	15	15	10
Togo	10	15	15
United Kingdom	15	15	10
WAEMU countries	10	15	15
Non-treaty jurisdictions	2/10/15 (a)	18 (b)	20

(a) See Section B.

(b) See footnote (d) in Section A.

On 3 June 2015, Côte d'Ivoire ratified tax treaties with Morocco and Tunisia, but these treaties are not yet in force.

# Croatia

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## A. At a glance

Corporate Income Tax Rate (%)	12/18*
Capital Gains Tax Rate (%)	12/18*
Branch Tax Rate (%)	12/18*
Withholding Tax (%)	
Dividends	12
Interest	15
Royalties from Patents, Know-how, etc.	15
Fees for Market Research, Tax Advice, Business Advice and Auditor Services	15
Service Fees (Other Than Those Mentioned Above) Paid to Persons in Blacklisted Low-Tax Countries	20
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

\* See Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their worldwide income. A company is resident in Croatia if its legal seat or its place of management and supervision is located in Croatia. Branches of foreign companies are subject to tax only on their profits derived from Croatia.

**Tax rates.** The standard rate of corporate income tax is 18%. A lower corporate income tax rate of 12% applies to taxpayers that realized revenue of less than HRK3 million in the respective tax period.

**Tax incentives.** Tax exemptions and other tax reliefs are available in accordance with the Croatian Corporate Income Tax Act and special legislation regulating incentives. For example, the Investment Promotion Act provides incentives for investments in new business activities and new workplaces.

**Capital gains and losses.** Capital gains and losses from the sale of assets are considered regular taxable income and tax-deductible expenses, respectively. No separate capital gains tax applies; capital gains are subject to the regular corporate income tax rates of 18% or 12%. Specific rules apply to unrealized gains and losses on certain types of assets. Depending on the type of asset, such gains or losses may be not taxable or not tax deductible, and may be recognized for tax purposes in the period of the realization of the asset.

**Administration.** The regular tax year is the calendar year, but a company may apply for a different tax year.

Annual tax returns must be filed by the end of the fourth month following the tax year.

Companies must make monthly advance payments of tax. In principle, each monthly advance payment is equal to  $\frac{1}{12}$  of the tax due for the preceding year before the decrease of the tax base for tax incentives (excluding multiyear tax incentives). The balance of tax due must be paid by the end of the fourth month following the tax year. If the total of the advance payments exceeds the tax due for the year, the company may claim a refund.

**Dividends.** Dividends are taxable at a rate of 12%.

**Foreign tax relief.** A foreign tax credit is available to resident companies for foreign tax paid on income earned directly or through permanent establishments abroad. The amount of the credit is the lower of the Croatian corporate tax payable on the foreign income and the foreign tax paid.

## C. Determination of trading income

**General.** The corporate income tax base is determined in accordance with the accounting regulations (Croatian Financial Reporting Standards [CFRS]/International Financial Reporting Standards [IFRS]), adjusted for certain items that increase or decrease the tax base.

The following items decrease the tax base:

- Revenues from dividends and profit shares under certain conditions

- Unrealized profits from value adjustments of shares if they were previously taxed
- Revenues from collected written-off receivables that were taxed in previous periods
- Depreciation expenses carried forward from previous periods
- Tax incentives in accordance with special laws
- Expenses from previous tax periods that were previously taxed (that is, expenses that had been nondeductible)

The following items increase the tax base:

- Depreciation expenses exceeding the maximum allowable amounts (excess may be carried forward).
- Penalty interest paid between related parties.
- Privileges and other benefits granted to individuals and legal persons to execute certain actions in favor of the company.
- Nondeductible interest on loans between related parties.
- The costs of forced collection of tax and other levies.
- Unrealized losses from value adjustments of shares, if these were included in the expenses.
- Unrealized losses from value adjustments of depreciable assets except in the case of extraordinary damages.
- Fifty percent of entertainment expenses resulting from a business relationship with a business partner, including related value-added tax (VAT). These expenses include the following:
  - Gifts, regardless of whether they include the mark of the company or product
  - The cost of holidays, sports, recreation and leisure
  - Rental of airplanes, automobiles, vacation homes and vessels
- Fines imposed by competent bodies.
- Fifty percent of expenses, including related VAT but not including insurance and interest costs, incurred with respect to owned or rented motor vehicles or other means of personal transportation (for example, personal car, vessel, helicopter and airplane) used by managerial, supervisory and other employees, if the personal use of the means of personal transportation is not taxed as a benefit in kind.
- Inventory shortages above the amount prescribed by the Croatian Chamber of Economy, if the shortages are not subject to personal income tax.
- Donations in cash or in kind exceeding 2% of the preceding year's revenue. The limitation does not apply to donations made in accordance with the competent ministry's decisions on special programs and actions undertaken outside the regular business activities of the beneficiary. The donations also include financing of health care expenses (surgery, and purchases of medicines or orthopedic devices) for individuals who are not covered by primary, additional or private health insurance. The donations can also include donations of food producers or traders that donate food for social, humanitarian and other helpful purposes or that donate food to people hit by natural disasters. The food donations must be in line with special provisions of the Ministry of Agriculture.
- Expenses identified in the course of a tax audit, including VAT personal income tax, city tax and obligatory contributions incurred with respect to hidden profit payments, including payments of private costs of shareholders, company members and individuals and persons related to these individuals.
- Other expenses not incurred for the purpose of earning profit.

The expenses mentioned above, except privileges and other benefits granted to individuals and legal persons to execute certain actions in favor of the company and expenses identified in a tax audit, do not increase the tax base if they are subject to personal income tax.

New legislation that entered into force from 2017 introduced the possibility of determining the tax base based on the cash principle for taxpayers that realized revenue of less than HRK3 million in the preceding tax period. The Corporate Income Tax Act provides detailed rules for determining such tax base. Corporate income taxpayers that are also VAT taxpayers may also determine the tax base based on the cash principle if they have, based on VAT rules, already chosen to pay VAT based on realized income.

**Inventories.** Inventories are valued in accordance with CFRS or International Accounting Standards (IAS)/IFRS. In general, inventories are valued at the lower of cost or net realizable value. Costs include all acquisition costs, conversion costs and other costs incurred in bringing inventories to their current location and condition. In general, the cost of inventories must be determined using the first-in, first-out (FIFO) or weighted average method.

Losses from value adjustments of inventories are recognized as tax-deductible expenses at the time of disposal of the inventories.

Specific rules deal with allowable limits of inventory shortages.

**Provisions.** The following provisions are deductible for tax purposes:

- Provisions for severance payments to be paid in the following year according to the prepared restructuring plan
- Provisions for costs of renewing natural resources
- Provisions for costs incurred during guarantee periods
- Provisions for costs related to court disputes that have already been initiated against the taxpayer (excluding interest)
- Provisions for the risk of potential loss in banks, up to the amount prescribed by the Croatian special regulations
- Provisions in insurance companies, up to the obligatory amount prescribed by the law governing the insurance
- Accruals for the unused vacation in accordance with accounting principles

**Trade receivables.** Value adjustments of trade receivables are deductible if the receivables are overdue for more than 60 days as of the end of the tax year and if they are not collected by the 15th day before the filing of the tax return. However, if a taxpayer does not take measures for debt collection (for example, sue the debtor) before the receivables are barred by the statute of limitations, the receivables treated as deductible for tax purposes in prior years must be included in taxable income. In addition, value adjustments are deductible for tax purposes in the following circumstances:

- The receivables do not exceed HRK5,000 (approximately EUR656) per debtor (corporate income taxpayers, subject to specific provisions in case of bankruptcy, arbitration and mediation) or HRK2,000 (approximately EUR262) per unrelated individual if the total receivables per individual do not exceed this amount on the last day of the tax period and if the receivable is written off by 31 December 2013.

- The receivables do not exceed HRK200 (approximately EUR26) per unrelated individuals or craftsmen (and/or individuals engaged in similar business activities) if the total receivables per individual do not exceed this amount on the last day of the tax period and do not derive such business activities.
- The company is suing the debtor or a foreclosure is being conducted.
- The receivables are reported in a bankruptcy proceeding of the debtor.
- The debt has been settled in the pre-bankruptcy or bankruptcy proceedings of the debtor.
- The taxpayer proves that costs of initiating certain collection procedures exceed receivables or the taxpayer proves it used the duty of care to initiate collection of the debt (which ultimately could not be collected).
- The debt is written off based on special provisions related to the consumer's bankruptcy.

Credit institutions may treat as tax deductible the write-off of receivables from unrelated individuals and legal entities that are related to housing provisions and entrepreneurial loans, respectively. This is possible if it can be determined that the write-off is done with the goal of protecting the basic life needs of the individual (for example, prevention of foreclosure on the only real estate in which the loan recipient lives) or not jeopardizing investment developments and entrepreneurial activities of legal entities.

Credit institutions writing off uncollectable receivables from loan principal and interest may be entitled to take the following actions if certain requirements are met.

- They can treat the cost of receivable write-off that is higher than the previously tax-deductible write-off amount as a tax-deductible expense.
- They can treat the decrease in cost of previously tax-deductible receivable write-off as a taxable amount and include it in the tax base.

The following are the requirements for taking the above actions:

- The written-off receivable is disclosed in the accounts of the credit institution as partially or completely irrecoverable before 31 December 2015.
- The credit institution provides a written statement about the debtor's (and guarantor's) written-off debt, which includes the amount of the write-off, and the debtor consents to such statement.
- The debtor is not a related party based on the Corporate Income Tax Act and special credit institutions' regulations.
- The expense is stated in the income statement in the period in which the receivable is written off.

**Tax depreciation.** Depreciation is calculated by using the straight-line method. The following are the maximum annual depreciation rates prescribed by the Corporate Income Tax Act.

Asset	Rate (%)
Buildings and ships over 1,000 gross registered tons	10
Primary herd and personal cars	40
Intangible assets, equipment, vehicles (except personal cars), and machinery	50



Asset	Rate (%)
Computers, computer hardware and software, mobile telephones and computer network accessories	100
Other assets	20

The deduction for tax depreciation cannot exceed the expense for accounting depreciation. If maximum allowable tax depreciation exceeds accounting depreciation, the accounting depreciation prevails for tax purposes. If accounting depreciation exceeds maximum allowable tax depreciation, the excess may be deducted in future periods.

Depreciation expenses for personal cars and other vehicles used for personal transportation are deductible up to the amount calculated on the purchase cost of HRK400,000 (approximately EUR52,452) per vehicle. The limitation does not apply to vehicles used exclusively for rental or transportation activities.

Depreciation of assets that are not used in the performance of ordinary business activities is not deductible for tax purposes.

If the accounting records of a taxpayer include vessels, airplanes, apartments or resort houses and if the taxpayer uses these assets in its regular business activities, the depreciation of such assets may be claimed as deductible expenses for tax purposes if the following conditions are met:

- The taxpayer is registered for the activity of renting such assets.
- The revenue realized from the use of the vessels and airplanes is at least 7% of the purchased value of the vessels or airplanes.
- The revenue from the use of apartments and resort houses is at least 5% of the purchase value of the apartments or resort houses.

**Relief for losses.** Tax losses may be carried forward for five years, but they may not be carried back.

The legal successor may lose the right to a loss carryforward after a legal change (business combination) and/or change in ownership of the company of more than 50% if one of the following circumstances exists:

- The taxpayer did not perform its business activity for the two tax periods before the occurrence of the legal change and/or change in ownership.
- Within two tax periods after the occurrence of the legal change and/or change in ownership, the business activity of the taxpayer substantially changes.

**Groups of companies.** Croatia does not allow consolidated returns or provide any other tax relief for groups of companies. Each company within a group is taxed separately.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	5/13/25
Real estate tax, on the value determined by the tax authorities	4

Nature of tax	Rate (%)
Social security contributions; paid by	
Employer	17.2
Employee	20
Personal income tax; the withholding liability lies with the employer	
Up to HRK17,500 per month	24
In excess of HRK17,500 per month	36
Municipal surcharge; varies among cities; the rate for Zagreb (the capital city) is 18%	0 to 18

## E. Miscellaneous matters

**Foreign-exchange controls.** The Croatian currency is the kuna (HRK).

The Croatian National Bank is responsible for foreign-exchange regulations.

The Foreign Exchange Act generally imposes restrictions on payments abroad that do not have a legal basis. No restrictions are imposed on transfers of paid-in share capital, dividends, profits, interest, royalties, fees for know-how and similar payments.

Under the Foreign Exchange Act, Croatian resident companies may acquire foreign securities, provide long-term and short-term loans to nonresident companies, acquire real estate abroad and engage in certain other specified transactions. Such transactions are allowed if they are reported to the Croatian National Bank.

Natural persons may make direct investments abroad, acquire foreign securities, provide long-term loans to nonresidents, acquire real estate abroad and provide short-term loans to nonresidents who are related parties (family members).

**Transfer pricing.** Croatia has transfer-pricing rules that apply to transactions between Croatian residents and nonresidents. Under these rules, the tax authorities may adjust the taxable income of Croatian taxpayers derived from transactions with foreign related companies if they deem the prices and agreed conditions to be different than arm's-length prices and conditions. In such circumstances, taxable income is increased (or expenses decreased) by the difference between prices stated in the financial statements and arm's-length prices. These rules also apply to transactions between two Croatian residents if one of the related parties has special tax status (pays corporate income tax at reduced rates) or has a tax-loss carryforward.

A company may apply one of the following methods for establishing an arm's-length price:

- Comparable uncontrolled price method
- Resale price method
- Cost-plus method
- Profit-split method
- Transactional net margin method

Under the Croatian excessive interest rate rule, the deduction of interest on a loan received by a Croatian taxpayer from a related party is limited to a maximum deductible interest rate published

by the Croatian Minister of Finance before the beginning of the relevant tax year (4.97% per year for 2017).

The above-mentioned interest rate is calculated as the average of the interest rates on the outstanding balances of loans that are granted for a period longer than one year to nonfinancial companies and that are published by the Croatian National Bank in the current calendar year.

Instead of the rate prescribed by the Minister of Finance, taxpayers can apply the above-mentioned transfer pricing methods for establishing an arm's-length interest rate, subject to the condition that such method apply to all agreements.

Taxpayers can enter into an agreement in the area of transfer pricing and contractual relations between related companies with the Croatian tax authorities and tax authorities in other jurisdictions if applicable (resident jurisdictions of related companies or permanent establishments through which the business activities are carried out). Advance pricing agreements (APAs) enable parties to determine a set of criteria for determining transfer prices (for example, methods, adjustments and key assumptions) before beginning related-party transactions during a tax period.

**Debt-to-equity ratios.** Under thin-capitalization rules, interest on loans received from foreign shareholders owning 25% or more of the shares, capital or voting rights of the borrower, on loans guaranteed by such shareholders or on loans received from related parties, is not deductible if the loan balance exceeds four times the shareholders' share in the equity of the borrower.

**Prepayments of dividends.** If the dividends or profit shares are prepaid to an individual during a tax year and if the realized profit at the end of a tax year is insufficient to cover such prepayment, the prepayment is considered to be income subject to personal income tax. The taxpayer must maintain documentary evidence of dividend prepayments and submit it with the tax return.

## F. Tax treaties

Croatia has entered into double tax treaties on avoidance of double taxation with many countries (see the withholding rate table below).

Croatia has signed a tax treaty with Egypt, but this treaty is not yet effective.

Croatia has adopted the double tax treaties entered into by the former Yugoslavia with Finland, Norway and Sweden.

The withholding tax rates for payments by Croatian companies under Croatia's double tax treaties and under the former Yugoslavia's double tax treaties adopted by Croatia are listed in the table below.

Croatia became a member of the European Union (EU) on 1 July 2013. As of that date, provisions of the Interest and Royalty Directive and Parent-Subsidiary Directive adopted by Croatian corporate income tax legislation became applicable to payments to recipients within the EU.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Albania	10	10	10
Armenia	0/10 (a)	10	5
Austria	0/15 (b)	5	0
Azerbaijan	5/10 (x)	10	10
Belarus	5/15 (c)	10	10
Belgium	5/15 (d)	10	0
Bosnia and Herzegovina	5/10 (e)	10	10
Bulgaria	5	5	0
Canada	5/15 (f)	10	10
Chile	5/15 (g)	5/15	5/10
China (mainland)	5	10	10
Czech Republic	5	0	10
Denmark	5/10 (h)	5	10
Estonia	5/15 (i)	10	10
Finland	5/15 (c)	0	10
France	0/15 (j)	0	0
Georgia	5	5	5
Germany	5/15 (k)	0	0
Greece	5/10 (l)	10	10
Hungary	5/10 (l)	0	0
Iceland	5/10 (m)	10	10
India	5/15 (i)	10	10
Indonesia	10	10	10
Iran	5/10 (l)	5	5
Ireland	5/10 (n)	0	10
Israel	5/10/15 (o)	5/10	5
Italy	15	10	5
Jordan	5/10 (p)	10	10
Korea (South)	5/10 (l)	5	0
Kuwait	0	0	10
Latvia	5/10 (l)	10	10
Lithuania	5/15 (q)	10	10
Luxembourg	5/15 (d)	10	5
Macedonia	5/15 (c)	10	10
Malaysia	5/10 (r)	10	10
Malta	5 (s)	0	0
Mauritius	0	0	0
Moldova	5/10 (l)	5	10
Morocco	8/10 (w)	10	10
Netherlands	0/15 (b)	0	0
Norway	15	0	10
Oman	0	5	10
Poland	5/15 (c)	10	10
Portugal	5/10 (m)	10	10
Qatar	0	0	10
Romania	5	10	10
Russian Federation	5/10 (y)	10	10
San Marino	5/10 (l)	10	5
Slovak Republic	5/10 (l)	10	10
Slovenia	5	5	5
South Africa	5/10 (l)	0	5
Spain	0/15 (t)	0	0
Sweden	5/15 (u)	0	0

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Switzerland	5/15 (c)	5	0
Syria	5/10 (m)	10	12
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	5/10 (l)	10	10
United Kingdom	5/15/10 (z)	5	5
Yugoslavia (v)	5/10 (l)	10	10
Non-treaty jurisdictions	12	15	15

- (a) The 0% rate applies if the recipient (beneficial owner) is an entity that directly or indirectly holds at least 25% of the payer. The 10% rate applies to other dividends.
- (b) The 0% rate applies if the recipient (beneficial owner) is an entity that directly holds at least 10% of the payer. The 15% rate applies to other dividends.
- (c) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer. The 15% rate applies to other dividends.
- (d) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly or indirectly at least 10% of the payer. The 15% rate applies to other dividends.
- (e) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer. The 10% rate applies to other dividends.
- (f) The 5% rate applies if the recipient (beneficial owner) is an entity that directly or indirectly controls at least 10% of the voting power of the payer, or holds directly at least 25% of the payer. The 15% rate applies to dividends paid by investment corporations that are resident in Canada but are owned by non-residents and in all other cases.
- (g) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 20% of the payer. The 15% rate applies to other dividends.
- (h) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer or if the recipient (beneficial owner) is a pension fund or similar institution that provides insurance services or pension benefits. The 10% rate applies to other dividends.
- (i) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 10% of the payer. The 15% rate applies to other dividends.
- (j) The 0% rate applies if the recipient (beneficial owner) is an entity that directly or indirectly holds at least 10% of the payer. The 15% rate applies to other dividends.
- (k) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 10% of the payer. The 15% rate applies to other dividends.
- (l) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer. The 10% rate applies to other dividends.
- (m) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 10% of the payer. The 10% rate applies to other dividends.
- (n) The 5% rate applies if the recipient (beneficial owner) is an entity that directly controls at least 10% of the voting power of the payer. The 10% rate applies to other dividends.
- (o) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer. The 10% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 10% of the payer and if the entity is a resident of Israel. The 15% rate applies to other dividends.
- (p) The 5% rate applies if the recipient (beneficial owner) is an entity that holds at least 25% of the payer and if this ownership is not achieved for the purposes of exploiting these provisions. The 10% rate applies to other dividends.
- (q) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 10% of the payer. The 15% rate applies to other dividends.
- (r) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 10% of the payer. The 10% rate applies to other dividends.
- (s) The 5% rate applies if the dividends are paid by a Croatian resident to a Maltese resident (beneficial owner). If dividends are paid by a Maltese resident to a Croatian resident (beneficial owner), the applicable rate is the rate used to tax the profits out of which the dividends are paid.
- (t) The 0% rate applies if the recipient is an entity that holds directly at least 25% of the payer. The 15% rate applies to other dividends.

- (u) The 5% rate applies if the recipient is an entity that directly holds at least 25% of the voting power of the payer. The 15% rate applies to other dividends.
- (v) This treaty applies to Montenegro and Serbia.
- (w) The 8% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer. The 10% rate applies to other dividends.
- (x) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer and its respective share in capital amounts to at least EUR150,000. The 10% rate applies to other dividends.
- (y) The 5% rate applies if the recipient (beneficial owner) is an entity that holds directly at least 25% of the payer and its respective share in capital amounts to at least USD100,000. The 10% rate applies to other dividends.
- (z) The 5% rate applies if the recipient (beneficial owner) is an entity that controls directly or indirectly at least 25% of the payer. The 15% rate applies if the dividends are paid out of income (including gains) derived directly or indirectly from immovable property by an investment vehicle that distributes most of this income annually and if this income is exempt from tax. The 10% rate applies to other dividends.

# Curaçao

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*On 10 October 2010, the country Netherlands Antilles, which consisted of five island territories in the Caribbean Sea (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten), was dissolved. On dissolution of the Netherlands Antilles, the islands of Bonaire, Sint Eustatius and Saba (BES-Islands) became part of the Netherlands as extraordinary overseas municipalities. Curaçao and Sint Maarten have both become autonomous countries within the Kingdom of the Netherlands. The former Netherlands*

*Antilles tax laws remain applicable to Curaçao, with the understanding that references in the laws to “the Netherlands Antilles” should now read “Curaçao.” The following chapter provides information on taxation in Curaçao only. Chapters on BES-Islands and Sint Maarten appear in this guide.*

## A. At a glance

Corporate Income Tax Rate (%)	22
Capital Gains Tax Rate (%)	22
Branch Tax Rate (%)	22
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10 *

\* Losses incurred by certain companies during their first four years of business may be carried forward indefinitely. Losses incurred during the first six years by an entity that has the objective of engaging in business in the shipping or aviation industry may be carried forward indefinitely. Companies under the Curaçao offshore tax regime may carry forward tax losses for five years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax is levied on resident and nonresident entities. Resident entities are those incorporated under former Netherlands Antilles or current Curaçao laws, even if their management is located abroad, as well as entities incorporated under foreign law, but effectively managed in Curaçao. For resident entities, corporate income tax is, in principle, levied on the aggregate amount of net profits earned from all sources during the entity’s accounting period. Nonresident entities are subject to tax on specific Curaçao income items, such as profits earned through a permanent establishment and income related to real estate property in Curaçao, including interest derived from a mortgage on such real estate property.

**Tax rates.** Resident and nonresident entities, including branches of foreign companies, are taxed at a standard rate of 22%. However, different rates may apply to companies qualifying for tax holidays, E-zone companies, offshore companies, tax-exempt companies and companies applying the export facility.

Withholding taxes are not imposed on remittances of profits by branches to their foreign head offices.

**Tax incentives.** Reduced tax rates and other tax incentives (tax holidays) are available to new business enterprises that engage in certain activities, including tourism and land development.

The G20 and the Organisation for Economic Co-operation and Development (OECD) finalized work on the Base Erosion and Profit Shifting (BEPS) Project and published their report in October 2015. Based on a 15-point action plan issued in July 2013, the project has created uncertainty in the global tax landscape as many countries have begun to make BEPS-driven changes to their tax laws and administrative practices. Future changes in legislation and policy both locally and internationally due to BEPS may impact the export facility, tax-exempt status and the e-zone facility, which are discussed below.

*E-zone companies.* Incentives are available under E-zone legislation. These incentives replaced the incentives that were previously



available under the free-zone legislation. The E-zone legislation offers tax incentives to e-commerce companies and trading companies with an e-strategy that are located in a designated location of an E-zone. In principle, the activities of these companies must be focused on trading with, or providing services to, companies or persons located outside Curaçao. Profits derived by E-zone companies from sales of goods or services to companies or individuals located in Curaçao may not exceed 25% of the total annual turnover. In general, E-zone companies are taxed at a rate of 2%. However, for profits derived from sales of goods or services to companies or individuals located in Curaçao (up to a maximum of 25% of the total turnover), the standard corporate income tax rate of 22% applies. In principle, tax losses may be carried forward to offset taxable profits in the following 10 years. No turnover tax or import duties are imposed on the following:

- Goods entering the E-zone
- Services rendered by Curaçao companies to E-zone companies
- Products delivered by E-zone companies, or services rendered to individuals or companies that are not resident in Curaçao or to companies that are located in the E-zone
- The export of goods

*Offshore companies.* The offshore regime was abolished in 2001. However, under grandfathering rules, special incentives are available for qualifying offshore companies in existence before 1 January 2002. Offshore companies are resident companies owned by nonresidents that perform their business activities abroad; that is, they mostly earn foreign-source income. Income derived by offshore companies (for example, from royalty, financing, holding, portfolio investment, mutual fund, real estate and service activities) is taxed at corporate income tax rates of 2.4% to 3%. For trading and service companies, offshore status may result in the application of reduced effective rates. Capital gains on securities, loans, intellectual property and immovable property are exempt from corporate income tax. In addition, advance tax rulings can be obtained for determining the offshore tax status and method of calculating the tax base of offshore companies. Profits derived from real estate located outside Curaçao are exempt from corporate income tax. The offshore tax rates are guaranteed through 2019.

*Tax-exempt companies.* Tax-exempt companies (TECs) are exempt from Curaçao corporate income tax. Private and public limited liability companies incorporated under former Netherlands Antilles or current Curaçao laws may qualify as TECs. TECs are allowed to entirely or almost entirely (more than 90%) engage in extending of loans, investing in securities and deposits and licensing of intellectual and industrial property rights and similar property rights. To qualify as a TEC, a company must submit a written request to the Tax Inspector and certain conditions must be satisfied. TECs are not eligible for benefits under the bilateral regulation for the avoidance of double taxation between the Netherlands and Curaçao or the Tax Regulation for the Kingdom of the Netherlands or for benefits under any other double tax treaty of the former Netherlands Antilles or Curaçao. However, exchange-of-information provisions in the tax regulation, tax treaties and tax information exchange agreements apply to TECs. If a TEC loses its tax-exempt status, it is treated as a regularly taxed company

subject to tax on its worldwide income, and it receives a tax-free step-up.

*Export facility.* The Curaçao export facility provides an effective profit tax rate of approximately 3.2%. One of the requirements for the application of the export facility is that at least 90% of the profits must be derived from activities oriented abroad. In addition, the company must have real presence in Curaçao that is suitable for the nature and extent of the company's activities.

*Taxed private foundations and trusts.* The 2011 tax reform of the Curaçao corporate income tax legislation introduced the option for private foundations and trusts to be subject to a reduced effective corporate income tax rate of 10%. In principle, Curaçao private foundations and trusts are fully exempt from corporate income tax if they do not conduct an enterprise. After the option is exercised, the reduced effective rate of 10% applies for a period of at least three full fiscal years. After this three-year period, the private foundation can request to discontinue being subject to the reduced effective rate of 10%.

*Transparent companies.* Curaçao public limited liability companies or private limited liability companies can opt for fiscal transparency for Curaçao corporate income tax and individual income tax purposes. To qualify as a transparent company, a written request must be filed and certain conditions must be satisfied. If fiscal transparency is elected, the limited liability company is treated for tax purposes as a partnership; that is, only the partners can be taxed in Curaçao on Curaçao sources of income. If a transparent company loses its transparent status, it is treated as a regularly taxed company subject to tax on its worldwide income. In addition, as of January 2015, rules were introduced regarding the valuation of assets and liabilities of a company that acquires or loses tax transparent status.

*Ruling policy.* Curaçao has an extensive advance tax ruling practice. These rulings include the following:

- Cost-plus (informal capital) rulings for intercompany activities
- Minimum gross margin rulings for finance activities
- Royalties and dividends (holding activities) rulings

These rulings are usually valid for a three-year period, with the option for extension every three years.

*Other incentives.* Curaçao also offers other incentives for specific activities, such as the international use of aircraft and ships and the insurance of risks outside Curaçao.

**Capital gains.** Under the current corporate income tax rules, in general, except for offshore companies, no distinction is made between the taxation of capital gains and the taxation of other income. All income is taxed at the applicable corporate tax rate (22%). Taxation of capital gains on qualifying share interests (participation exemption) is discussed in Section C.

**Administration.** The standard tax year is the calendar year. However, on request and under certain conditions, a company may use a different financial accounting year as its tax year.

Companies must file a provisional tax return within three months after the end of the financial year. In principle, this return must show a taxable profit that is at least equal to the taxable profit shown on the most recently filed final tax return. Any tax due must be paid at the time of filing of the provisional tax return. An extension of time to file the provisional return and pay the tax is not granted. On request of the company, the Tax Inspector may consent to the reporting of a lower taxable profit than the taxable profit shown on the most recently filed final tax return.

The final tax return must be filed within six months after the end of the financial year. Any difference between the tax due based on the provisional return and the tax due based on the final return must be settled at the time of the filing of the final return. An extension for filing the final tax return on a later date can be obtained.

To ensure compliance with the rules described above, penalties may be imposed. The tax authorities may impose arbitrary assessments if the taxpayer fails to file a tax return. Additional assessments, including a penalty, may be imposed if insufficient tax is levied. A penalty of up to 100% of the additional tax due may be imposed. Depending on the degree of fault, this penalty may vary from 25% to 100%.

In general, offshore companies must file their tax returns within six months following the end of the financial year. An extension of the due date for the filing can be obtained.

**Dividends.** Curaçao does not levy dividend withholding tax on dividend distributions.

**Foreign tax relief.** A 100% exemption from Curaçao corporate income tax is available for foreign business profits. For this purpose, foreign profits are profits earned in another country through a permanent establishment or a permanent representative in the other country, or profits earned from immovable property located in a foreign country, including the rights related to the property that is part of the business activities of the taxpayer but is deemed to be part of the foreign business. If foreign profits are derived from a business that can be considered a low-taxed portfolio investment, these foreign profits are taxed at an effective rate of 10%.

### **C. Determination of taxable income**

**General.** Taxable profit must be calculated in accordance with “sound business practices.”

All expenses incurred with respect to conducting a business are, in principle, deductible. However, if expenses exceed normal arm’s-length charges and are incurred directly or indirectly for the benefit of shareholders or related companies, the excess is considered to be a nondeductible profit distribution (dividend). In addition, certain expenses, such as fines, penalties and expenses incurred with respect to crimes, are not deductible. The costs of representation, including receptions, festive meetings and entertainment, excursions, and study trips (including the related costs of travel and accommodation), are no longer deductible. Only

80% of expenses incurred on food, beverages and goodies (for example, tobacco) is deductible. Costs of donations, promotional gifts, courses, conferences, seminars and symposiums are 100% deductible. However, travel expenses related to these items are 80% deductible.

In principle, interest expenses are deductible for tax purposes if the interest rate is determined on an arm's-length basis. However, certain restrictions apply to the deduction of interest on loans connected to certain tax-driven transactions and intragroup reorganizations. Under thin-capitalization rules, the deductibility of interest accrued or paid directly or indirectly to an affiliated TEC may be restricted. As of 1 January 2015, the thin-capitalization rules were extended to loans received from nonresident TECs belonging to the same "concern" ("concern" is specifically defined in the tax law).

**Participation exemption.** In principle, a 100% participation exemption applies for all qualifying share interests held by Curaçao corporate taxpayers.

In general, a shareholding qualifies for the participation exemption if it represents at least 5% of the share capital or voting power in a company or if the amount paid for the shareholding amounts to at least USD500,000. In addition, any member of a cooperative association can apply for the participation exemption. Effective from 1 January 2015, the participation exemption was extended to participations in mutual funds that are considered to be special-purpose capital and to participations in nonresident mutual funds that are subject to profit tax in their country of residency.

For dividend income, additional requirements are imposed for a participation to be considered a qualifying participation. To apply the 100% exemption on dividends, either of the following conditions must be met:

- The qualifying participation is subject to a (nominal) profit tax rate of 10% (subject-to-tax clause).
- Dividends, interest or royalties received from sources other than the business of the participation do not account for 50% or more of the gross income of the participation (non-portfolio-investment clause).

These conditions may be met on a consolidated basis. If neither of the above conditions is met, a lower limited participation exemption applies to dividends. The limited participation exemption was amended as of 1 January 2015. Instead of calculating an exemption on the reported income, a formula is used to calculate the income to be reported. The income to be reported is calculated using the following formula:

$$\text{Income} \times \frac{10}{T}$$

For purposes of the above formula, "T" represents the tax rate applicable for the year in which the income is reported. Consequently, an effective tax rate of 10% applies to non-qualifying participations.

The subject-to-tax clause and the non-portfolio-investment clause do not apply to the 100% participation exemption on capital

gains and income received from participations that exclusively or almost exclusively hold immovable property.

Expenses that are connected with the participation, including financing expenses, are deductible if the expenses are directly or indirectly related to income that is taxable in Curaçao.

**Tax depreciation.** In general, assets are depreciated using the straight-line method, with the residual value taken into consideration. The following are some of the applicable rates.

Asset	Rate (%)	Residual value (%)
Buildings	2 to 2.5	50
Office equipment	10 to 50	Nil
Motor vehicles	10 to 33	15
Plant and machinery	10	10

The rates listed above provide a general overview of the depreciation rates. The actual depreciation rate depends on the type of asset used by the company. The depreciation of buildings is limited. Buildings can be depreciated to 50% of the value of the building as stipulated in the assessment for the National Ordinance on Immovable Property Tax (Landsverordening onroerende zaakbelasting). For pre-owned buildings that have been depreciated by 1 January 2016 for less than three years, the limitation on the depreciation will become effective in the fourth year. For buildings that have already been depreciated to an amount that exceeds the aforementioned limit, no claw-back occurs. In such case, the depreciated value is respected.

An investment allowance deduction of 10% is granted for acquisitions of fixed assets exceeding approximately USD2,800. The allowance is deducted from taxable income in the year of the investment. The investment allowance deduction is recaptured in the year of sale if the asset is sold within 6 years (15 years for buildings) after the date of the investment. For investments in the maintenance and restorations of monuments listed in the Curaçao Monuments Ordinance, the allowance is increased to a one-time investment deduction of 25%.

**Groups of companies.** On written request, Curaçao resident companies may form a fiscal unity (tax-consolidated group) for corporate income tax purposes. To qualify for a fiscal unity, the parent company must own at least 99% of the shares in the subsidiary. A fiscal unity may include, among others, a company incorporated under Dutch law that has its place of effective management in Curaçao. The whole group is taxed for corporate income tax purposes as if it were one company and, as a result, the subsidiaries in the fiscal unity are no longer individually subject to corporate income tax. The Tax Inspector must decide on the request within two months after the receipt of the request.

Advantages for corporate income tax purposes of fiscal unity treatment include the following:

- Losses of one subsidiary may be offset against profits of other members of the fiscal unity.
- Reorganizations, including movements of assets with hidden reserves from one company to another, have no direct tax consequences for corporate income tax purposes.
- Intercompany profits may be fully deferred.

The fiscal unity does not apply for turnover tax purposes.

**Relief for losses.** Losses in a financial year may be carried forward for 10 years. No carryback is available.

Losses incurred by certain companies during their first four years of business may be carried forward indefinitely. Losses incurred during the first six years by an entity that has the objective of engaging in business in the shipping or aviation industry may be carried forward indefinitely. Companies under the Curaçao off-shore tax regime may carry forward tax losses for five years.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Turnover tax in Curaçao; a general consumption tax on goods delivered, imports, and services rendered by entrepreneurs (legal entities or individuals) in Curaçao and services rendered in Curaçao by foreign entrepreneurs; primary life goods and certain imports are exempt	
Standard rate	6
Insurance	7
Hotel accommodation	7
Specific goods and services listed as luxurious or unhealthy	9
Real estate transfer tax	4
Import duties	0 to 62

#### E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Curaçao is the Antillean guilder (ANG).

For foreign investors that obtain a foreign-exchange license from the Central Bank of Curaçao and Sint Maarten, no restrictions are imposed on the movement of funds into and out of Curaçao and Sint Maarten. In general, the Central Bank automatically grants foreign-exchange licenses for remittances abroad. Residents are subject to several foreign-exchange regulations imposed by the Central Bank. However, residents may be granted nonresident status for foreign-exchange control purposes. Some reporting requirements exist for statistical purposes.

**Transfer pricing.** In general, intercompany charges should be determined on an arm's-length basis. Entities must keep transfer-pricing documentation on file that shows how the intercompany conditions were agreed upon and whether these conditions are at arm's length.

#### F. Tax treaties

Provisions for double tax relief are contained in the tax treaty with Norway and in the Tax Regulation for the Kingdom of the Netherlands (consisting of Aruba, Curaçao, the Netherlands and Sint Maarten). The Tax Regulation for the Kingdom of the Netherlands applied between Curaçao and the Netherlands up to 31 December 2015. From 1 January 2016, the Tax Regulation for the Kingdom of the Netherlands applies only between Curaçao and Aruba and

Sint Maarten until these jurisdictions negotiate and sign another agreement with Curaçao.

In June 2014, Curaçao and the Netherlands entered into a new bilateral regulation for the avoidance of double taxation. This tax arrangement, which essentially functions as a tax treaty, was approved by the Dutch parliament and was formally published on 9 October 2015. It took effect as of January 2016. The tax arrangement includes, among other measures, a 0% Dutch dividend withholding tax rate that applies under certain conditions. Under a temporary provision, which applies until 31 December 2019, a 5% Dutch dividend withholding tax rate applies to distributions to companies in Curaçao that do not meet the criteria for 0% withholding under the new rules. Curaçao does not impose withholding tax on payments from Curaçao to residents of other countries.

The former Netherlands Antilles has entered into tax information exchange agreements with Antigua and Barbuda, Australia, Bermuda, British Virgin Islands, Canada, Cayman Islands, Denmark, Faroe Islands, Finland, France, Germany, Greenland, Iceland, Italy, Mexico, New Zealand, St. Lucia, St. Vincent and the Grenadines, Spain, Sweden, the United Kingdom and the United States. As a result of the constitutional reform of the Kingdom of the Netherlands, the tax treaties entered into by the Netherlands Antilles became automatically applicable to the surviving countries, which are the legal successors of the Netherlands Antilles.

Curaçao has negotiated tax treaties with Jamaica and Malta, which have not yet been ratified by the Curaçao government. Curaçao is also negotiating several double tax treaties and additional tax information exchange agreements.

An intergovernmental agreement between Curaçao and the United States implementing the US Foreign Account Tax Compliance Act (FATCA) entered into force as of 3 August 2016. Financial institutions in Curaçao must file the required FATCA reporting through a portal set up by the Curaçao government.

Under the latest published OECD list, Curaçao qualifies as a white-listed jurisdiction.

Curaçao signed the multilateral agreement on automatic exchange of information and will begin the exchange of information based on the Common Reporting Standard in 2017.

The Kingdom of the Netherlands has entered into many bilateral investment treaties that also apply to Curaçao.

Curaçao also signed the OECD Convention on Mutual Administrative Assistance in Tax Matters.

# Cyprus

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## A. At a glance

Corporate Income Tax Rate (%)	12.5
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	12.5



Withholding Tax (%)	
Dividends	0 (a)
Interest	0 (b)
Royalties from Patents, Know-how, etc.	0/5/10 (c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) A Special Contribution to the Defence Fund at a rate of 17% is withheld from dividends paid to resident and domiciled individuals.
- (b) A Special Contribution to the Defence Fund at a rate of 30% is withheld from interest paid to resident companies and resident and domiciled individuals, if the interest is not considered to arise in the ordinary course of their business or to be closely connected to their ordinary course of business.
- (c) Cyprus levies withholding tax at a rate of 10% on the gross amount of royalty payments that are connected with the economic utilization of intellectual property rights in Cyprus and technical assistance payments made by tax resident persons to nonresident persons that do not carry on any business in Cyprus. A 5% rate applies to royalties paid with respect to films and television. A 5% withholding tax is also imposed on payments made to nonresident persons in consideration for services performed in Cyprus with respect to activities connected with the exploration or exploitation of the seabed or subsoil or their natural resources or with respect to activities relating to the installation and exploitation of pipelines and other installations on the soil, seabed or sea surface, if such payments are not connected with a permanent establishment in Cyprus. Withholding tax may be reduced or eliminated on the basis of the European Union (EU) Interest and Royalty Directive and/or on the basis of a double tax treaty.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies resident in Cyprus are subject to income tax on their worldwide income. A company is resident in Cyprus if its control and management are exercised in Cyprus. Nonresident companies are taxed only on income derived from a permanent establishment in Cyprus and on rental income from property located in Cyprus.

**Rate of corporate tax.** The standard rate of corporate income tax is 12.5%.

**Capital gains.** A capital gains tax of 20% is levied on gains derived from the disposal of the following:

- Immovable property located in Cyprus
- Shares in companies whose assets include, among others, immovable property located in Cyprus
- Shares in companies that participate (either directly or indirectly) in a company or companies that own immovable property located in Cyprus and at least 50% of the market value of such shares is derived from the relevant property

The disposal of shares of companies listed on a recognized stock exchange is exempt from capital gains tax. In addition, no capital gains tax is imposed if the transfer is made in the course of a qualifying company reorganization.

The gain subject to tax in Cyprus equals the disposal proceeds less the greater of the cost or market value on 1 January 1980, adjusted for inflation. Inflation is calculated using the official Retail Price Index. In the case of disposal of shares, the gain subject to capital gains tax in Cyprus is restricted to the gain attributable to immovable property located in Cyprus.

Gains from the disposal of immovable property that consists of land or land and buildings is exempt from capital gains tax if the property is acquired between 16 July 2015 and 31 December 2016 from an independent third party and not through an exchange of property or through a donation or gift.

**Administration.** The income year in Cyprus is the calendar year. Tax is payable on 1 August following the income year. However, an estimate of tax due is made by 31 August of the income tax year, and provisional tax is payable in two equal installments by 31 August and 31 December.

Overdue tax is subject to interest (currently at the rate of 3.5% per year) beginning on the due date. In addition, a flat 5% penalty is imposed on the tax due in the event of a delay in payment. As of 14 July 2017, this penalty is doubled if the outstanding tax is not paid within two months from the due date.

**Dividends.** Dividends paid to nonresident persons are not subject to withholding tax.

A 17% Special Contribution to the Defence Fund is withheld from dividends paid to resident and domiciled individuals. This is a final tax. Also, see Section D.

If a company does not distribute as dividends at least 70% of its after-tax accounting profits within two years after the end of the relevant income year, a 17% Special Contribution to the Defence Fund is imposed on a deemed distribution of 70% of the profits. For the purposes for determining the amount of profit subject to deemed distribution, any capital expenditure incurred in the acquisition of plant and machinery (excluding private saloon cars) and buildings during the period of 2012 through 2014 is deducted from the after-tax profits. If a company distributes more than 0% but less than 70% of its profits, the amount of the deemed distribution subject to tax is reduced by the amount of the actual distribution. The tax on a deemed distribution is reduced proportionally by the percentage of shares held directly or indirectly by nonresidents and non-domiciled residents.

Deemed distribution does not apply to profits that are directly or indirectly attributable to shareholders that are nonresidents of Cyprus and to individual shareholders that are resident but do not have a domicile in Cyprus.

**Non-domicile rule.** A Cyprus resident individual who is not domiciled in Cyprus is effectively not subject to the Special Contribution to the Defence Fund in Cyprus on interest, rents or dividends regardless of whether such income is derived from sources within Cyprus and regardless of whether such income is remitted to a bank account or economically used in Cyprus (see *Dividends* and Section D). This rule took effect on 16 July 2015.

**Foreign tax relief.** Foreign tax on profits and gains of Cyprus resident persons is credited against Cyprus tax payable. Such foreign tax relief cannot exceed Cyprus tax payable on the same profits or gains. Any unused foreign tax relief is wasted.

## C. Determination of trading income

**General.** The determination of taxable income is based on accounts prepared in accordance with generally accepted accounting principles, subject to certain adjustments and provisions of the tax law. Expenses must be incurred wholly and exclusively for the production of income.

**Inventories.** Inventory is generally valued at the lower of cost or net realizable value. Cost must be determined under the first-in, first-out method. The last-in, first-out method is not acceptable.

### Depreciation and amortization allowances

*Plant and machinery.* A straight-line allowance of 10% a year is given on capital expenditures for plant and machinery. For machinery and plant acquired during the period of 2012 through 2016, a deduction for wear and tear at 20% per year is allowed.

*Industrial buildings.* A straight-line allowance of 4% a year is available for industrial buildings. For industrial and hotel buildings acquired during the period of 2012 through 2016, a deduction for wear and tear at 7% is allowed.

*Commercial buildings.* A straight-line allowance of 3% a year is allowed for commercial buildings.

*Office equipment.* A straight-line allowance of 20% a year is allowed for computers. Other office equipment is depreciated under the straight-line method at an annual rate of 10%. For other office equipment acquired during the period of 2012 through 2016, a deduction for wear and tear at a rate of 20% per year is allowed.

*Motor vehicles.* In general, a straight-line allowance of 20% a year is allowed for motor vehicles (except for private saloon cars).

*Sales of depreciable assets.* On the disposal of an asset, if the sale proceeds are less than the remaining depreciable base, a further allowance equal to the amount of the difference is granted. If the sale proceeds exceed the depreciable base, the excess (up to the amount of allowances claimed) is included in taxable income.

### Taxation of intangible assets

*New Intellectual Property Box regime.* The provisions of the Intellectual Property (IP) Box regime have been aligned with the recommendations of the Organisation for Economic Co-operation and Development (OECD) Action 5 of the Base Erosion and Profit Shifting (BEPS) Plan on Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance. The new legislation took effect on 1 July 2016.

The new IP Box regime is based on the OECD-recommended nexus approach. This approach limits application of the IP Box regime if research and development (R&D) is being outsourced to related parties. The approach links the benefits of the regime with the R&D expenses incurred by the taxpayer. Under the new IP Box regime, qualifying taxpayers can claim a tax deduction equaling 80% of qualifying profits resulting from the business use of

the qualifying assets. A taxpayer may elect not to claim the deduction or only claim a part of it. The following is the calculation for qualifying profits:

$$\frac{\text{Qualifying expenditure} + \text{Uplift expenditure}}{\text{Overall expenditure}} \times \text{overall income}$$

The cost of the acquisition or development of intangible assets of a capital nature is amortized in a reasonable manner over its useful economic life, which is determined based on accounting standards, with a maximum period of 20 years.

*Old IP Box regime.* The current IP Box regime has been grandfathered for a five-year transitional period beginning on 1 July 2016 and ending on 30 June 2021, provided certain conditions are satisfied. The grandfathered IP assets continue to generate the full tax benefits of the existing IP Box regime until 30 June 2021, without the need to apply the nexus ratio shown above.

In general, no new entrants are permitted into the existing regime after 2 January 2016. However, certain exceptions allow entrance to the existing regime if the IP asset was acquired before 30 June 2016 and if certain other conditions are met.

Under the existing IP Box regime, a deemed deduction of 80% is applied to net income and gains derived from patents, copyrights and trademarks, as defined in the relevant Cypriot law. The cost of the acquisition or development of intangible assets of a capital nature is amortized equally over a five-year period.

**Relief for losses.** Effective from 1 January 2012, losses can be carried forward to the following five years. Loss carrybacks are not allowed.

**Groups of companies.** Group loss relief for losses incurred in the income year is allowed between resident group companies that meet certain conditions.

Effective from 1 January 2015, the group loss relief provisions are extended to cases in which the surrendering company is registered in and is a tax resident of another EU member state, provided that it has exhausted all possibilities available for using the losses in its respective country of tax residency or in the country where its intermediary holding company has its legal seat. In such circumstances, the tax losses are calculated based on the provisions of the Cypriot tax laws.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on any supply of goods or services, other than an exempt supply, made in Cyprus by a taxable person (taxable if annual supplies exceed EUR15,600) in the course of business	0/5/9/19
Payroll taxes	
Social insurance contribution, levied on each employee's gross salary, up to EUR4,533 a month; payable by both employer and employee	7.8

Nature of tax	Rate (%)
Special Cohesion Fund, levied on gross salary; payable by employer	2
Human Resource Development Authority and Redundancy Fund, levied on gross salary, up to EUR4,533 a month; paid by employer	1.7
Leave Fund, levied on gross salary, up to EUR4,533 a month; paid by employer in lieu of holiday pay (employer may obtain exemption from contribution to this fund)	8
Special Contribution to the Defence Fund	
On rents received (after allowing for a 25% deduction)	3
On interest received (except for interest earned in the ordinary course of business)	30
On dividends received (or deemed to be received) by resident and domiciled individuals	17

## E. Miscellaneous matters

**Foreign-exchange controls.** Cyprus does not impose foreign-exchange controls.

**Transfer pricing.** The arm's-length principle is codified in the Cyprus tax law with language similar to that of Article 9 of the OECD Model Tax Convention. Consequently, all transactions entered into with related and/or connected parties must be concluded on an arm's-length basis; otherwise, the tax authorities have the statutory right to make adjustments to taxable income (that is, the arm's-length price must be applied on transactions between related parties in their commercial or financial relations). However, Cyprus does not have specific rules regarding transfer pricing or transfer-pricing documentation requirements.

On 30 June 2017, the Cyprus Tax Department issued a circular establishing transfer-pricing documentation requirements and rules for Cypriot enterprises entering into back-to-back financing transactions with affiliated and connected parties (loans that are financed by debt). The circular provides guidance on the application of the arm's-length principle according to the OECD Transfer Pricing Guidelines. A transfer-pricing comparability analysis should be prepared by the relevant taxpayers to determine whether the agreed remuneration complies with the arm's-length principle. In addition, certain simplification measures apply to companies that are similar to regulated financing and treasury enterprises and to entities engaged in pure intermediary activities. There are currently no transfer-pricing documentation requirements regarding loans receivable that are funded by equity; however, these are expected to be introduced in 2018.

**Mergers and demergers.** Exemptions are available for profits or gains arising as part of a qualifying company reorganization. The exemptions also extend to stamp duty and land transfer fees.

## F. Treaty withholding tax rates

	Dividends %	Interest %	Royalties %
Armenia	0 (u)	5	5
Austria	10	0	0

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Azerbaijan (z)	0	0	0
Bahrain	0	0	0
Belarus	5/10/15 (a)	5	5
Belgium	10/15 (d)	10	0
Bulgaria	5/10 (h)	7	10
Canada	15	0/15 (b)	0/10 (r)
China (mainland)	10	10	10
Czech Republic	0/5 (y)	0	10
Denmark	0 (s)	0	0
Egypt	15	15	10
Estonia	0	0	0
Ethiopia	5	5	5
Finland	5/15 (l)	0	0
France	10/15 (f)	0/10 (e)	0/5 (g)
Georgia	0	0	0
Germany	5/15 (m)	0	0
Greece	25	10	0/5 (g)
Guernsey	0	0	0
Hungary	5/15 (h)	0/10 (b)	0
Iceland	0	0	0/5
India	10	0/10 (b)	10
Iran	5/10 (ff)	0/5 (gg)	6
Ireland	0	0	0/5 (g)
Italy	15	10	0
Jersey	0	0	0
Kuwait	0	0	5
Kyrgyzstan (z)	0	0	0
Latvia	0/10	0/10	0/5
Lebanon	5	5	0
Lithuania	0/5	0	5
Malta	0/15	0/10 (b)	10
Mauritius	0	0	0
Moldova	5/10 (h)	5	5
Montenegro (aa)	10	10	10
Norway	0/15	0	0
Poland	0/5 (cc)	5	5
Portugal	10	10	10
Qatar	0	0	5
Romania	10	0/10 (b)	0/5 (c)
Russian Federation	5/10 (k)	0	0
San Marino	0	0	0
Serbia (aa)	10	10	10
Seychelles	0	0	5
Singapore	0	7/10 (o)	10
Slovak Republic (bb)	10	10 (v)	5 (r)
Slovenia	5	5 (v)	5
South Africa	5/10 (dd)	0	0
Spain	0/5 (j)	0	0
Sweden	5/15 (h)	0/10 (b)	0
Switzerland	0/15 (ee)	0	0
Syria	0/15 (d)	0/10 (b)	10/15 (n)
Tajikistan (z)	0	0	0
Thailand	10	0/10/15 (p)	5/10/15 (q)
Ukraine	5/15 (w)	2	5/10 (x)

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
United Arab Emirates	0	0	0
United Kingdom	0	10	0/5 (g)
United States	0/5/15	0/10 (i)	0
Uzbekistan (z)	0	0	0
Non-treaty jurisdictions	0	0	0 (t)

- (a) The rate is 10% for dividends paid to a company holding directly at least 25% of the capital of the payer. The rate is 5% if the recipient of the dividends has invested at least EUR200,000 in the share capital of the payer.
- (b) The rate is 0% for interest paid to the government of the other contracting state.
- (c) The rate is 0% for royalties paid for literary, artistic or scientific works, as well as for film and television royalties.
- (d) The lower rate applies to dividends paid to a company holding directly at least 25% of the capital of the payer.
- (e) The rate is 0% for interest paid to the government of the other contracting state and for interest paid on bank loans or with respect to credit sales of industrial, commercial or scientific equipment or merchandise.
- (f) The rate is 10% for dividends paid to a company holding directly at least 10% of the share capital of the payer.
- (g) The rate is 5% for film and television royalties.
- (h) The rate is 5% for dividends paid to a company holding directly at least 25% of the share capital of the payer.
- (i) The rate is 0% for interest paid to a government, bank or financial institution.
- (j) The 0% rate applies if the beneficial owner is a company (other than a partnership) holding at least 10% of the capital of the company paying the dividends. The 5% rate applies in all other cases.
- (k) The rate is reduced to 5% if the recipient has invested at least EUR100,000 in the share capital of the payer.
- (l) The 5% rate applies if the beneficial owner is a company (other than a partnership) holding at least 10% of the voting power of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (m) The 5% rate applies if the recipient of the dividends is a direct beneficial owner of at least 10% of the capital of the company paying the dividends. The 15% rate applies to other dividends.
- (n) The rate is 10% for royalties paid for literary, artistic or scientific works, or for films or television. The rate is 15% for payments for the use of industrial, commercial or scientific equipment.
- (o) The rate is 7% for interest paid to banks and financial institutions.
- (p) The 0% rate applies to interest paid to the government. The 10% rate applies to interest paid to banks. The 15% rate applies in other cases.
- (q) The rate is 5% for royalties paid for literary, artistic or scientific works, or for film or television. The rate is 10% for payments for the use of industrial, commercial or scientific equipment.
- (r) The rate is 0% for royalties paid for literary, dramatic, musical or artistic works.
- (s) The 0% rate applies if any of the following circumstances exists:
- The beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends if such holding has been maintained for an uninterrupted period of at least 12 months.
  - The beneficial owner of the dividends is the other contracting state, the central bank of the other contracting state or a national agency or other agency (including a financial institution) owned or controlled by the government of the other contracting state.
  - The beneficial owner of the dividends is a pension fund or similar institution providing pension schemes in which individuals may participate to secure retirement benefits if such pension fund or similar institution is established, recognized for tax purposes and controlled in accordance with the laws of the other contracting state. The 15% rate applies to other dividends.
- (t) A 5% rate applies to royalties paid with respect to films and television. A 10% rate applies to other royalties if the asset for which the royalties are paid is used in Cyprus.
- (u) A 5% rate applies if the beneficial owner of the dividends has invested in the capital of the payer company less than the equivalent of EUR150,000 at the time of the investment.

- (v) A 0% rate applies if the interest is paid to the government, a local authority or a central bank.
- (w) The 5% rate applies if the dividend recipient holds at least 20% of the capital of the dividend paying company or has invested at least EUR100,000 in such company. The 15% rate applies in all other cases.
- (x) The 5% rate applies to royalties paid with respect to copyrights of scientific works, patents, trademarks, secret formulas or processes, or information concerning industrial or commercial experience. The 10% rate applies to other royalties, particularly for literary works, music works, films and software.
- (y) The 0% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends and if such holding is maintained for an uninterrupted period of at least one year. The 5% rate applies in all other cases.
- (z) The treaty between Cyprus and the USSR still applies.
- (aa) The treaty between Cyprus and the Socialist Republic of Yugoslavia still applies.
- (bb) The treaty between Cyprus and Czechoslovakia still applies.
- (cc) The 0% rate applies if the beneficial owner of the dividends is a company that holds at least 10% of the capital of the company paying the dividends for a continuous period of at least 24 months.
- (dd) The withholding tax rate on dividends is 5% if the beneficial owner of the dividend is a company (other than a partnership) that holds at least 10% of the dividend paying company. In all other cases, the rate is 10%.
- (ee) The 0% rate applies if the recipient of the income is a qualifying pension fund, the government of the other state or a company that holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least one year. In all other cases, the rate is 15%.
- (ff) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 10% applies in all other cases.
- (gg) The 0% rate applies if the interest is paid to ministries, other governmental institutions, municipalities, the central bank and other banks wholly owned by the other contracting state.

Cyprus has signed treaties with Barbados and Luxembourg, but these treaties have not yet been ratified.



# Czech Republic

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*This chapter does not reflect the potential effects of the European Union (EU) directive (Council Directive (EU) 2016/1164 of 12 July 2016), as amended by Council Directive (EU) 2017/952 of 29 May 2017), which provides rules against tax-avoidance practices that directly affect the functioning of the internal market. EU member states are generally expected to incorporate the provisions of this directive into their national laws by 31 December 2018. At the time of writing, the draft of the relevant Czech legislation was not yet available. Because of the expected changes to the law resulting from the directive, readers should obtain updated information before engaging in transactions.*

**A. At a glance**

Corporate Income Tax Rate (%)	19 (a)
Capital Gains Tax Rate (%)	0/19 (b)
Branch Tax Rate (%)	19
Withholding Tax (%)	
Dividends	0/15/35 (c)(d)(e)
Interest	0/15/35 (c)(e)(f)(g)
Royalties	0/15/35 (c)(e)(g)(h)
Rental Income from Leases	5/15/35 (c)(e)(g)(i)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) Basic investment funds (see Section B) are subject to tax at a rate of 5%. A 0% rate applies to pension funds.
- (b) Capital gains derived by Czech or EU/European Economic Area (EEA) parent companies (as defined in the Czech tax law) on transfers of shares in their subsidiaries are exempt from tax if certain conditions are satisfied (see Section B).
- (c) The rates may be reduced by applicable tax treaties.
- (d) Dividends are subject to a final withholding tax at a rate of 15%. Under the principles of the EU Parent-Subsidiary Directive (No. 2011/96/EU), dividends paid by Czech companies to parent companies (as defined in the directive and Czech law) located in EU/European Free Trade Association (EFTA) countries are exempt from withholding tax if the parent company maintains a holding of at least 10% of the distributing company for an uninterrupted period of at least one year (further conditions apply). Dividend distributions between two Czech companies or between foreign subsidiaries and their Czech parents are exempt from tax under similar conditions. The tax exemption does not apply if any of the following circumstances exist (further conditions may apply):
- The parent company or the subsidiary is exempt from corporate income tax or similar tax applicable in its jurisdiction.
  - The parent or subsidiary may opt for an exemption (or a similar relief) from corporate income tax or similar tax applicable in its jurisdiction.
  - The parent or subsidiary is subject to zero corporate income tax or similar tax applicable in its jurisdiction.
  - The subsidiary treats the dividend payments as tax deductible.
- (e) The 35% withholding tax generally applies to Czech-source income arising to Czech tax nonresidents from countries outside the EU/EEA that have not entered into a double tax treaty with the Czech Republic or a bilateral or multilateral tax information exchange agreement that is binding on both the Czech Republic and the respective foreign country. The 35% withholding tax rate also applies if the Czech income payer is unable to prove the tax residency status of the respective beneficial income owner. If applicable, the 35% rate affects all types of income subject to withholding tax (for example, dividends, interest, royalties or rental income). It does not affect rental income from financial leases if the 5% withholding tax rate applies (see footnote [i]).
- (f) Interest payments to nonresidents are subject to withholding tax at a rate of 15%. Under the principles of the EU Directive 2003/49/EC, interest paid by Czech companies to related companies (as defined in the directive) located in EU/EFTA countries is exempt from withholding tax if certain additional conditions are met.
- (g) For certain types of income, EU/EEA tax residents may choose to include the income in their tax return and have it taxed at the standard corporate income tax rate after deduction of associated expenses (while claiming a credit for the withholding tax paid against tax liability stated in the tax return) or they may choose to treat the withholding tax as a final tax on the income.
- (h) This withholding tax applies to nonresidents. Under the principles of EU Directive 2003/49/EC, royalties paid by Czech companies to companies located in EU/EFTA countries are exempt from tax if certain additional conditions are met.
- (i) A 5% withholding tax is imposed on gross rent if the lease contract stipulates that the lessee takes over the ownership of the leased asset (tangible asset only) for a purchase price or for free at the end of the lease term or if the lease contract stipulates such a right or option for the lessee (further conditions may apply). Other rental payments are subject to a 15% withholding tax. Some rental payments may be considered royalties for Czech tax purposes.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident enterprises are subject to tax on their worldwide income. An enterprise is considered to be a resident enterprise if it is incorporated in the Czech Republic or if its management is located there. Nonresident enterprises are subject to income tax on their Czech-source income only.

**Rates of corporate tax.** The standard corporate income tax rate for Czech enterprises and branches of foreign enterprises is 19%. Basic investment funds are subject to a preferential tax rate of 5%. Under the Czech Income Taxes Act, the following are considered basic investment funds:

- An investment fund whose shares are accepted for trading on a European regulated market
- Mutual fund
- Investment fund and subfund of a joint stock company with variable registered capital if it invests (in line with its prospectus) more than 90% of its assets in prescribed instruments (for example, certain securities, money market instruments, financial derivatives, receivables and loans)
- A foreign investment fund comparable to funds as described in the above three bullets if it satisfies all of the following conditions:
  - Its home country is an EU/EEA member state.
  - It can prove that it is administered or managed based on an authorization comparable to the authorization issued by the Czech National Bank and its administrator or manager is subject to supervision comparable to the Czech National Bank's supervision.
  - It has statutes or a document comparable to a prospectus based on which it can be determined whether the fund is comparable to a fund described in the above three bullets.
  - It can prove that according to the laws of its home country none of its income is attributable to other persons (meaning it is not tax transparent).

A preferential corporate income tax rate of 0% applies to pension funds.

No differences exist between the taxation of 100% Czech-owned enterprises and those with foreign investment.

**Investment incentives.** Investment incentives are available to investors launching or expanding the following:

- Manufacturing production
- Technology centers
- Business support services centers, which are shared-services centers, software-development centers, high-technology repair centers, data centers and call centers

Investment incentives can be obtained in the following forms:

- Corporate income tax relief for 10 years
- Job-creation grants
- Grants for training and retraining of employees
- Cash grants on capital expenditures for strategic investments
- Real estate tax exemption

The total value of the incentives can be as much as 25% of total eligible costs. No incentives are provided in Prague. The cap is

increased by 10% for mid-sized enterprises and 20% for small enterprises. The cap applies to the total of tax relief, job-creation grants, cash grants on capital expenditures and real estate tax exemption. Training and retraining grants are provided on top of this cap.

For investments in manufacturing industry, eligible costs equal the value of long-term tangible and intangible assets. For investments in technology centers and business support services centers, eligible costs can be either the value of long-term tangible and intangible assets or the value of employment costs for two years.

Corporate income tax relief and cash grants on capital expenditures are offered throughout the entire Czech Republic with the exception of Prague. Job-creation grants, training and retraining grants are offered only in regions with high unemployment. Job-creation grants are also available in special industrial zones. Real estate tax exemption is offered only in special industrial zones. The special industrial zones are Holešov, Most-Joseph and Ostrava-Mošnov.

Further details regarding the incentives are provided below.

*Manufacturing industry.* The following are general qualification conditions for the incentives for manufacturing industry:

- The investor must invest at least CZK100 million in long-term tangible and intangible assets. The CZK100 million requirement may be reduced to CZK50 million in selected regions.
- The investment must be in a manufacturing sector, and at least 50% of the total investment must be invested in qualifying production machinery. Machinery must be acquired for an arm's-length price. It must have been produced no more than two years before the acquisition and must not have been previously subject to tax depreciation.
- Intangible assets must be acquired from unrelated third parties for arm's-length prices.
- The proposed production must meet Czech environmental standards.
- At least 20 new jobs must be created.
- All requirements must be met within three years after the date of granting the incentives.
- The investment project may not begin until the filing of an application with CzechInvest (the Czech governmental agency collecting, reviewing and processing investment incentives applications).
- The investor cannot close down the same or a similar activity in the EEA within the period starting two years preceding the application and ending two years after the completion of the investment project.
- Acquired assets and created jobs must be maintained for the duration of the incentives-utilization period (10 years) and for at least 5 years from the completion of the investment project or creation of the first job.

*Technology centers.* The following are general qualification conditions for the incentives for technology centers:

- The investor must invest at least CZK10 million in long-term tangible and intangible assets.

- At least 50% of the total investment must be invested in qualifying machinery. Machinery must be acquired for an arm's-length price, must be produced no more than two years before the acquisition and must not have been previously subject to tax depreciation.
- At least 20 new jobs must be created.
- The proposed investment must meet Czech environmental standards.
- All requirements must be met within three years after the date of granting the incentives.
- The investment project may not begin until the filing of an application with CzechInvest.
- The investor cannot close down the same or a similar activity in the EEA within the period starting two years preceding the application and ending two years after the completion of the investment project.
- Acquired assets and created jobs must be maintained for the duration of the incentives-utilization period (10 years) and for at least 5 years from the completion of the investment project or creation of the first job.

*Business support services centers.* The following are general qualification conditions for the incentives for business support services centers:

- The minimum number of newly created jobs is 20 for software-development centers and data centers, 70 for shared-services centers and high-technology repair centers, and 500 for call centers.
- The proposed investment must meet Czech environmental standards.
- All requirements must be met within three years after the date of granting the incentives.
- The investment project may not begin until the filing of an application with CzechInvest.
- The investor cannot close down the same or a similar activity in the EEA within the period starting two years preceding the application and ending two years after the completion of the investment project.
- Acquired assets and created jobs must be maintained for the duration of the incentives-utilization period (10 years) and for at least 5 years from the completion of the investment project or creation of the first job.

*Strategic investment.* Cash grants on capital expenditures for strategic investments can be provided for up to 10% of eligible costs. Strategic investment can be either investment in manufacturing industry or technology centers meeting specific conditions.

For investments in manufacturing industry and technology centers that are carried out simultaneously, cash grants on capital expenditures can be provided for up to 12.5% of the eligible costs.

Strategic investment in manufacturing industry must meet the following conditions:

- The investor must invest at least CZK500 million in long-term tangible and intangible assets.
- At least CZK250 million of the total investment must be invested in qualifying production machinery.
- At least 500 new jobs must be created.

Strategic investment in the area of technology centers must meet the following conditions:

- The investor must invest at least CZK200 million in long-term tangible and intangible assets.
- At least CZK100 million of the total investment must be invested in qualifying machinery.
- At least 100 new jobs must be created.

*Special conditions.* In addition to the general conditions listed above, investors claiming the income tax relief must satisfy certain special conditions, including, among others, the following:

- They must reduce their tax base by claiming maximum tax depreciation, deducting all available tax-effective bad debt provisions and using all available tax losses carried forward, in accordance with the tax law.
- They must be the first user of tangible assets (excluding real estate) that are acquired for the purposes of the investment in the Czech Republic.
- They may not cease to exist, terminate their activities or declare bankruptcy.
- They may not increase their tax base through related-party transactions that are not at arm's length.

Mergers are allowed to some extent; that is, tax relief claimed before the merger is not lost, but investors are not able to claim tax relief in subsequent tax periods.

Specific conditions apply to job-creation, retraining and training grants and to grants on capital expenditures for strategic investments.

The incentives are provided based on the Investment Incentives Act. In practice, the government grants the incentives if the conditions are satisfied.

**Capital gains.** In the Czech Republic, realized and unrealized capital gains are recognized.

Capital gains realized by a Czech or another EU/EEA parent company (also, see below) on the transfer of shares in a subsidiary established in the Czech Republic or another EU/EEA country are exempt from tax if the parent company maintains a holding of at least 10% of the subsidiary for an uninterrupted period of at least one year (further conditions apply).

Capital gains realized by a Czech or EU/EEA parent company on the transfer of shares in a subsidiary in a contracting country (that is, a third country that has entered into a tax treaty with the Czech Republic) are also exempt from tax if the following conditions are satisfied:

- The subsidiary has a legal form comparable to Czech legal forms listed in the Czech tax law.
- The parent company has held an ownership interest of at least 10% in the subsidiary for at least one year (this condition may be fulfilled subsequent to the date of the transfer).
- The subsidiary is liable to a tax similar to corporate income tax at a rate of at least 12% in the tax period in which the parent company accounts for the respective capital gain and in the preceding tax period.

The exemption for capital gains does not apply if any of the following circumstances exists:

- The subsidiary entered liquidation proceedings.
- The shares in the subsidiary were acquired through the acquisition of a going concern.
- The parent company or the subsidiary is exempt from corporate income tax or similar tax applicable in its jurisdiction.
- The parent company or the subsidiary may opt for an exemption (or a similar relief) from corporate income tax or similar tax applicable in its jurisdiction.
- The parent company or the subsidiary is subject to zero corporate income tax or similar tax applicable in its jurisdiction.

Other realized capital gains are included with other taxable income and taxed at the regular corporate income tax rate. Capital losses on certain assets may be deducted from ordinary income, while capital losses on other assets (including capital losses on assets that qualify for exemption) are not deductible, even from other capital gains.

Unrealized capital gains and losses, which result from revaluation to fair value, are taxable or deductible only with respect to certain assets. Unrealized gains on shares that qualify for exemption are not taxable and unrealized losses on such assets are nondeductible for tax purposes.

Capital gains realized by nonresidents on the following are considered Czech-source income and are consequently generally taxable:

- Sales of rights registered in the Czech Republic or investment instruments to Czech taxpayers or Czech permanent establishments
- Sales of shares (securities or share interests) in Czech companies, regardless of the tax residence of the purchaser

However, capital gains realized by EU/EEA parent companies on sales of shares may be exempt from tax (see above).

**Administration.** Companies may select a calendar year or a fiscal year as its tax year. If a company uses a tax year other than the calendar year, it must file a notification with the tax authorities.

Tax returns must be filed within three months after the end of the tax year. On application of the company, an extension of three months to file a tax return may be granted at the discretion of the tax authorities. Companies that are subject to a statutory audit are automatically granted the three-month extension.

A company with tax liability of more than CZK150,000 for the preceding year must make quarterly advance payments of tax, each equal to 25% of the preceding year's tax liability. The payments must be made by the 15th day of the third, sixth, ninth and twelfth month of their tax year. Any balance of tax due must be paid by the due date for filing the tax return.

If a company's liability for the preceding year exceeded CZK30,000, but did not exceed CZK150,000, installments that are each equal to 40% of the tax liability for the preceding year must be paid by the 15th day of the sixth and twelfth months of their tax year. If the

preceding year's tax liability was CZK30,000 or less, only a single payment is required on filing the annual return.

Late payments and late filings incur penalty charges at a rate established by law. Overpayments are generally refunded within 30 days of the taxpayer's application.

**Dividends.** Dividends are subject to a final withholding tax at a rate of 15%. The tax rate is increased to 35%, effective from 2013, for dividends paid to Czech tax nonresidents from countries outside the EU/EEA that have not entered into a double tax treaty with the Czech Republic or a bilateral or multilateral tax information exchange agreement that is binding on both the Czech Republic and the respective foreign country.

Under the principles of the EU Parent-Subsidiary Directive (No. 90/435/EEC), dividends paid by Czech companies to parent companies (as defined in the Czech tax law) that are located in EU/EFTA countries (also, see below) are exempt from withholding tax if the parent company maintains a holding of at least 10% of the distributing company for an uninterrupted period of at least one year (further conditions apply). The condition described in the preceding sentence may be fulfilled subsequent to the date of distribution of the dividend. Dividend distributions between two Czech companies and between foreign subsidiaries and their Czech parents are exempt from tax under similar conditions.

In addition, dividends distributed by subsidiaries in a contracting country are also exempt from taxation under rules similar to those applicable to capital gains (see *Capital gains*).

The tax exemption for dividends does not apply if any of the following circumstances exists (further conditions may apply):

- The parent company or the subsidiary is exempt from corporate income tax or similar tax applicable in its jurisdiction.
- The parent or subsidiary may opt for an exemption (or a similar relief) from corporate income tax or similar tax applicable in its jurisdiction.
- The parent or subsidiary is subject to zero corporate income tax or similar tax applicable in its jurisdiction.
- The subsidiary has an option to treat the dividend payments as tax deductible in its jurisdiction.

**Foreign tax relief.** Foreign tax relief (through credit or exemption) is available only under tax treaties. If foreign tax relief is not available under a treaty, the income tax paid abroad may be deducted as an expense in the following year if it is imposed on income included in taxable income in the Czech Republic.

### C. Determination of trading income

**General.** Taxable income is calculated according to Czech accounting regulations, with adjustments for tax purposes.

All expenses incurred to generate, assure and maintain taxable income that relate to the given period are generally deductible, subject to the limits specified in the corporate income tax and related laws, if documented by the taxpayer. The following are some of the expenses that may be deducted:

- Depreciation of tangible and intangible assets (see *Depreciation*).



- Cost of insurance if related to taxable income (except for insurance paid on behalf of an executive or member of the board of directors for damage caused by the performance of his or her functions).
- Membership contributions paid to selected chambers and associations under certain conditions.
- Damages resulting from natural disasters. The amount of the damage must be documented by evidence submitted by an expert from an insurance company. Damages caused by unknown perpetrators can be tax deductible if confirmed by the police.
- Real estate tax paid in accordance with the Czech law, road tax and selected other taxes and fees (subject to exceptions), if related to activities that generate taxable income.
- Specified expenses related to the provision of proper working, social and health care conditions of the employees.
- Payments on leases, including financial leases, under certain conditions.
- Travel expenses related to work in the Czech Republic and abroad.
- Donations valued at CZK2,000 or more for various social and charitable purposes. In general, the maximum amount of this deduction is 10% of the tax base.

In general, taxpayers must increase their tax base by the amount of any overdue liability accounted for in their books that represented a tax-deductible expense and that remains unsettled for 36 months (30 months for liabilities due in 2015 or later; grandfathering rules apply).

**Inventory.** Inventory is valued at acquisition or production cost. Costs include all costs necessary to convert the inventory to its current condition and to transport it to its current location. No deduction is allowed for inventory provisions or for other decreases in inventory value. Under certain circumstances, the liquidation of inventory may be deductible for tax purposes.

**Provisions.** Provisions are not deductible unless a special tax law permits their creation for tax purposes.

Tax relief is provided with respect to overdue trading debts (as defined in the law). A special regime applies to unpaid receivables that were due before 31 December 1994.

*Rules applicable as of 1 January 2014.* Taxpayers may generally create the following tax-deductible provisions for overdue debts (with certain limitations):

- 50% of the unpaid book value of the debt if more than 18 months have elapsed since the agreed due date
- 100% of the unpaid book value of the debt if more than 30 months have elapsed since the agreed due date

For overdue debts exceeding CZK200,000 that were acquired from the previous creditor, deduction of the above provisions is allowed only if a court or arbitration proceeding was initiated and the taxpayer (creditor) participates in the proceeding.

*Rules applicable until 31 December 2013 (for receivables with a due date before 2014).* For overdue debts not exceeding

CZK200,000 that were due after 31 December 1994, if between 6 and 12 months had elapsed since the agreed due date for the debt, 20% of the book value of the debt was deductible (grandfathering rules apply). This deduction was allowed regardless of whether court or arbitration proceedings had commenced against the debtor. If the debt was more than 12 months overdue, a court or arbitration proceedings needed to be commenced by the creditor against the debtor to claim a larger tax deduction for the debt. The deduction was calculated by applying the following specified percentages to the book value of the debt.

Months elapsed since agreed due date		Deductible percentage of book value %
Exceeding	Not exceeding	
12	18	33
18	24	50
24	30	66
30	36	80
36	—	100

For debts exceeding CZK200,000 that were overdue more than six months, the rules described above applied if the creditor had commenced court or arbitration proceedings against the debtor.

The above deductions (under the rules applicable until 31 December 2013 and the rules applicable after that date) must be recorded in the accounting books. The deductions may not be claimed for debts from related parties and other specified debts.

A 100% provision can be created for receivables up to CZK30,000, subject to certain conditions. A 100% provision for overdue receivables may also be created if insolvency proceedings have been initiated with respect to the debtor's property and if the creditor makes a timely claim for such receivables against the debtor in the respective court. This deduction may not be claimed for debts from related parties.

*Reserves.* Taxpayers may create tax-deductible reserves for the repair of tangible assets included in Categories 2 through 6 for tax depreciation purposes (see *Depreciation*). The reserves must be created for a minimum of two tax periods and for the maximum number of tax periods specified for each asset category.

Reserves for repairs of tangible assets may be created tax-effectively only if cash equal to the amount of the reserve created is deposited in a specific bank account. This measure applies to reserves that are created after 2008.

**Depreciation.** The corporate income tax law includes specific provisions concerning the depreciation of tangible and intangible assets. Depreciable tangible assets are divided into six categories, each of which specifies a period (a specified number of years) over which all assets in the category are depreciated.

The following are the six categories of depreciation, the time periods for depreciation of assets in each category and representative assets included in each category.

Category	Asset	Years
1	Office machines and some light machinery	3
2	Passenger cars, buses, airplanes, tractors, lorries, furniture and specified production machinery	5
3	Heavy machinery	10
4	Wooden buildings, pipelines, buildings for the production of energy, and buildings and halls built near mines	20
5	Buildings	30
6	Specified buildings	50*

\* This category includes hotels, stores and office buildings.

Assets other than buildings that cannot be classified in any of the above categories are considered to be in Category 2. Category 5 covers buildings that are not covered by Categories 4 or 6.

Taxpayers may elect to depreciate assets using the straight-line or the accelerated method. The method chosen, however, does not affect the period of depreciation. Under the accelerated method, depreciation for the first year is calculated by dividing the cost of the asset by the applicable coefficient (see table below). For subsequent years, accelerated depreciation is calculated by multiplying the residual tax value of the asset by two and then dividing by the applicable coefficient, which is reduced by the number of years for which the asset has already been depreciated.

The following are the depreciation rates and coefficients for the six categories under the straight-line and accelerated methods.

Category	Straight-line rate	Accelerated-depreciation coefficient
1	20% for first year and 40% for subsequent years	3 for first year and 4 for subsequent years
2	11% for first year and 22.25% for subsequent years	5 for first year and 6 for subsequent years
3	5.5% for first year and 10.5% for subsequent years	10 for first year and 11 for subsequent years
4	2.15% for first year and 5.15% for subsequent years	20 for first year and 21 for subsequent years
5	1.4% for first year and 3.4% for subsequent years	30 for first year and 31 for subsequent years
6	1.02% for first year and 2.02% for subsequent years	50 for first year and 51 for subsequent years

Taxpayers may elect to use lower than the maximum straight-line depreciation rates. Additional rules apply to assets that were technically improved.

An initial depreciation acceleration (additional 10% to 20% of input price; in general, the input price is the acquisition cost, including related costs) is granted in the year of acquisition for certain tangible assets if other conditions are met.

Effective from 2010, the component depreciation of assets method may be used for accounting purposes. For tax purposes, the accounting result is adjusted as if this method was not used.

Specified tangible assets used in solar energy production are depreciated proportionally for a period of 240 months.

Depreciable intangible assets are divided into two categories — intangible assets that may be used for a definite time period and those that may be used for an indefinite time period. Intangible assets that may be used for a definite period are depreciated proportionally during such period. If the period for use is indefinite, the intangible asset is depreciated proportionally over the following periods (also see next paragraph).

Category	Period (months)
Audiovisual works	18
Software	36
Foundation expenses	60
Other intangible assets	72

Under a recent amendment, the above periods are set as minimum depreciation periods. Under transitory provisions, this modification applies to assets that begin to be depreciated after the effective date of the amendment, which is 1 July 2017.

**Relief for losses.** Losses may be carried forward for five years. The carryforward may be lost if a “substantive change” in persons participating in the equity or control of the taxpayer occurs and if the same activity test is not met. A “substantive change” is considered to be one of the following:

- A change in more than 25% equity ownership
- A change resulting in a shareholder receiving decisive influence

The same activity test is met if 80% of the revenues generated in the period in which the substantive change occurs and in the following tax-loss utilization periods is from the same activities that were performed in the period in which the tax loss was generated.

**Groups of companies.** Czech tax law does not provide for consolidated tax returns or other types of group relief.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT), levied on all taxable supplies (goods and services), acquisitions of goods from other EU member states and imports of goods; certain supplies are exempt	

<b>Nature of tax</b>	<b>Rate</b>
Standard rate; applicable to most goods and services	21%
Reduced rate applicable to specified goods and services (for example, food products and public transport)	15%
Reduced rate applicable to certain goods, such as books, pharmaceuticals and baby food	10%
Social security and health insurance contributions; the social security contributions are paid only up to the maximum assessment base	
Health insurance	
Employer	9%
Employee	4.5%
(No maximum assessment base applies.)	
Old-age pension	
Employer	21.5%
Employee	6.5%
(The expected maximum assessment base is CZK1,438,992, as of 1 January 2018.)	
Sickness	
Employer	2.3%
Employee	0%
(The expected maximum assessment base is CZK1,438,992 as of 1 January 2018.)	
Unemployment	
Employer	1.2%
Employee	0%
(The expected maximum assessment base is CZK1,438,992 as of 1 January 2018.)	
Real estate transfer tax; levied on the acquisition of real estate	4%
Excise tax, imposed on entities that produce or import certain goods, including hydrocarbon fuels and lubricants, alcohol and spirits, beer, wine and tobacco products; tax based on the quantity of goods expressed in specific units; tax may be levied only once on a particular good	Various
Road tax, imposed on entities that use vehicles; based on engine capacity and number of axles	Various
Environmental tax; imposed on electricity, natural gas and solid fuel when delivered to final consumers; tax is based on the quantity of goods expressed in specific units; tax is administered and paid by the distributor which charges it to the final customer as a price increase	Various
Tax stamps for the use of highways	
Small vehicles (up to 3.5 tons; annual stamp)	CZK1,500
Large vehicles	Electronic road tolls

## E. Miscellaneous matters

**Foreign-exchange controls.** The only legal tender valid in the Czech Republic is the Czech crown (CZK). Other currencies may be used for domestic transactions, but the use of the Czech crown is prevalent.

The Czech crown is fully convertible. Several financial transactions, such as direct investments or acceptance of credit from abroad, are subject to a reporting requirement.

**Anti-avoidance legislation.** In applying the tax law, the tax authorities may consider the substance of a transaction if the form of the transaction conceals the actual facts. In addition, the Czech courts have developed the abuse-of-law concept. The concept is similar to the one developed by the European Court of Justice (for example, *Halifax* [No. C-255/02]).

**Transfer pricing.** If prices in a transaction involving related parties vary from the current market prices and if the difference cannot be justified, the market prices are used for tax purposes. Related parties include companies related through capital (that is, the same legal or natural persons directly or indirectly manage, control or own more than 25%) and companies related in a different manner. In addition, related parties are persons who establish a business relationship for the principal purpose of decreasing taxable income or increasing a tax loss.

**Binding rulings.** Taxpayers may apply to the tax authorities for advance pricing agreements and for binding opinions on transfer prices, technical improvements of long-term assets, the allocation of expenses to taxable and nontaxable income, expenses incurred on research and development projects, expenses incurred on buildings that are also used for private purposes, and the application of VAT rates.

A recent amendment introduced a new ruling regarding the determination of the tax base of a tax nonresident from activities carried on by a permanent establishment. Requests for this ruling may be submitted beginning in January 2018.

**Financing expenses.** The tax deductibility of financing expenses (interest and associated expenses) with respect to related-party loans (including back-to-back loans) is limited by a debt-equity ratio of 4:1 (6:1 for banks and insurance companies). In addition, financing expenses with respect to profit-participating loans are nondeductible for tax purposes. Also, limitations are imposed on the deductibility of financing expenses related to shareholdings.

**Foreign investment.** Similar rules apply to both Czech investors and foreign investors.

**Exchange of information.** Various recent changes have occurred in the area of exchange of information, such as amendments made to the EU directive on administrative cooperation in the field of taxation (including Country-by-Country Reporting [CbCR]), conclusion of the Multilateral Competent Authority Agreement and the conclusion of similar agreements with “tax haven” countries.

## F. Treaty withholding tax rates

The Czech Republic honors bilateral tax treaties of Czechoslovakia. It has also entered into tax treaties with many other jurisdictions. The Czech Republic is also one of the signatories of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (Multilateral Instrument, or MLI). The Czech Republic intends only to implement “the minimum standard” in almost all of their existing double tax treaties. At the time of writing, no specific information was available concerning the timing of the ratification process. The following table lists the withholding rates under the bilateral treaties currently honored by the Czech Republic.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Albania	5/15 (b)	0/5 (g)	10
Armenia	10	0/5/10 (g)	5/10 (a)
Australia	5/15 (e)	10	10
Austria	0/10 (c)(s)	0 (t)	0/5 (a)(q)
Azerbaijan	8	0/5/10 (g)	10
Bahrain	5	0	10
Barbados	5/15 (b)	0/5 (g)	5/10 (a)
Belarus	5/10 (b)	0/5 (g)	5
Belgium	5/15 (b)(s)	0/10 (g)(t)	0/5/10 (q)(aa)
Bosnia and Herzegovina	5	0	0/10 (a)
Brazil	15	0/10/15 (g)(i)	15/25 (v)
Bulgaria	10 (s)	0/10 (g)(t)	10 (q)
Canada	5/15 (c)	0/10 (g)	10
Chile	15	5/15 (z)	5/10 (w)
China (mainland)	5/10 (b)	0/7.5 (g)	10
Colombia	5/15/25 (b)	0/10 (g)	10
Croatia	5	0	10
Cyprus	0/5 (c)(s)	0 (t)	0/10 (a)(q)
Denmark	0/15 (c)(s)	0 (t)	0/10 (a)(q)
Egypt	5/15 (b)	0/15 (g)	15
Estonia	5/15 (b)(s)	0/10 (g)(t)	10 (q)
Ethiopia	10	0/10 (g)	10
Finland	5/15 (b)(s)	0 (t)	0/1/5/10 (m)(q)
France	0/10 (b)(s)	0 (t)	0/5/10 (q)(u)
Georgia	5/10 (b)	0/8 (g)	0/5/10 (u)
Germany	5/15 (b)(s)	0 (t)	5 (q)
Greece	15 (s)	0/10 (g)(t)	0/10 (a)(q)
Hong Kong SAR	5	0	10
Hungary	5/15 (b)(s)	0 (t)	10 (q)
Iceland	5/15 (b)(s)	0 (t)	10 (q)
India	10	0/10 (g)	10
Indonesia	10/15 (e)	0/12.5 (g)	12.5
Iran	5	0/5 (g)	8
Ireland	5/15 (b)(s)	0 (t)	10 (q)
Israel	5/15 (f)	0/10 (g)	5
Italy	15 (s)	0 (t)	0/5 (a)(q)
Japan	10/15 (b)	0/10 (g)	0/10 (a)
Jordan	10	0/10 (g)	10
Kazakhstan	10	0/10 (g)	10
Korea (North)	10	0/10 (g)	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Korea (South)	5/10 (b)	0/10 (g)	0/10 (a)
Kuwait	0/5 (k)	0	10
Latvia	5/15 (b)(s)	0/10 (g)(t)	10 (q)
Lebanon	5	0	5/10 (w)
Liechtenstein	0/15 (c)(s)	0 (t)	0/10 (a)(q)
Lithuania	5/15 (b)(s)	0/10 (g)(t)	10 (q)
Luxembourg	0/10 (c)(s)	0 (t)	0/10 (a)(q)
Macedonia	5/15 (b)	0	10
Malaysia	0/10 (l)	0/12 (g)	12
Malta	5 (s)	0 (t)	5 (q)
Mexico	10	0/10 (g)	10
Moldova	5/15 (b)	5	10
Mongolia	10	0/10 (g)	10
Montenegro	10	0/10 (g)	5/10 (a)
Morocco	10	0/10 (g)	10
Netherlands	0/10 (b)(s)	0 (t)	5 (q)
New Zealand	15	0/10 (g)	10
Nigeria	12.5/15 (c)	0/15 (g)	15
Norway	0/15 (c)(s)	0 (t)	0/5/10 (u)(q)
Pakistan	5/15 (b)	0/10 (g)	10
Panama	5/10 (y)	0/5/10 (g)(z)	10
Philippines	10/15 (c)	0/10 (g)	10/15 (r)
Poland	5 (s)	0/5 (g)(t)	10 (q)
Portugal	10/15 (j)(s)	0/10 (g)(t)	10 (q)
Romania	10 (s)	0/7 (g)(t)	10 (q)
Russian Federation	10	0	10
Saudi Arabia	5	0	10
Serbia	10	0/10 (g)	5/10 (a)
Singapore	5	0	10
Slovak Republic	5/15 (c)(s)	0 (t)	0/10 (a)(q)
Slovenia	5/15 (b)(s)	0/5 (g)(t)	10 (q)
South Africa	5/15 (b)	0	10
Spain	5/15 (b)(s)	0 (t)	0/5 (n)(q)
Sri Lanka	6/15 (o)	0/10 (g)	0/10 (a)
Sweden	0/10 (b)(s)	0 (t)	0/5 (a)(q)
Switzerland	0/15 (c)(s)	0 (t)	5/10 (p)(q)
Syria	10	0/10 (g)	12
Tajikistan	5	0/7 (g)	10
Thailand	10	0/10/15 (g)	5/10/15 (h)
Tunisia	10/15 (b)	12	5/15 (a)
Turkey	10	0/10 (g)	10
Ukraine	5/15 (b)	0/5 (g)	10
United Arab Emirates	0/5 (k)	0	10
United Kingdom	5/15 (b)(s)	0 (t)	0/10 (a)(q)
United States	5/15 (c)	0	0/10 (a)
Uzbekistan	5/10 (b)	0/5 (g)	10
Venezuela	5/10 (f)	0/10 (g)	12
Vietnam	10	0/10 (g)	10
Non-treaty jurisdictions	15/35 (x)	0/15/35 (d)(x)	15/35 (x)

(a) The lower rate applies to royalties paid for copyrights. The higher rate applies to royalties paid for patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment or information.



- (b) The lower rate applies if the receiving company (other than a partnership) owns at least 25% of the capital of the payer. Under the Belgium treaty, dividends paid to partnerships may also qualify for the lower rate. Under the United Kingdom treaty, the lower rate applies if the receiving company controls at least 25% of shares with voting rights of the payer. Under the Japan treaty, the lower rate applies if the receiving company holds at least 25% of shares with voting rights of the payer for at least six months preceding the payment of dividend. Under the Colombia treaty, the 25% rate applies to dividends paid by a Colombian resident that are derived from profits that were not under the law subject to Colombian tax, and the 15% rate applies to dividends not subject to the 5% or 25% rates.
- (c) The lower rate applies if the receiving company (other than a partnership) owns at least 10% of the capital of the payer. Under the Canada and Nigeria treaties, the lower rate applies if the receiving company controls at least 10% of the voting rights of the payer (except for dividends paid by a Canadian investment corporation). Under the United States treaty, the lower rate applies if the receiving company owns at least 10% of the shares with voting rights of the payer (exceptions apply to dividends paid by investments companies and real estate investment trusts located in the United States). Under the Norway treaty, the 0% rate also applies to dividends paid to the government or specified institutions. Under the Cyprus, Liechtenstein, Luxembourg and Switzerland treaties, the 0% rate applies if at least 10% of share capital of the payer is held by an entity (other than a partnership) for at least one year. Under the Denmark treaty, the 0% rate applies if the recipient of the dividends is a pension fund. Under the Switzerland treaty, the 0% rate also applies if the recipient of the dividends is a central bank or a pension fund.
- (d) Interest on mutual deposits with banks in the interbank market is exempt from tax for recipients from non-treaty countries (subject to reciprocal treatment). For all Czech tax nonresidents (that is, recipients from treaty and non-treaty countries), interest on bonds issued by Czech taxpayers or the Czech Republic outside the Czech Republic is exempt from tax. The 15% rate applies to other interest but see also footnote (x).
- (e) The lower rate applies if the receiving company (other than a partnership) owns at least 20% of the capital of the payer. Under the Australia treaty, the lower rate applies to dividends paid from the Czech Republic to Australia if the receiving company owns at least 20% of the capital of the payer and to dividends paid from Australia to the Czech Republic if special requirements are met.
- (f) The 5% rate applies if the receiving company (other than a partnership) owns more than 15% of the capital of the payer.
- (g) The 0% rate applies to interest paid to (or by) the government (or specified institutions), subject to further conditions. Under the Albania treaty, the 0% rate also applies to interest paid to an agency, including banks and financial institutions, wholly owned by the contracting state. Under the Georgia treaty, the 0% rate also applies to interest on loans and credits guaranteed by governments or related to sales of industrial equipment that are financed by loans. Under the Armenia and Azerbaijan treaties, the 5% rate applies to interest on bank loans. Under the Ethiopia treaty, the 0% rate also applies to, among other items, interest paid to institutions owned or controlled by the government whose sole purpose is the promotion of export or foreign investment. Under the Thailand treaty, the 10% rate applies to interest paid to financial institutions or insurance companies; otherwise, the rate of the source country applies. Under the Pakistan and Syria treaties, the 0% rate also applies to interest paid to the central bank or any financial institution wholly owned by the government and to interest on loans and credits guaranteed by the government or specified institutions. Under the China treaty, the 0% rate also applies if the interest paid to selected government agencies or the central bank or if the receivable is financed, guaranteed or pledged by the government, the central bank or a selected government agency. Under the Barbados, Colombia, Iran, Tajikistan and Uzbekistan treaties, the 0% rate also applies to interest from the sale on credit of merchandise or equipment or from a loan or credit granted by a bank or guaranteed by the government (or specified institutions). Under the Belarus treaty, the 0% rate also applies to interest on bank loans. Under the Poland treaty, the 0% rate also applies to interest from a loan or credit granted by a bank or guaranteed by the government (or specified institutions). Under the Belgium treaty, the 0% rate applies to interest from suspended payments for goods and services, loans guaranteed by public institutions aimed to support the export and bank loans and deposits (except in the form of securities). Under the Brazil treaty, interest from securities, bonds and promissory notes issued by the government (or specified institutions) is subject to tax in the state of residence of the issuer. Under the Bulgaria and Panama treaties,

the 0% rate also applies to interest from suspended payments for equipment or goods or from certain loans guaranteed by public institutions. Under the Canada treaty, the 0% rate also applies to, among other items, interest paid to institutions established to manage and pay out benefits from pension, retirement or employee schemes (other limitations apply). Under the Korea (South) treaty, the 0% rate also applies to interest paid in connection with sales on credit of industrial, commercial or scientific equipment or in connection with sales on credit of goods between commercial entities. Under the Kazakhstan treaty, the 0% rate also applies to interest from loans guaranteed by the government (or specified institutions). Under the Malaysia treaty, the 0% rate also applies to interest from approved loans if the beneficial owner of the interest is a Czech tax resident.

- (h) The 5% rate applies to royalties for copyrights. The 10% rate applies to royalties for patents, trademarks, designs or models, plans, secret formulas and processes. The 15% rate applies to other royalties.
- (i) The 10% rate applies to loans and credits granted by a bank for a period of at least 10 years in connection with the following:
  - Sales of industrial equipment or studies
  - Installation or furnishing of industrial or scientific units
  - Public works
- (j) The 10% rate applies if the receiving company owns at least 25% of the payer for at least two years preceding the payment of the dividend.
- (k) The 0% rate applies to a dividend paid to the government of a contracting state (or a government institution) or to a company that is at least 25% owned by the government of the contracting state.
- (l) The 0% rate applies to a dividend paid by a tax resident of Malaysia to a Czech tax resident who is the beneficial owner of the dividends.
- (m) The 0% rate applies to royalties paid for copyrights. The 1% rate applies to royalties paid for finance leases of equipment. The 5% rate applies to royalties paid for operating leases of equipment and for the use of, or right to use, software. The 10% rate applies to other royalties.
- (n) The lower rate applies to royalties for copyrights, with the exception of royalties for cinematographic films and films or tapes for television broadcasting. The higher rate applies to other royalties.
- (o) The lower rate applies to dividends paid by a tax resident of Sri Lanka to a Czech tax resident (except with respect to investments made after the effective date of the treaty).
- (p) The treaty provides for a rate of 10%, but a protocol to the treaty provides for a rate of 5% until Swiss domestic law imposes a withholding tax on royalties.
- (q) In addition to treaty protection, royalties paid by Czech companies or permanent establishments of companies from EU member states to related-party companies located in other EU/EEA member states or Switzerland is exempt from tax if the conditions stated in provisions implementing EU Directive 2003/49/EC, as amended, are satisfied and if an advance ruling is issued by the Czech tax authority. If a Czech withholding tax applies to outbound royalties, EU/EEA tax residents may choose to include the income in their tax return and have it taxed at the standard corporate income tax rate after deduction of associated expenses (while claiming a credit for the withholding tax paid against tax liability stated in the tax return), or to treat the withholding tax as a final tax on the income.
- (r) The 10% rate applies to royalties paid for patents, trademarks and industrial, commercial, or scientific equipment or information. The 15% rate applies to royalties paid for films.
- (s) In addition to treaty protection, dividends paid by Czech companies to parent companies (as defined in the EU Parent-Subsidiary Directive 2011/96/EU) that are located in other EU member states, or in Iceland, Liechtenstein, Norway or Switzerland, are exempt from withholding tax if the parent company maintains a holding of at least 10% of the distributing company for an uninterrupted period of at least one year (this condition may be met subsequently). Further conditions apply.
- (t) In addition to treaty protection, interest from qualified instruments paid by Czech companies or permanent establishments of companies from EU member states to related-party companies (as defined in EU Directive 2003/49/EC) located in other EU/EEA member states or Switzerland is exempt from withholding tax if the conditions stated in the provisions implementing EU Directive 2003/49/EC, as amended, in the Czech tax law are satisfied and if an advance ruling is issued by the Czech tax authority. In addition, if Czech withholding tax applies to outbound interest, EU/EEA tax residents may choose to include the income in their tax return and have it taxed at the standard corporate income tax rate after deduction of associated expenses (while claiming a credit for the withholding tax paid against tax liability stated in the tax return), or to treat the withholding tax as a final tax on the income.

- (u) The 0% rate applies to royalties paid for copyrights. The 5% rate applies to payments for industrial, commercial or scientific equipment. The 10% rate applies to royalties paid for patents, trademarks, designs or models, plans, secret patterns or production procedures and software, as well as for information relating to experience acquired in the areas of industry, commerce or science.
- (v) The 25% rate applies to royalties paid for trademarks. The 15% rate applies to other royalties.
- (w) The 5% rate applies to royalties paid for industrial, commercial or scientific equipment.
- (x) A 35% tax rate applies to payments to tax residents in countries with which the Czech Republic has not entered into a double tax treaty or a treaty on exchange of information in tax matters. For further details, see footnote (e) in Section A.
- (y) The 5% rate applies to business profits after taxation transferred by a permanent establishment in one contracting state to its head office in the other contracting state.
- (z) The 5% rate applies to specified financial institutions, such as banks or insurance companies. If Chile agrees to a lower rate or an exemption with an Organisation for Economic Co-operation and Development member state, this lower rate or exemption would also apply to the treaty between Chile and the Czech Republic.
- (aa) The 0% rate applies to copyright royalties paid from the Czech Republic to Belgium. The 5% rate applies to royalties paid for use of industrial, commercial or scientific equipment.

New tax treaties that affect withholding rates with Cameroon, Ghana, Kosovo and Turkmenistan are in the ratification process.

# Denmark

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*All telephone calls to the persons in Denmark listed below should be made to the persons' mobile telephone numbers. These persons no longer have office telephone numbers. Telephone calls to the office switchboard will be put through to the respective persons' mobile telephone numbers.*

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**A. At a glance**

Corporate Income Tax Rate (%)	22
Capital Gains Tax Rate (%)	22
Branch Tax Rate (%)	22
Withholding Tax (%)	
Dividends	0/27 (a)
Interest	22 (b)
Royalties from Patents, Know-how, etc.	22 (c)
Branch Remittance Tax	0 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) The general withholding tax rate is 27%, and the recipient can apply for a refund depending on the final tax rate. A withholding tax of 0% normally applies to dividends paid to group companies. See Section B.
- (b) The 22% rate applies to payments between related parties. See Section B.
- (c) The rate is 0% for royalties paid for copyrights of literary, artistic or scientific works, including cinematographic films, and for the use of, or the right to use, industrial, commercial or scientific equipment. In addition, the rate may be reduced or eliminated if certain conditions are met under the European Union (EU) Interest-Royalty Directive or a double tax treaty entered into by Denmark.

- (d) A Danish branch office or a tax-transparent entity may be re-characterized as a Danish tax-resident company if the entity is controlled by owners resident in one or more foreign countries, the Faroe Islands, or Greenland and if either of the following circumstances exists:
- The entity is treated as a separate legal entity for tax purposes in the country or countries of the controlling owner(s).
  - The country or countries of the controlling owner(s) are located outside the EU and have not entered into a double tax treaty with Denmark under which withholding tax on dividends paid to companies is reduced or renounced.

## B. Taxes on corporate income and gains

**Corporate income tax.** A resident company is a company incorporated in Denmark. In addition, a company incorporated in a foreign country is considered a resident of Denmark if its day-to-day management is in Denmark.

All tax-resident companies that are part of the same group must be included in a Danish mandatory joint taxation arrangement, regardless of whether these companies are subject to full or limited tax liability in Denmark. This mandatory joint taxation comprises all Danish affiliated companies as well as permanent establishments and real estate located in Denmark (for details, see Section C).

The income of resident companies that is generated in a foreign permanent establishment or real estate located outside Denmark is not included in the statement of the taxable income in Denmark, unless Denmark is granted the right to tax such income under an applicable double tax treaty or other international agreement, or the income is subject to controlled foreign company (CFC) taxation (see Section E).

Branches of foreign companies located in Denmark are taxed only on trading income and on chargeable capital gains derived from the disposal of trading assets that are located in Denmark and related to a Danish permanent establishment.

**Rate of corporate tax.** For the 2018 income year, resident and non-resident companies are taxed at a rate of 22%.

**Capital gains.** Capital gains are taxed as other income at a rate of 22%.

Capital gains derived from a disposal of shares in a group company (group shares), shares in a subsidiary (subsidiary shares) and own shares (shares issued by the company) are exempt from tax regardless of the ownership period, while losses incurred on such shares are not deductible.

The following are considered group shares:

- Shares in a company that is subject to mandatory joint taxation under Danish rules together with the shareholder of the company
- Shares in a company that is eligible for inclusion in an international joint taxation arrangement under Danish rules (see Section C)

Shares are considered subsidiary shares if all of the following conditions are met:

- The shares are in a company in which the shareholder directly owns at least 10% of the share capital.
- The company is in a legal form that is similar to a Danish limited liability company.

- The company is subject to corporate tax in its home country (without exemption).
- The company is located in a country that has an agreement with Denmark on exchange of information.

Certain anti-avoidance rules apply if shareholders that do not each meet the requirements of holding group shares or subsidiary shares set up an intermediate holding company that by itself is able to meet the requirements.

In certain cases, capital gains may be reclassified as dividends. The reclassification of capital gains to dividends applies under specific circumstances only.

In general, capital gains derived from a disposal of shares that are not own shares, group shares or subsidiary shares (known as portfolio shares) are taxable at the statutory corporate income tax rate of 22%, while losses are deductible, regardless of the ownership period. However, capital gains derived from the disposal of portfolio shares do not trigger taxation if all of the following conditions are satisfied:

- The shares relate to a Danish limited liability company or a similar foreign company.
- The shares are not publicly listed.
- A maximum of 85% of the book value of the portfolio company is placed in publicly listed shares.
- The company disposing of the portfolio shares does not buy new portfolio shares in the same company within six months after the disposal.

The current rules regarding taxation of portfolio shares are based on the mark-to-market method, under which gains and losses are computed on the basis of the market value of the shares at the beginning and end of the income year. It is possible to opt for taxation based on the realization method with respect to unlisted portfolio shares only. Listed portfolio shares must be taxed according to the mark-to-market method. Special rules apply to the carryforward of unused losses on portfolio shares.

Gains on the sale of goodwill and intellectual property rights are subject to tax.

Recaptured depreciation (see Section C) is taxed as ordinary income at a rate of 22%.

**Administration.** In general, the income year for companies is the calendar year. Companies may select a staggered income year, which is an income year other than the calendar year. They may change their income year if justified by special circumstances.

In general, tax returns for companies must be filed within six months after the end of the companies' income year. For companies with income years ending from 1 February to 31 March, tax returns must be filed by 1 September. Companies pay corporate tax on a current year basis at a rate of 22%, with half payable on 20 March and the remainder on 20 November.

**Dividends paid.** In general, dividends paid are subject to withholding tax at a rate of 27%. However, withholding tax is normally not imposed on dividends paid to group companies if the Danish shares qualify as either group shares or subsidiary shares (see

*Capital gains*) and if the withholding tax must be reduced or eliminated under the EU Parent-Subsidiary Directive or a double tax treaty. For a company owning Danish shares that are group shares rather than subsidiary shares, it is required that the withholding tax would have been reduced or eliminated under the EU Parent-Subsidiary Directive or a double tax treaty if the shares had been subsidiary shares. In both cases, the recipient of the dividends must be the beneficial owner of the dividends and, accordingly, is entitled to benefits under the EU Parent-Subsidiary Directive or a double tax treaty.

The final tax rate for nonresident companies is generally 22%, with a rate of 15% for certain portfolio shares. The applicability of the 15% tax rate is described under *Capital gains* (conditions for deriving tax-exempt capital gains on portfolio shares). The 15% rate applies for corporations resident in jurisdictions with which Denmark has entered into a treaty on double taxation or exchange of information (if the shareholding meets the requirements described under *Capital gains*). A claim for a refund for the difference between the withholding tax of 27% and the final tax rate may be filed with the Danish tax authorities.

Withholding tax on dividends from a Danish subsidiary to a foreign company applies in the case of a redistribution of dividends if the Danish company itself has received dividends from a more-than-10%-owned company in another foreign country and if the Danish company cannot be regarded as the beneficial owner of the dividends received. Correspondingly, it applies if the Danish company has received dividends from abroad through one or more other Danish companies. Such dividends are generally subject to withholding tax at a rate of 27%, unless all of the following conditions are met:

- The rate is reduced under a double tax treaty with Denmark or the recipient is covered by the EU Parent-Subsidiary Directive.
- The recipient is considered the beneficial owner of the dividends.
- The general anti-avoidance rule does not apply.

**Interest paid.** In general, interest paid to foreign group companies is subject to withholding tax at a rate of 22%. The withholding tax is eliminated if any of the following requirements are satisfied:

- The interest is not subject to tax or it is subject to tax at a reduced rate under the provisions of a double tax treaty. For example, if withholding tax on interest is reduced to 10% under a double tax treaty, the withholding tax is eliminated completely.
- The interest is not subject to tax in accordance with the EU Interest/Royalty Directive. Under the directive, interest is not subject to tax if both of the following conditions are satisfied:
  - The debtor company and the creditor company fall within the definition of a company under Article 3 in the EU Interest/Royalty Directive (2003/49/EEC).
  - The companies have been associated (as stated in the directive) for at least a 12-month period.
- The interest accrues to a foreign company's permanent establishment in Denmark.
- The interest accrues to a foreign company, and a Danish parent company, indirectly or directly, is able to exercise control over such foreign company (for example, by holding more than 50%



of the voting rights). Control must be fulfilled for a period of 12 months during which the interest is paid.

- The interest is paid to a recipient that is controlled by a foreign parent company resident in a country that has entered into a double tax treaty with Denmark and has CFC rules and if, under these foreign CFC rules, the recipient could be subject to CFC taxation.
- The recipient company can prove that the foreign taxation of the interest income amounts to at least  $\frac{3}{4}$  of the Danish corporate income tax and that it will not in turn pay the interest to another foreign company that is subject to corporate income tax amounting to less than  $\frac{3}{4}$  of the Danish corporate income tax.

The withholding tax and exceptions also apply to non-interest-bearing loans that must be repaid with a premium by the Danish debtor company.

### C. Determination of trading income

**General.** Taxable income is based on profits reported in the annual accounts, which are prepared in accordance with generally accepted accounting principles. For tax purposes, several adjustments are made, primarily concerning depreciation and write-offs of inventory.

Expenses incurred to acquire, ensure and maintain income are deductible on an accrual basis. Certain expenses, such as certain gifts, income taxes and formation expenses, are not deductible. Only 25% of business entertainment expenses is deductible for tax purposes. Expenses incurred on advisor fees are not deductible if they are incurred with respect to investments in shares that have the purposes of a full or partial acquisition of one or more companies and of the exercise of control over or participation in the management of these companies.

**Inventories.** Inventory may be valued at historical cost or at the cost on the balance sheet at the end of the income year. Inventory may also be valued at the production price if the goods are produced in-house. Indirect costs, such as freight, duties and certain other items, may be included.

**Dividends received.** Dividends received with respect to shares that qualify as group shares or subsidiary shares (see *Capital gains*) are exempt from tax to the extent that no tax deduction is claimed for the distribution by the entity making the distribution.

Dividends received by a Danish permanent establishment may be exempt from tax if the permanent establishment is owned by a foreign company that is tax resident in the EU, European Economic Area (EEA) or in a country that has entered into a double tax treaty with Denmark.

Dividends received on a company's own shares are exempt from tax.

Dividends that are not covered by the above tax exemption, such as dividends from portfolio shares, must be included in the taxable income of the dividend receiving company and taxed at the normal corporate income tax rate of 22%. A tax credit is normally available to the dividend receiving company for foreign withholding taxes withheld by the dividend distributing company.

## Depreciation

*Immediate deductions.* For the 2018 income year, new acquisitions not exceeding DKK13,500 (2018 amount) or with a lifetime not exceeding three years are 100% deductible in the year of purchase. Computer software, operating equipment and ships for research and development, except operating equipment and ships used for exploration of raw materials, are also 100% deductible in the year of purchase.

*Asset classes.* Certain depreciable assets must be allocated among four asset classes:

- Operating equipment (including production facilities, machinery, office equipment, hardware and certain software that may not be written off immediately) may be depreciated at an annual rate of up to 25%, using the declining-balance method.
- Certain ships (weighing more than 20 tons and leased out without a crew) may be depreciated at an annual rate up to 12%, using the declining-balance method.
- Certain operating equipment with a long economic life (certain ships transporting goods or passengers, aircraft, rolling railway material, drilling rigs and facilities for producing heat and electricity) may be depreciated at an annual rate of up to 15%, using the declining-balance method. Facilities for producing heat and electricity with a capacity of less than 1 MW and wind-turbine generators (regardless of the capacity) may be depreciated at an annual rate of up to 15%, using the declining-balance method.
- Infrastructural facilities (facilities used for purposes, such as transporting, storing and distributing electricity, water, heat, oil, gas and wastewater and facilities with respect to radio, telecommunications and data transmissions) may be depreciated at an annual rate of up to 7%, using the declining-balance method.

It is important to distinguish between building installations and infrastructural facilities.

*Buildings.* Buildings used for commercial and industrial purposes may be depreciated at an annual rate of up to 4%, using the straight-line method based on the purchase price, excluding the value of the land. Office buildings, financial institutions, hotels, hospitals and certain other buildings may not be depreciated. However, office blocks or office premises adjacent to buildings used for commercial purposes may be depreciated if the office blocks are used together with the depreciable buildings.

*Others.* Acquired goodwill, patent rights and trademarks may be amortized over seven years. Costs incurred in connection with the improvement of rented premises and properties (not used for habitation or other commercial or non-industrial purposes) on leased land may be depreciated at an annual rate of up to 20%. If the tenancy is entered into for a fixed number of years, the annual depreciation rate cannot exceed a rate that results in equal amounts of depreciation over the fixed number of years.

*Recapture.* The amount of depreciation claimed on an asset may be recaptured on the disposal of the asset. Recaptured depreciation is subject to tax at a rate of 22%. For assets depreciated under the declining-balance method, however, the consideration received is deducted from the collective declining-balance account, and, consequently, the recapture is indirect.

**Advance depreciation.** Advance depreciation is available on ships. A total of 30% (with a maximum of 15% in any single year) of the expenditure exceeding DKK1,539,100 (2018 amount) may be written off in the years preceding the year of delivery or completion. The relief is given if a binding contract has been concluded for construction or purchase of a ship. If a partnership enters into the contract, each partner must meet the DKK1,539,100 (2018 amount) requirement. If a ship is intended for lease, advance depreciation is not allowed in the year of acquisition, unless permission is obtained from the local tax authorities. This rule does not apply to the ships included in the new asset classes (see *Depreciation*).

**Relief for trading losses.** Trading losses and interest expenses may be set off against other income and chargeable gains for income years beginning on or after 1 July 2012. Losses incurred may be set off in full against the portion of the year's taxable income not exceeding an amount of DKK8,205,000 (2018 amount). Losses exceeding DKK8,205,000 (2018 amount) may be set off against 60% of the taxable income for the year. As a result, a company may not reduce its taxable income to less than 40% of the taxable income exceeding DKK8,205,000 (2018 amount).

Losses, including prior-year losses, that cannot be set off against the taxable income for the year may be carried forward infinitely.

Losses may not be offset against interest and other capital income, net of interest paid, if more than 50% of the shares in the company changed ownership since the beginning of the year in which the loss was incurred. In addition, tax losses are forfeited by companies that are not engaged in an activity at the date of change of ownership.

**Groups of companies.** Joint taxation of Danish affiliated companies, Danish permanent establishments of foreign affiliated companies and real properties of foreign affiliated companies that are located in Denmark is compulsory. The jointly taxed income equals the sum of the net income of the jointly taxed companies, permanent establishments and real properties. An affiliation generally exists if a common shareholder (Danish or foreign) is able to control the company (for example, by holding more than 50% of the voting rights).

Joint taxation with foreign companies is voluntary. If a Danish company elects to be jointly taxed with a foreign company, all foreign affiliated companies must be included in the Danish joint taxation arrangement. These include all subsidiaries, permanent establishments and real estate owned by the Danish company. If the Danish company is owned by a foreign group, the ultimate foreign parent company and all foreign companies affiliated with the ultimate foreign parent company are also included.

A company is considered to be an affiliated company if a controlling interest exists.

A 10-year period of commitment applies if a Danish company elects to be jointly taxed with its foreign affiliated companies.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT)	25%
Labor market supplementary pension scheme (ATP); approximate annual employer contribution for each full-time employee	DKK2,272
Payroll tax (Loensumsafgift)	
Banks, insurance companies and other financial businesses; levied on total payroll	14.5%
Other VAT-exempt businesses, including some public bodies; levied on total payroll plus taxable profits, adjusted to exclude financial income and expenses	4.12%
Lotteries and information activities performed by tourist offices, other organizations and some public bodies; levied on total payroll	6.37%
Publishers or importers of newspapers; levied on the value of newspapers sold	3.54%

## E. Miscellaneous matters

**Foreign-exchange controls.** Denmark does not impose foreign-exchange controls.

**Debt-to-equity rules.** Under thin-capitalization rules, interest paid by a Danish company or branch to a foreign group company is not deductible to the extent that the Danish company's debt-to-equity ratio exceeds 4:1 at the end of the debtor's income year and that the amount of controlled debt exceeds DKK10 million. Limited deductibility applies only to interest expenses relating to the part of the controlled debt that needs to be converted to equity to satisfy the debt-to-equity ratio of 4:1 (that is, a minimum of 20% equity). The thin-capitalization rules also apply to third-party debt if the third party has received guarantees and similar assistance from a group company of the borrower.

The Danish thin-capitalization rules are supplemented through an "interest ceiling rule" and an Earnings Before Interest and Tax (EBIT) rule. These rules apply to both controlled and non-controlled debt. Only companies with net financial expenses exceeding DKK21,300,000 (2018 amount) are subject to these supplementary rules. For jointly taxed companies, the DKK21,300,000 threshold applies to all of these companies together.

Under the "interest ceiling rule," a company may only deduct net financial expenses corresponding to 3.2% (2017 rate; 2018 rate not yet released) of the taxable value of certain qualified assets. Deductions for any excess net financial expenses are lost, except for capital losses, which may be carried forward for three years.

Under the EBIT rule, a company may reduce its taxable income through the deduction of financial expenses by no more than 80%. Net financial expenses exceeding this limit are nondeductible but, in contrast to the interest ceiling rule, the excess expenses can be carried forward to be used in future years (if not restricted again

by the EBIT rule). The calculation must be made after taking into account a possible restriction under the interest ceiling rule.

Under the interest ceiling rule and EBIT rule, a safe harbor of net financial expenses up to DKK21,300,000 (2018 amount) exists. These expenses are always deductible, subject to restriction under the thin-capitalization rules.

If a company establishes that it could obtain third-party financing on similar terms, it may be allowed to deduct the interest that would normally be disallowed under the ordinary thin-capitalization rules described above. No arm's-length principle can be applied to help the company escape the interest ceiling rule or the EBIT rule.

Danish tax law does not recharacterize disallowed interest or impose withholding tax on it.

**Anti-avoidance legislation.** A general anti-avoidance rule has been implemented in the Danish domestic tax law. It is contained in the new Section 3 of the Danish Tax Assessment Act.

The anti-avoidance rule seeks to restrict the benefits of certain EU Directives (EU Parent/Subsidiary Directive [2011/96/EEC], the Interest/Royalty Directive [2003/49/EEC] and the EU Merger Tax Directive [2009/133/EEC]) or a double tax treaty claimed by a taxpayer that participates in an arrangement, or a series of arrangements, that has the primary purpose (or has as one of its primary purposes) to achieve a tax benefit that is contrary to the contents or purpose of the EU Directive or double tax treaty in question.

In addition, certain recharacterization rules exist, such as a rule that recharacterizes debt as equity if the debt is treated as an equity instrument according to the tax rules in the country of the creditor.

Although a Danish company or taxable legal entity may change its domicile to another country, this would normally be considered a liquidation with the same tax effect as a taxable sale. The company can transfer its activities abroad, but, to prevent tax avoidance, such a transfer is considered a taxable disposal of the activities.

**Controlled foreign companies.** Under the CFC legislation, a Danish company, together with other group member companies, holding more than 50% of the voting power of a foreign company must include in taxable income 100% of the taxable income of the subsidiary if the subsidiary is primarily engaged in financial activities. For this purpose, a subsidiary is considered to be primarily engaged in financial activities if more than 50% of the subsidiary's taxable income consists of net financial income and if more than 10% of the subsidiary's assets are "financial assets" (calculated according to modified Danish tax rules). The CFC rules apply to branches only if the branch is directly held by the Danish company. The income of indirectly held branches is included in the income of its head office.

**Anti-hybrid mismatch rules.** Denmark has several anti-hybrid mismatch rules.

Under Section 2A of the Danish Corporate Tax Act (anti-“check-the-box” rule), if a Danish company is considered to be transparent according to foreign tax rules (for example, the company is taxed as a branch in a foreign country), in principle, the company is also considered transparent according to Danish tax rules. The rule may imply that a Danish company owned by a US parent company that has “checked the box” on the Danish company cannot deduct interest expenses, royalty expenses or other internal expenses paid to the US parent company because it is treated as a branch office of the parent company. Certain exceptions exist, and case-by-case evaluation is suggested.

Under Section 2B of the Danish Corporate Tax Act, if a Danish entity owes debt to a foreign entity, which according to foreign tax rules is considered equity, the debt for Danish purposes is re-characterized as equity. This implies that the rules for withholding tax on dividends must be observed for interest payments and that no deduction is allowed on such interest payments. Certain exceptions exist, and case-by-case evaluation is suggested.

Under Section 2C of the Danish Corporate Tax Act, branches of entities that are required to register in Denmark may be treated as separate entities for Danish tax purposes if certain conditions are met. This treatment may apply if the parent of the branch is located in a non-EU/non-treaty country and if the Danish branch is considered a separate entity for tax purposes in the parent’s country. Certain exceptions exist, and case-by-case evaluation is suggested.

Under Section 5G of the Danish Tax Assessment Act, a Danish company cannot deduct costs that under foreign tax law are deducted from income not subject to Danish taxation. Case-by-case evaluation is suggested.

**Transfer pricing.** Transactions between affiliated entities must be determined on an arm’s-length basis. In addition, Danish companies and Danish permanent establishments must report summary information about transactions with affiliated companies.

Danish tax law requires entities to prepare and maintain written transfer-pricing documentation for transactions that are not considered insignificant. Enterprises can be fined if they have not prepared any transfer-pricing documentation or if the documentation prepared is considered to be insufficient as a result of gross negligence or deliberate omission. The documentation can be prepared in Danish, English, Norwegian or Swedish, and must be submitted to the tax authorities within 60 days on request. For a particular income year, such request may be made after the company has filed its tax return for the income year.

The fine for failure to prepare satisfactory transfer-pricing documentation consists of a basic amount of DKK250,000 per year per entity for up to five years plus 10% of the income increase required by the tax authorities. The basic amount may be reduced to DKK125,000 if adequate transfer-pricing documentation is filed subsequently.

Fines may be imposed for every single income year for which satisfactory transfer-pricing documentation is not filed.

In addition, companies may be fined if they disclose incorrect or misleading information for purposes of the tax authorities' assessment of whether the company is subject to the documentation duty.

The documentation requirements for small and medium-sized enterprises apply only to transactions with affiliated entities in non-treaty countries that are not members of the EU/EEA. To qualify as small and medium-sized enterprises, enterprises must satisfy the following conditions:

- They must have less than 250 employees.
- They must have an annual balance sheet total of less than DKK125 million or annual revenues of less than DKK250 million.

The above amounts are calculated on a consolidated basis (that is, all group companies must be taken into account).

## F. Treaty withholding tax rates

	Dividends (a)	Interest (b)	Royalties (e)
	%	%	%
Argentina	10 (c)	0	3/5/10/15
Australia	15	0	10
Austria	0 (o)	0	0
Bangladesh	10 (l)	0	10
Belarus	10	0	0
Belgium	15	0	0
Brazil	25	0	15 (g)
Bulgaria	5 (c)	0	0
Canada	5 (c)	0	10
Chile	5 (c)	0	5/15
China (mainland)(m)	10 (s)	0	10
Croatia	5 (c)	0	10
Cyprus	0 (c)	0	0
Czechoslovakia (i)	15	0	0/5
Czech Republic	0 (n)	0	10
Egypt	15 (c)	0	20
Estonia	5 (c)	0	5/10
Faroe Islands	0 (l)	0	0
Finland	0 (l)	0	0
France (p)	27	0	22
Georgia	0/5/10 (f)	0	0
Germany	5 (l)	0	0
Greece	18	0	5
Greenland	0 (d)	0	10
Hungary	0 (n)	0	0
Iceland	0 (l)	0	0
India	15 (c)	0	20
Indonesia	10 (c)	0	15
Ireland	0 (c)	0	0
Israel	0 (r)	0	0
Italy	0 (c)	0	0/5
Jamaica	10 (c)	0	10
Japan (t)	10 (c)	0	10
Kenya	20 (c)	0	20
Korea (South)	15	0	10/15
Kuwait	0 (c)	0	10

	Dividends (a)	Interest (b)	Royalties (e)
	%	%	%
Latvia	5 (c)	0	5/10
Lithuania	5 (c)	0	5/10
Luxembourg	5 (c)	0	0
Macedonia	0/5 (c)	0	10
Malaysia	0	0	10
Malta	0 (c)	0	0
Mexico	0 (c)	0	10
Morocco	10 (c)	0	10
Netherlands	0 (l)	0	0
New Zealand	15	0	10
Norway	0 (l)	0	0
Pakistan	15	0	12
Philippines	10 (c)	0	15
Poland	0 (c)	0	5
Portugal	10 (c)	0	10
Romania	10 (c)	0	10
Russian Federation	10	0	0
Serbia	5 (c)	0	10
Singapore	0 (c)	0	10
Slovenia	5 (c)	0	5
South Africa	5 (c)	0	0
Spain (q)	27	0	22
Sri Lanka	15	0	10
Sweden	0 (l)	0	0
Switzerland	0 (n)	0	0
Taiwan	10	0	10
Tanzania	15	0	20
Thailand	10	0	5/15
Trinidad and Tobago	10 (c)	0	15
Tunisia	15	0	15
Turkey	15 (c)	0	10
Uganda	10 (c)	0	10
Ukraine	5 (c)	0	10
USSR (h)	15	0	0
United Kingdom	0 (c)	0	0
United States	0/15 (l)	0	0
Venezuela	5 (c)	0	5/10
Vietnam	5 (k)	0	5/15
Yugoslavia (j)	5 (c)	0	10
Zambia	15	0	15
Non-treaty jurisdictions	27	22	22

(a) Under Danish domestic law, no withholding tax is imposed on dividends paid to companies if both of the following requirements are satisfied:

- The shares are group shares or subsidiary shares (see Section B).
- A tax treaty between Denmark and the country of residence of the recipient of the dividend provides that Denmark must eliminate or reduce the withholding tax on dividends, or the recipient is resident in an EU member state and falls within the definition of a company under Article 2 of the EU Parent-Subsidiary Directive (90/435/EEC) and the directive provides that Denmark must eliminate or reduce the withholding tax on dividends.

(b) In general, all interest payments to foreign group companies are subject to a final withholding tax of 22%. Several exceptions exist (see Section B). As a result of these exceptions, in general, withholding tax is imposed only on interest payments made to group companies that would qualify as CFCs for Danish tax purposes or if the recipient is not considered to be the beneficial owner, according to the domestic interpretation. Effective from the 2006 income year, withholding tax on interest paid to individuals was abolished.



- (c) The rate is 15% (Croatia, 10%; Portugal and Singapore, 10%; Egypt, Indonesia, Trinidad and Tobago, and Turkey, 20%; India and Morocco, 25%; Kenya, 30%) if the recipient is not a company owning at least 25% of the capital (Cyprus, 10% of the capital; Japan and Trinidad and Tobago, 25% of the voting shares).
- (d) The withholding tax rate is 0% if all of the following conditions are satisfied:
- The recipient directly owns at least 25% of the share capital of the payer for a period of 12 consecutive months that includes the date of the distribution of the dividend.
  - The dividend is not taxed in Greenland.
  - The recipient does not deduct the portion of a dividend distributed by it that is attributable to the Danish subsidiary.
- If the above conditions are not met, the withholding tax rate is generally 27%. However, the rate is 15% for dividends on unlisted portfolio shares (shares held by a person owning less than 10% of the company's shares).
- (e) Under Danish domestic law, the rate is 0% for royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, and for the use of, or the right to use, industrial, commercial or scientific equipment. Under a tax treaty, the general withholding tax rate for royalties of 22% can be reduced to 0%. Royalties paid to a company resident in another EU country are not subject to withholding tax if the provisions of the EU Interest/Royalty Directive are met and if the recipient is considered to be the beneficial owner according to the domestic interpretation.
- (f) The withholding tax rate is 0% if the recipient owns at least 50% of the share capital in the dividend distributing company and has invested more than EUR2 million in the dividend paying company. The withholding tax rate is 5% if the recipient owns at least 10% of the share capital in the dividend paying company and has invested more than EUR100,000 in the dividend paying company. The withholding tax rate is 10% in all other cases.
- (g) The rate is 22% (applicable to payments on or after 1 March 2015) for payments for the use of, or the right to use, trademarks.
- (h) Denmark honors the USSR treaty with respect to the former USSR republics. Armenia, Azerbaijan, Kazakhstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan have declared that they do not consider themselves obligated by the USSR treaty. Kyrgyzstan has not yet declared whether it considers itself obligated by the USSR treaty. Denmark has entered into tax treaties with Estonia, Georgia, Latvia, Lithuania, the Russian Federation and Ukraine.
- (i) Denmark honors the Czechoslovakia treaty with respect to the Slovak Republic.
- (j) Denmark honors the Yugoslavia treaty with respect to Montenegro. Denmark has entered into tax treaties with Croatia, Macedonia, Serbia and Slovenia. The withholding rates under these treaties are listed in the table.
- (k) The rate is 5% if the recipient is a company that owns at least 70% of the capital of the payer or has invested at least USD12 million in the capital of the payer. The rate is 10% if the recipient is a company owning at least 25%, but less than 70%, of the capital of the payer. For other dividends, the rate is 15%.
- (l) The rate is 15% if the recipient is not a company owning at least 10% of the shares of the payer.
- (m) The treaty does not cover the Hong Kong SAR.
- (n) The withholding tax rate for dividends is 0% if the parent company (beneficial owner) owns at least 10% of the share capital of the payer of the dividends (under the Hungary treaty, the share capital must also be owned for a continuous period of at least one year and/or the parent company [beneficial owner] must be a pension fund). If this condition is not met, the dividend withholding tax rate is 15%.
- (o) Under a new tax treaty between Denmark and Austria, the dividend withholding tax rate is 0% if the recipient is a company owning at least 10% of the payer. For other dividends, the rate is 15%. These rates will apply for income years beginning on or after 1 January 2011.
- (p) The double tax treaty between Denmark and France was terminated, effective from 1 January 2009. The countries will enter into a new treaty. However, at the time of writing, the countries had not yet entered into such treaty. Until a new tax treaty enters into force, Danish withholding taxes on dividends, interest and royalties are imposed according to Danish domestic law. Certain exemptions may apply (see Section B).
- (q) The double tax treaty between Denmark and Spain was terminated, effective from 1 January 2009. The countries will enter into a new treaty. However, at the time of writing, the countries had not yet entered into such treaty. Until a new tax treaty enters into force, Danish withholding taxes on dividends, interest and royalties are imposed according to Danish domestic law. Certain exemptions may apply (see Section B).

- (r) The withholding tax rate for dividends is 0% if the recipient owns at least 10% of the share capital in the payer of the dividends for a continuous period of at least 12 months. If this condition is not met, the dividend withholding tax rate is 10%.
- (s) The rate is 5% if the recipient of the dividends is a company owning at least 25% of the capital of the payer.
- (t) A revised double tax treaty between Denmark and Japan was signed on 11 October 2017, but it has not yet entered into force.

In addition to the double tax treaties listed in the table above, Denmark has entered into double tax treaties on savings, double tax treaties on international air and sea traffic, agreements on exchange of information in tax cases and agreements on promoting the economic relationship. The following are the jurisdictions with which Denmark has entered into such agreements:

- Double tax treaties on savings: Anguilla, Aruba, British Virgin Islands, Cayman Islands, Curaçao, Sint Maarten, Bonaire, Sint Eustatius and Saba (formerly part of the Netherlands Antilles), Guernsey, Isle of Man, Jersey, Montserrat, and Turks and Caicos Islands
- Double tax treaties on international air and sea traffic: Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Jordan, Kuwait and Lebanon
- Agreements on exchange of information: Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Brunei Darussalam, Cayman Islands, Dominica, Gibraltar, Grenada, Guatemala, Guernsey, Ireland, Isle of Man, Jersey, Liechtenstein, Luxembourg, Macau SAR, Monaco, Montserrat, St. Kitts and Nevis, St. Vincent and the Grenadines, San Marino, Turks and Caicos Islands, Uruguay, and Curaçao, Sint Maarten, Bonaire, Sint Eustatius and Saba (formerly part of the Netherlands Antilles)
- Agreements on promoting the economic relationship: Aruba, and Curaçao, Sint Maarten, Bonaire, Sint Eustatius and Saba (formerly part of the Netherlands Antilles)

Agreements on exchange of information with respect to taxes have been proposed with Belgium, Botswana, Costa Rica, Greenland (appendix), Guatemala, Jamaica, Kuwait, Liberia, Marshall Islands, Niue, Panama, Qatar, Seychelles, Uruguay and Vanuatu.

# Dominican Republic

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**A. At a glance**

Corporate Income Tax Rate (%)	27
Capital Gains Tax Rate (%)	27
Branch Tax Rate (%)	27 (a)
Withholding Tax (%)	
Dividends	10 (b)
Interest	10 (c)
Royalties	27 (d)
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) The Dominican Tax Regulations do not contemplate an exclusive or additional income tax for branches. Therefore, the standard corporate income tax rate applies.
- (b) This is a final withholding tax applicable to payments to both residents and nonresidents.
- (c) This is a final withholding tax applicable to payments to resident individuals and to nonresident individuals, companies and unincorporated business entities.
- (d) This withholding tax applies to royalty payments made to nonresident persons.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Resident corporations are subject to tax on their Dominican-source income and on their foreign-source income derived from investments and financial gains, such as dividends and interest from bonds acquired abroad.

A company is resident in the Dominican Republic if it is incorporated in the Dominican Republic.

A foreign company is considered domiciled in the Dominican Republic if it has its principal business or its effective management located in the Dominican Republic. Nonresidents operating through a permanent establishment are subject to income tax as companies incorporated in the Dominican Republic.

**Corporate income tax rates.** The corporate income tax rate is 27%.

Full exemptions or certain income tax credits usually apply to companies established in designated Free-Trade Zones (FTZs) or benefiting from other special incentive laws, including, among others, the Frontier Development Law (Law 28-01), the Tourism Development Law (Law 158-01, as amended by Law 195-13), the Renewable Energies Law (Law 57-07) and the Film Law (Law 108-10).

**Asset tax.** The annual asset tax is assessed at a rate of 1% on the assets registered in the taxpayer's accounting books.

The tax base is the net carrying value of the taxpayer's assets at the end of the fiscal year as indicated in the balance sheet, not adjusted by inflation and after applying depreciation, amortization and reserves for bad debt expenses. Investments in shares of another company, real estate used for agricultural exploitation and advance tax payments are excluded from the tax base. Corporate income tax is creditable against the asset tax. The asset tax is calculated in the annual income tax return.

For financial institutions, electricity companies, stockbrokers, pension fund administrators, investment fund administrators and securitization companies, the tax base for the asset tax is the total value of fixed assets (net of depreciation) according to the balance sheet at the end of the tax period.

Entities that benefit from corporate income tax exemptions based on special laws or public contracts approved by Congress are exempt from the asset tax.

**Capital gains.** Gains derived from direct and indirect transfers of assets or rights located or economically exploited in the Dominican Republic are taxable and subject to the capital gains tax rate of 27%. Under the Dominican Republic Tax Code, capital gains may arise from the transfer of shares, land or other capital assets possessed by taxpayers, regardless of whether the gains are connected to the taxpayers' businesses. The following assets are not considered capital assets:

- Commercial inventories or assets possessed principally for sale to clients in the ordinary course of business
- Depreciable assets
- Accounts or promissory notes acquired in the ordinary course of business for services rendered or derived from the sale of inventory assets or assets sold in the ordinary course of business

The capital gain tax base equals the difference between the transfer price of the assets and the cost of acquisition or production (adjusted for inflation).

**Administration.** In general, the tax year is the calendar year. However, companies may adopt a fiscal year ending on 31 March, 30 June or 30 September. The income tax return must be filed within 120 days after the end of the fiscal year.

All companies must make monthly income tax prepayments. For taxpayers that had an effective tax rate (ETR) in the preceding tax year that was lower or equal to 1.5%, each prepayment equals the amount resulting from applying the 1.5% rate to the gross income reported in the preceding fiscal year. Taxpayers with an ETR higher than 1.5% must make monthly prepayments corresponding

to 1/12 of the income tax paid in the preceding fiscal year. The ETR is determined by dividing the income tax paid in the preceding fiscal year by the gross income of the same period.

Taxpayers can request a two-month income tax return filing extension.

Indemnity interest at a rate of 1.10% is charged on outstanding balances of taxes due. In addition, a penalty of a 10% surcharge applies for the first month, and a 4% surcharge applies for each month or fraction of a month thereafter.

Non-compliance by the taxpayer with tax obligations may be subject to a penalty of 5 to 30 minimum wages.

In addition, a penalty equal to 0.25% of the income declared in the preceding fiscal year may be applied.

**Dividends.** Dividends (and all other types of distributions of earnings) are subject to a final withholding tax of 10%. Under the Dominican Tax Code and its regulations, a dividend is defined as any distributions of profits or reserves made by any type of corporation or entity to a shareholder, partner or participant. The following are included in the concept of profit distributions:

- Accounts receivable or similar arrangements that a corporation or entity has with its shareholders, members or participants, if they were not generated by a commercial transaction and if no principal or interest payments have been made in a period of more than 90 calendar days.
- Share capital reductions, if capitalized reserves and/or retained earnings exist, until these reserves and earnings accounts are exhausted. This does not apply to capital returns derived from the liquidation of the entity, whereby the first amounts distributed are deemed to be capital returns rather than the distribution of retained earnings.

**Foreign tax relief.** Foreign income tax paid on income derived from investments and financial gains abroad may be claimed as a credit against the income tax payable in the Dominican Republic. However, such credit is limited to the portion of Dominican Republic tax allocable to the foreign-source income subject to tax abroad.

### C. Determination of trading income

**General.** Tax is imposed on taxable profits, which correspond to the accounting profits adjusted in accordance with the income tax law.

Expenses incurred to generate taxable income and preserve the source of such income are deductible on an accrual basis if properly documented. However, certain expenses are not deductible, including the following:

- Expenses not properly documented
- Unauthorized bad debt provisions
- Prior period tax adjustments
- Personal expenses
- Profits to be capitalized

In addition, the Dominican Tax Code contains interest deduction rules, which are described below.

Under Dominican Republic law, the deduction of interest depends on certain general and specific conditions.

The following are the general conditions for the deduction of interest:

- The interest should be related to the acquisition, maintenance and/or operation of taxable income-producing assets.
- Corporate entities should recognize interest expenses according to the accrual method of accounting.
- Expenses and costs, such as interest payments, must be supported by corresponding documentation (loan agreement and invoices).
- The loan and interest rates agreed between the parties must comply with the arm's-length principle.
- The 10% withholding tax applicable to the gross amount of such payments has been applied and paid to the Dominican Republic tax authorities.

In addition, if the payment exceeds DOP50,000 (approximately USD1,050), the payment must have been made through any of the means available in the financial industry (for example, wire transfers and checks).

Dominican Republic law provides the following specific limitations for the deduction of interest:

- A special anti-avoidance rule, which limits the interest deductible based on the effective tax rate of the interest recipient
- A thin-capitalization limitation, which limits the amount deductible to three times the ratio of the average of equity to the average of debt that generated such interest in a given year

**Special industries.** Rules applicable to special industries are outlined below.

*Nonresident insurance companies.* Nonresident insurance companies are taxed on a deemed income equal to 10% of their gross income (premiums) derived from insurance services rendered to resident or domiciled companies or individuals.

*Transportation.* Income derived from transportation services rendered from the Dominican Republic to other countries is deemed to equal 10% of the gross income derived from such services.

*Others.* Film distribution companies are taxed in the Dominican Republic based on a deemed income equal to 15% of their gross income derived from the distribution of foreign films. In addition, foreign communications companies are taxed on a deemed income equal to 15% of their gross income.

**Inventories.** In general, last-in, first-out (LIFO) is the approved method for valuing inventory. However, taxpayers may use other methods if previously approved by the tax authorities.

**Provisions.** In general, provisions are not deductible for income tax purposes. However, the Tax Code and Income Tax Regulations provide for limited exceptions to this rule, including a provision for uncollectable accounts receivable. This provision is allowable as a deductible expense if it is calculated based on 4% of the accounts receivable balance at the close of the fiscal year and if the amount is authorized by the Tax Administration.

Provisions for gratifications, bonuses and other similar compensation items are deductible for income tax purposes if the amounts in the provisions are paid by the filing date of the income tax return.

**Tax depreciation and amortization allowances.** Depreciation is calculated using a variation of the declining-balance method. Intangibles, such as patents, models, drawings and copyrights, may be amortized using the straight-line method if they have a definite useful life.

Salvage value is not taken into account in calculating depreciation. The following are the generally applicable depreciation rates provided by law.

<b>Asset</b>	<b>Rate (%)</b>
Buildings	5
Light vehicles and office equipment, including computers	25
Other assets	15

**Relief for losses.** Losses generated by companies in the ordinary course of a trade or business may be carried forward for a five-year period. In each fiscal year, 20% of the total loss can be used to offset taxable income. However, in the fourth and fifth years, only 80% and 70%, respectively, of the total taxable income may be offset by the 20% loss carry forward. Losses derived from reorganizations are not deductible for income tax purposes. Net operating losses may not be carried back.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax; standard rate	18
Social security contributions	
Mandatory health contributions; imposed on salary up to a maximum amount of 10 legal minimum wages	
Employer	7.09
Employee	3.04
Mandatory pension contributions; imposed on salary up to a maximum amount of 20 legal minimum wages	
Employer	7.10
Employee	2.87
Government Training Institution (INFOTEP) contribution on the payroll amount; payable monthly by the employer	1
Labor risk contributions; payable by employer on salary up to a maximum amount of 4 legal minimum wages; rate varies according to the risk level of the company's activity	1.10 to 1.30
Workers' compensation insurance	Various



Nature of tax	Rate (%)
Telecom Tax; imposed on the consumption of telecom services by legal entities and individuals in the Dominican Republic; tax rate applied to gross payment	10
Tax on financial transactions; imposed on the value of checks and wire transfer transactions and on payments made to third parties (the tax applies even if the wire transfer is made to an account in the same bank)	0.0015

### E. Foreign-exchange controls

The Central Bank of the Dominican Republic (Banco Central de la República Dominicana) has liberalized foreign-exchange controls. Only individuals and companies generating foreign currency from exports, services rendered and other specified activities are required to exchange foreign currency with the Central Bank through commercial banks. The Central Bank is not required to furnish foreign currency to satisfy demands for foreign payments. Individuals and companies may buy foreign currency from, or sell it to, commercial banks.

As of 21 November 2017, the exchange rate was USD1 = DOP47.9112.

### F. Treaty withholding tax rates

The following are the maximum withholding tax rates under the Dominican Republic's double tax treaties.

	Dividends %	Interest %	Royalties %
Canada	18 (a)	18	18
Spain	10 (b)	10	10
Non-treaty jurisdictions	10	10	27

(a) Under the tax treaty with Canada, if the Dominican Republic enters into a treaty with another country in which the applicable income tax withholding rate for dividends is lower than the rate provided in the treaty with Canada that same tax treatment automatically applies to the treaty with Canada.

(b) Dividends paid to entities that hold more than 75% of the distributing entity's capital are subject to a 0% tax.

# Ecuador

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*Because of the frequent changes to the tax law in Ecuador in recent years, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	22 (a)
Capital Gains Tax Rate (%)	0/22 (b)
Branch Tax Rate (%)	22 (a)
Withholding Tax (%) (c)	
Dividends	0/10/13 (d)
Interest	22 (e)
Royalties	22
Technical Assistance	22
Services	22
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (f)

- (a) Companies that reinvest their profits in Ecuador and use them to acquire assets for productive activities in Ecuador are entitled to a reduction of 10 percentage points in the corporate income tax rate on the reinvested amount (that is, the reinvested profits are taxed at 12%) if the company increases its capital stock and such increase is registered with the Commercial Register by 31 December of the fiscal year.

- (b) Capital gains tax on sales of tangible assets is not imposed in Ecuador. Gains derived from direct or indirect transfers of shares of Ecuadorian entities are considered to be income subject to corporate income tax.
- (c) These withholding taxes are imposed on remittances abroad to non-domiciled companies and nonresident individuals. The withholding tax rates may be reduced under tax treaties. For further details concerning withholding taxes, see Section B.
- (d) For details, see Section B.
- (e) A 22% withholding tax is imposed on payments of interest to non-domiciled companies and nonresident individuals unless the interest is paid on loans granted by financial institutions, nonfinancial specialized entities registered with the Superintendence of Banks or multilateral institutions (Andean Corporation for Promotion, International Monetary Fund or World Bank). Thin-capitalization rules apply to the deductibility of interest paid to related parties (see Section E).
- (f) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax is levied on companies domiciled in Ecuador and on foreign companies. Companies domiciled in Ecuador include those incorporated in Ecuador and companies incorporated in foreign countries that have been approved as branches by the Superintendence of Companies after a legal proceeding. Companies incorporated in Ecuador are subject to tax on their worldwide income. Foreign companies are subject to tax on income derived from activities within Ecuador and from goods and assets located within Ecuador.

**Rate of corporate tax.** The standard rate of corporate income tax is 22%.

If an entity has shareholders domiciled in tax-haven jurisdictions, the corporate income tax rate is increased to 25%, and it is applied to the tax base in proportion to the tax-haven shareholders' ownership; if this ownership exceeds 50%, the 25% rate applies to the entire tax base.

Companies that reinvest their profits in Ecuador and use them to acquire assets for productive activities in Ecuador are entitled to a reduction of 10 percentage points in the corporate income tax rate on the reinvested amount (that is, the reinvested profits are taxed at 12%) if they retain the reinvested profits until 31 December of the tax year following the tax year in which the profits are earned.

**Capital gains.** Capital gains tax on sales of tangible assets is not imposed in Ecuador.

Gains derived from direct or indirect transfers of shares of Ecuadorian entities are considered to be income subject to corporate income tax. Indirect transfers of tax are taxable if both of the following conditions are met:

- At any time during the tax year in which the sale is performed, the real value of the shares of the Ecuadorian entity or permanent establishment represents directly or indirectly more than the 20% of the real value of the shares of the nonresident company. The tax administration will establish by resolution the procedure for calculating this percentage. However, as of the time of writing, this resolution had not yet been issued.
- In the same fiscal year or 12 months before the fiscal year, the sales of shares of the nonresident company by the same seller directly or indirectly corresponds to an aggregate amount

exceeding 300 basic fractions of income tax for individuals (USD3,387,000 for the 2017 fiscal year). This amount is increased to 1,000 basic fractions of income tax for individuals (USD11,290,000 for the 2017 fiscal year) if the transaction does not exceed the 10% of the total share capital.

Under the above rule, the Ecuadorian entity whose shares were negotiated or transferred is considered the substitute for the taxpayer and, consequently, is responsible for the income tax payment.

This tax does not apply in the case of mergers, spin-offs, corporate transformations or capital contributions.

Losses on sales between related parties are not deductible.

**Administration.** The fiscal year runs from 1 January to 31 December. No other closing dates are permitted, regardless of the date a business begins operations. Returns must be filed between 10 April and 28 April.

Companies must make an advance payment of income tax equal to the sum of 0.2% of the equity of the company, 0.2% of the total costs and expenses deducted in the calculation of income tax, 0.4% of the total assets of the company and 0.4% of the total income subject to income tax. The equity and total assets are determined as of the end of the preceding fiscal year. The other amount is the total for the preceding fiscal year.

The amount of the advance payment is calculated in the annual tax return. The advance payment is payable in two installments, which are due in July and September. To calculate the amount of the advance payment, the withholdings made with respect to the taxpayer in the preceding year are subtracted.

The advance payment is considered a minimum tax. As a result, if no tax is payable for a fiscal year or the tax payable is lower than the advance payment, the advance tax is considered a final tax payment that may not be refunded or offset against tax in future years.

The penalty for late filing is 3% of the income tax due for each month or fraction of a month of the delay, up to a maximum of 100% of the tax due. Interest at the maximum legal rate, which floats, is levied on all increases in tax assessments from the date the tax was originally due to the date of payment.

**Withholding taxes.** A 22% withholding tax is generally imposed on the following payments abroad:

- Interest, royalties and payments for technical assistance to non-domiciled companies and nonresident individuals
- Payments to nonresident individuals for services rendered
- Payments to non-domiciled companies for professional services rendered abroad or occasional services rendered in Ecuador

Income tax withholding at a rate of 22% applies to all reimbursements of expenses abroad.

Income tax withholding at a rate of 35% applies to cross-border payments made to recipients in tax havens, low-taxation jurisdictions or preferential tax regimes.

Penalties are imposed for failures to comply with the withholding requirements. Withholding agents who deliberately fail to provide taxpayers, totally or partially, with tax withholding receipts are subject to imprisonment and fines.

**Dividends.** In general, dividends distributed after the payment of income tax are not subject to income tax or withholding tax. However, if the effective beneficiary is an Ecuadorian individual, a withholding tax is imposed at rates ranging from 5% and 35%, according to a progressive table issued by the tax authorities. Also, a 10% withholding tax is imposed on dividends paid to recipients in tax havens, low-taxation jurisdictions or preferential tax regimes.

For anticipated dividend distributions (before the annual income tax determination), withholding tax at a rate equal to the corporate income tax rate is applied.

**Foreign tax relief.** Income received by companies domiciled in Ecuador are exempt for income tax purposes if it was subject to tax abroad at a rate of greater than 13.2% (the withholding tax on such income is nondeductible); otherwise, the income is taxable and the amount of the withholding tax may be claimed as a tax credit.

### C. Determination of trading income

**General.** Taxable income is based on accounting profits after the corresponding tax reconciliation adjustments.

In computing taxable income, a company can deduct expenses incurred in producing income, including production and distribution costs, interest charges, royalty payments and depreciation. Also, employee profit-sharing distributions (15% of gross profit) can be deducted before computing taxes. Special provisions govern the computation of taxable income from the export of petroleum and air and maritime transportation.

Expenses incurred abroad are generally deductible if corresponding taxes are withheld and if the payment constitutes taxable income for the recipient. The following cross-border payments are deductible subject to specified limitations:

- Payments for imports, including interest and financing fees, as provided in import licenses
- Export fees of up to 2% of the export value
- Interest paid to related parties that are subject to the thin-capitalization rules (see Section E)
- Payments under financial leases
- Indirect costs allocation (up to 5% of the tax base)
- Royalties, technical services, management fees and consulting services paid to related parties (up to 20% of the sum of the tax base and these expenses)

Nondeductible expenses include the following:

- Interest paid on foreign loans, to the extent the interest rate exceeds the limit established by the Central Bank Board (the maximum rate is the Prime Rate), and interest on foreign loans not registered at the Ecuadorian Central Bank
- Losses on sales of assets between related parties
- Leasing payments with respect to leasebacks or trade with related parties

**Inventories.** Inventory is generally stated at cost (calculated using the average, first-in, first-out [FIFO] or actual methods). Inventory write-offs must be documented through a sworn statement that the inventory was destroyed or donated.

**Tax depreciation and amortization.** Depreciation and amortization expenses are deductible for income tax purposes. The tax law provides the following maximum straight-line depreciation rates applicable for tax purposes.

Asset	Rate (%)
Commercial and industrial buildings, aircraft and ships	5
Office equipment	10
Motor vehicles and trucks	20
Plant and machinery	10
Computers	33

For tax purposes, as a general rule, expenditures to acquire property and other assets that produce revenue must be amortized over at least 5 years, using a straight-line depreciation rate of 20%. Intangibles must be amortized over either the term of the relevant contract or a 20-year period.

The tax authorities may approve other methods and annual rates for depreciation and amortization.

Research and development expenses are generally written off over five years.

Depreciation of fixed assets in excess of their original cost is permitted if business assets are revalued as a result of inflation or increased replacement costs.

**Relief for losses.** Net operating losses may be carried forward and offset against profits in the following five years, provided that the amount offset does not exceed 25% of the year's profits. Loss carrybacks are not permitted.

**Groups of companies.** For tax purposes, no measures exist for filing consolidated returns and relieving losses within a group.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; imposed on sales and commercial transactions, imports, rendering of services and intellectual property rights; principal products that are exempt are food products in their natural state, drugs and veterinary products	12
Currency exportation tax (CET); imposed on all cross-border payments or money transactions abroad, with or without the intervention of financial institutions, and monies deposited abroad through bank transfers, CET also applies to any form of termination of obligations, such as clearance of accounts; checks or wire transfers; tax is	

<b>Nature of tax</b>	<b>Rate (%)</b>
withheld at source; foreign banks operating in Ecuador must pay the tax monthly; the tax law provides that CET applies to payments made from foreign bank accounts of Ecuadorian entities if CET was not levied on the cash when it was initially transferred to the foreign bank account and to exports of goods and services if the cash does not enter Ecuador within six months after the goods arrive at their destination or the services begin to be rendered; CET paid on imports of raw materials, supplies and capital goods may be used as a tax credit for income tax purposes for the following five years if such goods are used in production processes and listed in a resolution issued by the Internal Revenue Service (IRS) of Ecuador	5

## **E. Miscellaneous matters**

**Foreign-exchange controls.** All transactions in Ecuador must be conducted in US dollars.

**Debt-to-equity rules.** A thin-capitalization rule applies in Ecuador. Any interest paid on loans from related parties in excess of a 3:1 debt-to-equity ratio is not deductible.

**Free-trade zone.** The signatories of the Andean Community or the former Andean Pact (Bolivia, Colombia, Ecuador and Peru) have entered into a free-trade agreement. However, Peru signed the agreement with some restrictions. Under the agreement, merchandise and goods manufactured in one of the signatory countries may enter the other signatory countries free of customs duties. All items imported from other countries are subject to a common external customs duty.

**Transfer pricing.** In general, transfer-pricing rules in Ecuador follow Organisation for Economic Co-operation and Development (OECD) rules, because they require fulfillment of the arm's-length standard. Nevertheless, the technical preferences of the IRS are quite specific and may imply significant differences when measuring compliance with the rules. Special rules apply to oil, bananas and metallic commodities.

In addition to traditional ownership-control criteria to determine relationships between parties, since 2008, the law considers companies related if they are domiciled in foreign jurisdictions listed as tax havens by the IRS (86 jurisdictions) or if they are paying anywhere else a corporate income tax deemed as "low" by the IRS (as of 2017, the threshold is 13.2%).

Transfer-pricing information must be documented by all companies having transactions with related parties, including domestic ones. Companies must file their documentation with the IRS if certain conditions are met, as described below.

Income taxpayers that have carried out transactions with related parties during a fiscal year in an amount exceeding USD3 million must submit the Transfer Pricing Annex to the IRS.

Income taxpayers that have carried out transactions with related parties during a fiscal year in an amount that exceeds USD15 million must submit the Transfer Pricing Annex and the Transfer Pricing Comprehensive Report to the IRS.

Income taxpayers that do not meet the minimum amounts mentioned above must submit the Transfer Pricing Annex or the Transfer Pricing Comprehensive Report at the request of the IRS.

Transactions that are added up for purposes of the threshold include most balance-sheet movements.

Certain transactions (most of them are domestic if certain conditions are met) are not added up for purposes of the threshold and are not part of the compulsory Annex or Report, but their documentation may be requested at any time by the IRS.

The deadline to file the Transfer Pricing Annex and the Transfer Pricing Comprehensive Report is two months after the deadline for the filing of the corporate income tax return, which includes certain declarations on the total amounts of relevant related parties' transactions.

Taxpayers involved in transactions with related parties are exempt from the application of the transfer-pricing regime if they satisfy all of the following conditions:

- Their corporate income tax is higher than 3% of taxable income.
- They do not conduct business with residents in tax havens or lower-tax jurisdictions.
- They do not have contracts with government institutions for the exploration or exploitation of nonrenewable resources.

Transactions covered by an Advanced Pricing Ruling (APR) of the IRS do not need to be reported. APRs may be requested at any time and for any transaction, but they are commonly used to eliminate deductibility restrictions that the Ecuadorian tax law imposes on related-party transactions regarding administrative and technical services, royalties, consultancy, technical assistance and similar items.

## F. Treaty withholding tax rates

Under an agreement with Bolivia, Colombia and Peru (the Andean Pact), income earned in those countries is generally not taxed in Ecuador to avoid double taxation. The withholding tax rates under Ecuador's bilateral treaties are shown in the table below. Ecuadorian law has established a refund mechanism regarding the benefits from double tax treaties. Under this mechanism, the full applicable withholding is made with respect to payments abroad exceeding 20 basic fractions of income tax for individuals (USD225,800 for the 2017 fiscal year), and a tax claim must then be presented to the IRS to recover the excess amount withheld.

	<b>Dividends (a)</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Belgium	15	10	10
Brazil	0	15	15 (c)
Canada	5/15	15	10/15
Chile	5/15	4/15	10/15



	<b>Dividends (a)</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
China (mainland)	0/5	0/10	0/10
France	15	10/15	15
Germany	15	15	15
Italy	15	0/10	5
Korea (South)	5/10	0/12	5/12
Mexico	5	10/15	10
Romania	15	10	10
Singapore	0/5	0/10	10
Spain	15	10/15	15
Switzerland	15	10	10
Uruguay	10/15	15	10/15
Non-treaty jurisdictions	0	22 (b)	22

- (a) Dividends are exempt from withholding tax under Ecuadorian domestic law if corporate income tax was paid on the profits out of which the dividends were distributed.
- (b) A 22% withholding tax is imposed on the payment of interest abroad unless the interest is paid on loans granted by financial institutions, specialized non-financial entities qualified by the control authorities in Ecuador or multilateral institutions.
- (c) Trademark royalties are taxed at a rate of 22%.

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**A. At a glance**

Corporate Income Tax Rate (%)	22.5 (a)
Capital Gains Tax Rate (%)	
Sales of Securities	10/22.5 (a)(b)
Sales of Other Assets	22.5 (a)
Branch Tax Rate (%)	22.5 (a)
Withholding Tax (%)	
Dividends	10 (c)
Interest	20 (c)
Royalties from Patents, Know-how, etc.	20 (c)
Services	20 (c)
Branch Remittance Tax	5 (d)
Net Operating Losses (Years)	
Carryback	0 (e)
Carryforward	5

- (a) The standard corporate income tax rate is 22.5%. Exceptions to the 22.5% rate exist (see Section B).
- (b) For details regarding the 10% rate, see Section B.
- (c) This is the standard rate. The rate may be reduced to 5% under domestic law for dividends. It also may be reduced under a tax treaty. Exemptions may apply in certain circumstances. The tax is a final tax imposed on gross payments. Also, see Section B.
- (d) A branch remittance tax of 5% is payable within 60 days after the financial year-end.
- (e) Only losses incurred in long-term projects may be carried back to offset profits from the same project for an unlimited number of years.

**B. Taxes on corporate income**

**Corporate income tax.** Egyptian corporations are subject to corporate profits tax on their profits derived from Egypt, as well as on profits derived from abroad, unless the foreign activities are performed through a permanent establishment located abroad. Foreign companies performing activities through a permanent establishment in Egypt are subject to tax only on their profits derived from Egypt.

**Rates of corporate income tax.** The standard rate of corporate income tax is 22.5%.

Exceptions to the 22.5% rate exist. Oil prospecting and production companies are subject to tax on their profits at a rate of 40.55%. The Suez Canal Company, the Egyptian General Petroleum Company and the Central Bank of Egypt are subject to tax on their profits at a rate of 40%.

**Capital gains**

*From the sale of securities.* The following rates apply to capital gains derived from the sale of securities by resident juridical persons:

- A 10% rate applies to capital gains on securities registered at the Egyptian Stock Exchange that are sourced in Egypt (suspended for listed securities for a further three years [from 17 May 2017 to 16 May 2020]).
- The standard corporate tax rate of 22.5% applies to capital gains on securities not registered with the Egyptian Stock Exchange that are sourced in Egypt, capital gains on securities realized abroad and capital gains on shares.

*From the sale of other assets.* Tax on capital gains on other assets is calculated at the ordinary corporate profits tax rates in the same manner as ordinary business profits and is not calculated separately. Trading and capital losses derived from sales of other assets are deductible against taxable capital gains.

**Administration.** Companies must file their annual tax returns, together with all supporting schedules and the original financial statements, before 1 May of each year, or four months after the end of the financial year. The tax return must be signed by the taxpayer. Taxpayers can file a request for an extension of the due date for filing the tax return if the estimated amount of tax is paid at the time of the request. A request for an extension must be filed at least 15 days before the due date. An extension of up to 60 days may be granted. An amended tax return can be filed within 30 days after the original due date.

Any tax due must be paid when the tax return is filed.

A late penalty is imposed at a rate of 2% plus the credit and discount rate set by the Central Bank of Egypt in January of each year.

The law has set up appeals committees at two levels — the Internal Committee and the Appeal Committee. The Appeal Committee's decision is final and binding on the taxpayer and the tax department, unless a case is appealed to the court within 30 days of receiving the decision, which is usually in the form of an assessment.

**Dividends.** Dividends paid by corporations or partnerships, including companies established under the special economic zone system, to resident juridical persons, nonresident persons, or nonresident juridical persons that have a permanent establishment in Egypt are subject to tax on dividends.

Tax on dividends is imposed at a standard rate of 10% without any deductions or exemptions. However, this rate can be reduced to 5% if both of the following conditions are fulfilled:

- The recipient holds more than 25% of the distributing company's capital or voting rights.
- The recipient holds the shares or commits to hold the shares for a period of not less than two years (effective from 21 August 2015).

Under the law, foreign branches' profits in Egypt are considered distributed profits within 60 days after the financial year-end. As

a result, a branch must pay the dividend tax on its annual profits within 60 days after the financial year-end. In addition, branch remittance tax at a rate of 5% applies to foreign branches' profits.

The tax law grants exemptions for investment funds, parent companies and holding companies under some conditions.

Dividends in the form of free stocks are not subject to tax on dividends.

**Withholding tax.** In general, payments for all services performed by nonresident companies for Egyptian companies in or outside Egypt are subject to withholding tax at a rate of 20%. However, this withholding tax does not apply to payments related to the following activities:

- Transportation
- Shipping
- Insurance
- Training
- Participation in conferences and exhibitions
- Registration in foreign stock markets
- Direct advertising campaigns
- Hotel accommodation
- Services related to religious activities

**Foreign tax relief.** Foreign tax paid by resident entities outside Egypt can be deducted if supporting documents are available.

Treaties entered into between Egypt and other countries provide a credit for taxes paid abroad on income subject to corporate income tax in Egypt.

### C. Determination of taxable income

**General.** Corporate income tax is based on taxable profits computed in accordance with generally accepted accounting principles, modified for tax purposes by certain statutory provisions primarily concerning depreciation, provisions, inventory valuation, intercompany transactions and expenses. Interest on bonds listed on the Egyptian stock exchange is exempt from tax if certain conditions are satisfied.

Taxable profits are based on actual revenues and costs. Consequently, unrealized revenues and costs are not included in the tax base.

Start-up and formation expenses may be deducted in the first year.

The deductibility of a branch's share of head office overhead expenses is limited to 10% of the taxable net profit. Head-office expenses are fully deductible if they are directly incurred by the branch and are necessary for the performance of the branch's activity in Egypt. Such expenses must be supported by original documents and approved by the head office auditors.

Interest paid on loans and overdrafts with respect to a company's activities is deductible after offsetting interest income. Interest paid to individuals who are not subject to tax or exempt from tax is not deductible. Deductible interest is limited to the interest computed at a rate equal to twice the discount rate determined by the Central Bank of Egypt.

**Inventories.** Inventory is normally valued for tax purposes at the lower of cost or market value. Cost is defined as purchase price plus direct and indirect production costs. Inventory reserves are not permissible deductions for tax purposes. For accounting purposes, companies may elect to use any acceptable method of inventory valuation, such as first-in, first-out (FIFO) or average cost. The method should be applied consistently, and if the method is changed, the reasons for such change should be stated.

**Provisions.** Provisions are not deductible except for the following:

- Provision for up to 80% of loans made by banks, which is required by the Central Bank of Egypt
- Insurance companies' provision determined under Law No. 10 of 1981

Bad debts are deductible if the company provides a report from an external auditor certifying the following:

- The company is maintaining regular accounting records.
- The debt is related to the company's activity.
- The debt appears in the company's records.
- The company has taken the necessary action to collect the debt.

**Depreciation and amortization allowances.** Depreciation is deductible for tax purposes and may be calculated using either the straight-line or declining-balance method. The following are the depreciation rates.

Type of asset	Method of depreciation	Rate (%)
Buildings, ships and aircraft	Straight-line	5
Intangible assets	Straight-line	10
Computers	Declining-balance	50
Heavy machinery and equipment	Declining-balance	25
Small machinery and equipment	Declining-balance	25
Vehicles	Declining-balance	25
Furniture	Declining-balance	25
Other tangible assets	Declining-balance	25

The law allows a taxpayer to claim a deduction of 30% of the costs of new or used equipment and machines as accelerated depreciation if the assets are used for production purposes. This deduction applies only in the first tax period in which the equipment and machines are used.

**Relief for losses.** Tax losses may be carried forward for five years. Losses incurred in long-term projects may be carried back for an unlimited number of years to offset profits from the same project.

Losses incurred outside Egypt cannot be offset against taxable profits in Egypt.

If capital losses exceed capital gains realized from disposals of securities and shares in a tax year, the excess can be carried forward for three years.

**Groups of companies.** Associated or related companies in a group are taxed separately for corporate income tax purposes. Egyptian law does not contain a concept of group assessment under which

group losses may be offset against profits within a group of companies.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	Various
Customs duties	
General, ad valorem	Various
On value of machinery needed for investments by companies	5
Stamp duties on bills, promissory notes and letters of guarantee as well as most types of documents, contracts, checks and receipts (shares and bonds listed on the Egyptian Stock Exchange are exempt)	Various
Social insurance	
On monthly base salary, up to EGP1,370; paid by	
Employer	26
Employee	14
On amount of variable salary (any amount other than base salary) of EGP2,430 a month; paid by	
Employer	24
Employee	11
On contract labor force	18

#### E. Miscellaneous matters

**Foreign-exchange controls.** Egypt has a free-market exchange system. Exchange rates are determined by supply and demand, without interference from the central bank or the Ministry of the Economy.

**Debt-to-equity rules.** Under the new tax law, the maximum debt-to-equity ratio is 4:1. If the debt exceeds such ratio, the excess interest may not be claimed as a deductible expense.

**Transfer pricing.** The Egyptian tax law contains measures regarding transfer pricing, which are based on the arm's-length principle. Under these measures, the tax authorities may adjust the income of an enterprise if its taxable income in Egypt is reduced as a result of contractual provisions that differ from those that would be agreed to by unrelated parties. However, under the new tax law, it is possible to enter into arrangements in advance with the tax department regarding a transfer-pricing policy (Advance Pricing Arrangement). An Advance Pricing Arrangement ensures that transfer prices will not be challenged after the tax return is submitted and, accordingly, eliminates exposure to penalties and interest on the late payment of taxes resulting from adjustments of transfer prices.

The Egyptian Tax Department, in association with the Organisation for Economic Co-operation and Development, has issued transfer-pricing guidelines. The guidelines provide taxpayers with guidance on the application of the arm's-length principle to the pricing of their intra-group transactions, as well as outlining the documentation taxpayers must maintain to demonstrate their compliance with this principle.

## F. Treaty withholding tax rates

The table below sets forth maximum withholding rates provided in Egypt's double tax treaties for dividends, interest and royalties.

To benefit from the tax rates provided by double tax treaties with respect to dividends, interest and royalties, within six months after the date of receipt of the payment, a nonresident entity or its legal representative must submit to the tax authorities an application to apply the tax rate stated in the treaty and request a refund of the difference between the domestic rate and the treaty rate. The application must be submitted on the form designed for this purpose together with required documents.

The following is the treaty withholding tax rate table.

	Dividends (a) (%)	Interest (%)	Royalties (%)
Albania	5/10	10	10
Algeria	5/10	5	10
Austria	5/10	15	0
Bahrain	0	According to domestic law in each country	According to domestic law in each country
Belarus	5/10	10	15
Belgium	5/10	15	Trademarks 20 Other 15
Bulgaria	5/10	12.5	12.5
Canada	5/10	15	15
China (mainland)	5/8	10	8
Cyprus	5/10	15	10
Czech Republic	5/10	15	15
Denmark	5/10	15	20
Ethiopia	5/10	10	10
Finland			
From Finland	10	0	20
From Egypt	5/10	20	20
France	0	15	15
Georgia	5/10	10	10
Germany	5/10	15	Trademarks 20 Other 15
Greece	5/10	15	15
Hungary	5/10	15	15
India	5/10	20	According to domestic law in each country
Indonesia	5/10	15	15
Iraq			
From Iraq	5/10	10	One-half of tax rate in the country
From Egypt	5/10	20	20
Ireland	5/10	10	10
Italy	5/10	20	15
Japan	5/10	20	15
Jordan	5/10	15	20
Korea (South)	5/10	10/15	15
Kuwait	5/10	10	10



	<b>Dividends (a)</b> <b>(%)</b>	<b>Interest</b> <b>(%)</b>	<b>Royalties</b> <b>(%)</b>
Lebanon	5/10	10	5
Libya	5/10	20	20
Malaysia	5/10	15	15
Malta	5/10	10	12
Mauritius	5/10	10	12
Morocco	5/10	20	10
Netherlands	5/10	12	12
Norway			
From Norway	15	0	0
From Egypt	5/10	20	15
Pakistan	5/10	15	15
Palestine	5/10	15	15
Poland	5/10	12	12
Romania	5/10	15	15
Russian			
Federation	5/10	15	15
Saudi Arabia	5/10	10	10
Serbia and			
Montenegro	5/10	15	15
Singapore	5/10	15	15
South Africa	5/10	12	15
Spain	5/9	10	12
Sudan			
From Sudan	5/10	10	10
From Egypt	5/15	10	10
Sweden	5/10	15	14
Switzerland	0	15	12.5
Syria	5/10	15	20
Tunisia	5/10	10	15
Turkey	5/10	10	10
Ukraine	5/10	12	12
United Arab			
Emirates	0	10	10
United			
Kingdom	5/10	15	15
United			
States	5/10	15	15
Yemen	5/10	10	10
Yugoslavia (b)	5/10	15	15
Non-treaty			
jurisdictions	10	20	20

(a) The rates depend on various conditions.

(b) The treaty with Yugoslavia applies to the republics that formerly comprised Yugoslavia.

Egypt has signed double tax treaties with Armenia, Bangladesh, Kazakhstan, Mongolia, Oman, Senegal, Seychelles, the Slovak Republic, Sri Lanka, Tanzania, Thailand, Uganda and Vietnam, but these treaties have not yet been ratified. Tax treaty negotiations are under way with Congo (Democratic Republic of), Macedonia and Korea (North).

# El Salvador

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**A. At a glance**

Corporate Income Tax Rate (%)	25/30 (a)
Capital Gains Tax Rate (%)	10/30 (a)
Branch Tax Rate (%)	25/30 (a)
Withholding Tax (%)	
Dividends	5/25 (b)
Interest	
Paid to Domiciled Companies	10 (c)
Paid to Non-domiciled Companies and Individuals	10/20/25 (d)
Royalties from Know-how and Technical Services	20/25 (e)
Video, Films and Similar Items	5 (f)
International Transportation Services	5 (g)
Insurance Services	5 (h)
Income from Salvadoran Security Market Investments	3 (i)
Lottery Prizes and Other Prize Winnings	
Paid to Domiciled Companies and Individuals	15
Paid to Non-domiciled Companies and Individuals	25
Loans	5 (b)
Equity or capital decreases	5 (j)
Other Payments Made to Nonresidents	20/25 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	0 (k)

- (a) A special 5% tax is imposed on the income of large taxpayers. For further details regarding the corporate income tax and the special 5% tax, see Section B.
- (b) For details, see Section B.
- (c) The withholding tax applies to interest received by individuals and companies on bank deposits. Interest paid between domiciled companies is not subject to withholding tax.
- (d) Amounts paid or credited to non-domiciled legal entities or individuals who are resident, domiciled or incorporated in tax-haven jurisdictions (or paid through legal entities resident, domiciled or incorporated in such jurisdictions) are subject to a 25% withholding tax. Exceptions apply to the following types of payments:
- Payments for acquisitions or transfers of tangible assets
  - Payments to taxpayers in tax-haven jurisdictions located in Central America that have signed cooperation agreements with Salvadoran tax and customs authorities
  - Payments to taxpayers in tax-haven jurisdictions that have signed with El Salvador information exchange agreements or double tax treaties
  - Payments under circumstances in which reduced withholding tax rates apply

If an interest payment is made to a non-domiciled entity that is not registered with the Central Reserve Bank of El Salvador and not domiciled in a tax-haven jurisdiction, a 20% withholding tax applies. If an interest payment is made to a non-domiciled entity that is not registered with the Central Reserve Bank of El Salvador and domiciled in a tax-haven jurisdiction, a 25% withholding tax applies. Withholding tax at a reduced 10% rate applies if the recipient of the interest is a financial institution supervised in its country of origin and registered with the Central Reserve Bank of El Salvador. If the recipient does not file an annual income tax return, the withholding tax is presumed to be a payment in full of the income tax on the interest income.

- (e) The withholding tax is imposed on payments to foreign companies and individuals for services rendered or used in El Salvador, as well as on payments for the transfer of intangible assets. If the recipient does not file an annual income tax return, the withholding tax is presumed to be a final tax. Amounts paid or credited to non-domiciled legal entities or individuals who are resident, domiciled or incorporated in tax-haven jurisdictions (or paid through legal entities resident, domiciled or incorporated in such jurisdictions) are subject to a 25% withholding tax. Exceptions apply to the following types of payments:
- Payments for acquisitions or transfers of tangible assets
  - Payments to taxpayers in tax-haven jurisdictions located in Central America that have signed cooperation agreements with Salvadoran tax and customs authorities
  - Payments to taxpayers in tax-haven jurisdictions that have signed with El Salvador information exchange agreements or double tax treaties
  - Payments under circumstances in which reduced withholding tax rates apply

The 20% rate applies to royalties from know-how and technical services paid to non-domiciled entities that are not domiciled in tax-haven jurisdictions.

- (f) The withholding tax is imposed on payments to non-domiciled persons or entities for transfers of intangible assets or for the use, or grant of use, of rights over tangible and intangible assets related to cinematographic movies, video tapes, phonographic discs, radio serials, television serials, serials and strips reproduced by any means, video and track records, and television programs transmitted by cable, satellite or other similar media. If the recipient does not file an annual income tax return, the withholding tax is presumed to be a final tax.
- (g) The withholding tax is imposed on payments to foreign companies and individuals for international transportation services. If the recipient does not file an annual income tax return, the withholding tax is presumed to be a final tax.
- (h) The withholding tax is imposed on payments to non-domiciled insurance and reinsurance companies and reinsurance brokers, authorized by the Superintendent of the Financial System. If the recipient does not file an annual income tax return, the withholding tax is presumed to be a final tax.
- (i) A withholding tax rate of 3% applies to income derived from capital invested in securities, or transactions in securities, shares and other investments in the Salvadoran securities market (primary or secondary).
- (j) A withholding tax rate of 5% applies to amounts paid or credited in capital or equity reductions, in the portion corresponding to capitalization or reinvestment of profits. For this purpose, the amounts paid or credited by the decrease of equity or capital corresponds to previously capitalized amounts.
- (k) Capital losses can be carried forward to offset capital gains for a period of five years, provided that the losses have been reported in previously filed tax returns.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident corporations are subject to tax on Salvadoran-source income and on certain types of foreign investment income. Nonresident corporations are subject to tax on Salvadoran-source income only. As a result, resident and non-resident taxpayers are subject to income tax on income derived from the following:

- Movable and immovable property in El Salvador
- Activities carried out in El Salvador
- Services rendered by domiciled and non-domiciled entities that are used in El Salvador

Taxable foreign investment income derived by resident corporations includes income, capital gains, profits, or interest derived from securities, financial instruments, and derivative contracts if any of the following conditions are met:

- The issuing entity is a national entity or domiciled in El Salvador.
- The capital is invested or employed in El Salvador.
- The risk assumed is placed or located in El Salvador.

Foreign investment income earned by a legal entity that is domiciled in El Salvador or that is considered a domiciled establishment or branch for Salvadoran tax purposes is taxable.

Income derived from interest, premiums and other earnings from deposits abroad paid by non-domiciled financial institutions to domiciled legal entities must always be declared to the Salvadoran tax authorities even if they have been subject to income tax or other similar taxes abroad. Taxes paid abroad can be credited according to the rules provided by Salvadoran law.

**Corporate income tax rate.** The standard rate of income tax is 30% for Salvadoran companies, foreign companies with a permanent establishment in El Salvador and non-domiciled companies. However, companies that have sales equal to or less than USD150,000 are subject to a 25% income tax rate.

**Special tax for large taxpayers.** On 29 October 2015, El Salvador's Congress approved a legislative decree that created a special tax for large taxpayers to support the government's public safety plan. The decree entered into force for five years as of 29 November 2015, and it prevails over any other contradictory law or statute. Taxpayers with annual net income of USD500,000 or more must report and pay a tax of 5% of net income. In practice, the tax should apply only to taxpayers classified as large taxpayers by the tax authorities.

**Capital gains.** Capital gains derived from the sale of movable and immovable property are subject to income tax at a rate of 10%. However, if the asset is sold within 12 months after acquisition, the capital gain is subject to tax at a rate of 25% or 30% of net income.

Companies may carry forward capital losses for a five-year period to offset future capital gains only.

The capital gain or loss on a transaction is computed by deducting from the sales price the following:

- Cost of the asset, which equals the purchase price less allowable depreciation claimed under the income tax law
- Improvements made to the asset
- All selling expenses necessary to complete the transaction

**Administration.** The statutory tax year runs from 1 January through 31 December. Companies must file annual income tax returns and pay any tax due within four months after the end of the tax year.

Companies with total assets of SVC10 million (approximately USD1,142,857) or more, or with gross income of SVC5 million (approximately USD571,428) or more, must file an annual tax certification of their tax obligations. This certificate is issued by an external certified public accountant (CPA) who is authorized by the CPA Surveillance Council.

**Dividends.** Domiciled entities in El Salvador that pay to, or register profits for, domiciled or non-domiciled entities or individuals must withhold income tax at a 5% rate. This serves as a definite income tax payment. Payment or registration of profits can be made in various forms, including, among others, payments in cash or securities and in-kind payments, regardless of whether they are considered dividends, quotas, excess payments, legal reserves, profits or earnings.

The above obligation also applies to representatives of parent companies, affiliates, branches, agencies and other permanent establishments that pay or credit profits to domiciled entities or individuals abroad.

Notwithstanding the above, if payments are made to an entity or individual domiciled or resident in a tax-haven jurisdiction, a 25% withholding tax rate applies.

**Withholding tax on loans.** Legal entities or entities without legal capacity domiciled in El Salvador that remit cash or in-kind assets as loans or advance remittances or engage in other types of loan operations must withhold tax at a rate of 5% of such amounts if the amounts are remitted to any of the following:

- Partners, shareholders, associates, beneficiaries, and other related parties according to Section 25 of the Income Tax Law (for example, spouses and relatives in the fourth degree of consanguinity or second degree of kinship)
- Entities or individuals domiciled or resident in a tax-haven jurisdiction
- Parent companies or branches domiciled abroad

Certain exceptions apply, such as to loans with a market value interest rate or a one-year term and to supervised financial institutions.

**Foreign tax relief.** In general, relief is granted in El Salvador for foreign taxes paid with respect to certain types of investment income earned abroad. Also, see Section F.

### C. Determination of trading income

**General.** Taxable income is computed in accordance with adopted Financial Information Standards in El Salvador (International Financial Reporting Standards), subject to adjustments required by the Salvadoran income tax law. The Salvadoran income tax law requires the use of the accrual method of accounting.

Taxable income includes all income derived from the following:

- Assets located in El Salvador
- Activities or transactions carried out in El Salvador
- Capital invested in El Salvador
- Services rendered in El Salvador and services rendered outside El Salvador that are used in El Salvador
- Certain types of investment income (see Section B)

In general, all costs and expenses necessary to produce and preserve taxable income are deductible for income tax purposes, provided all legal deductibility requirements are met.

**Imputed income.** The Salvadoran income tax law does not contain rates and formulas for calculating imputed income. However, the

tax authorities may determine taxable income based on certain information, including the following:

- Investments made during the tax year
- Equity fluctuations
- Transactions and profits recorded in previous tax years
- Purchases and sales
- Value of imported goods
- Value of inventories
- Purchases not recorded
- Performance of similar businesses
- General expenses

**Inventories.** Salvadoran income tax regulations provide that inventories may be valued at acquisition cost. The cost may be calculated using certain methods, such as first-in, first-out (FIFO), last purchase cost and average cost, as well as special methods established for agricultural products and cattle. The income tax law provides that inventories can be valued by other methods if authorization from the tax authorities is obtained before the method is implemented.

**Provisions.** Provisions for contingent liabilities, such as severance payments and labor costs, are not deductible expenses. However, payments of such liabilities are deductible expenses. Amounts for doubtful accounts may be deducted if certain legal requirements are satisfied.

#### **Tax depreciation and amortization**

*Depreciation.* The acquisition cost of products with a useful life of 12 months or less may be fully deducted from taxable income in the year of acquisition. Property with a useful life of more than 12 months may be depreciated using the following straight-line rates.

<b>Asset</b>	<b>Rate (%)</b>
Buildings	5
Machinery	20
Vehicles	25
Other movable property	50

Only a portion of the acquisition cost of used machinery and movable property may be deducted for tax purposes. The deductible percentages, which are based on the asset's life, are shown in the following table.

<b>Asset's useful life Years</b>	<b>Deductible percentage (%)</b>
1 but less than 2	80
2 but less than 3	60
3 but less than 4	40
4 or more	20

The useful life of a used asset is determined when the asset is purchased. The depreciable portion of the acquisition cost is calculated according to the normal depreciation rules.

*Tax amortization.* The acquisition cost or development cost of software programs used to produce and preserve taxable income may be amortized at an annual rate of up to 25% of the cost of development or acquisition. The deductible percentages

applicable to used machinery (see above) also apply to used software programs.

**Relief for losses.** Net operating losses may not be carried forward or back to offset taxable income.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; transfers of fixed assets that have been used for four years or more are not subject to transfer taxes	13
Real property transfer tax; tax imposed on value of real property with respect to the amount that exceeds SVC250,000 (approximately USD28,571)	3
Customs duties	Various
Tax on certain financial transactions; imposed on payments of goods and services by check and debit card for which the transaction value exceeds USD1,000, payments through wire transfers for which the transaction value exceeds USD1,000, transfers in favor of third parties in any form or by any technological means, for which the transaction value exceeds USD1,000 loan or financing disbursements of any kind and transactions between entities of the financial system (banks) for their own purposes or in accordance with a customer's instructions; exemptions apply	0.25
Withholding tax on cash deposits, payments and withdrawals over USD5,000	0.25
Social contributions; paid by employer Prevention system (this system provides pensions and certain other benefits); on salaries up to SVC56,875 (USD6,500)	7.75
Social security; on salaries up to SVC8,750 (USD1,000)	
Maternity, sickness and professional risks	7.5
Professional training	1

#### E. Foreign-exchange controls

The currencies in El Salvador are the colon (SVC) and the US dollar. Since 2001, all transactions and operations in El Salvador can be carried out and denominated in colons or US dollars. The permanent exchange rate in El Salvador is SVC8.75 = USD1.

No restrictions are imposed on foreign-trade operations or foreign-currency transactions.

#### F. Tax treaties

El Salvador's only tax treaty in force is with Spain. The treaty is based on the Organisation for Economic Co-operation and Development model, with some minor differences.



In Spain, the treaty applies to income tax on individuals, income tax on corporations, income tax for nonresidents, net worth tax, and local income tax and net worth tax. In El Salvador, the treaty applies to income tax.

For dividends, interest and royalties paid by companies domiciled in one signatory country to residents of the other signatory country, the treaty provides for maximum tax rates in the source country of 12% for dividends and 10% for interest and royalties. If certain conditions are met, the tax rate for dividends may be reduced to 0%. The treaty also provides for a maximum rate of 10% in the source country for services, unless the individual or company that accounts for the income has a permanent establishment in the country in which the services are rendered.

# Equatorial Guinea

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## A. At a glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35
Withholding Tax (%)	
Dividends	25 (c)
Interest	25 (c)
Royalties from Patents, Know-how, etc.	10
Payments for Oil and Gas Services	5/6.25/10 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3/5 (e)

- (a) The minimum corporate tax is 3% of turnover. See Section B for details.  
 (b) In certain circumstances, the tax is deferred or reduced (see Section B).  
 (c) This tax is imposed on payments to nonresidents. For residents, the rate is 35%.  
 (d) This tax applies to payments for services performed by subcontractors of oil and gas companies. The 6.25% rate applies to residents. The 10% rate applies to nonresidents. The 5% rate applies to transportation, mobilization services (bringing a rig or vessel into Equatorial Guinea [EG]) and demobilization services (sending a rig or vessel out of EG) performed by nonresidents in EG.  
 (e) In general, companies may carry forward net operating losses for three years. However, companies operating in the hydrocarbon sector may carry forward net operating losses for five years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Equatorial Guinea (EG) companies are taxed on the territorial principle. As a result, EG companies carrying on business outside EG are not subject to corporate income tax in EG on the related profits. EG companies are those registered in EG, regardless of the nationality of the shareholders or where the companies are managed and controlled. Foreign companies engaged in business in EG are subject to corporate income tax on EG-source profits.

**Tax rate.** The corporate income tax rate is 35%.

The minimum corporate tax is 3% of annual turnover for the preceding year. The amount of this tax cannot be less than XAF800,000 (for further details regarding this tax, see *Administration*).

**Capital gains.** Capital gains are taxed at the regular corporate income tax rate. However, the tax can be deferred if all of the proceeds are used to acquire new fixed assets in EG within three years or in the event of a merger. If the business is totally or partially transferred or discontinued, only one-half of the net capital gains is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gains is taxed if the event occurs five years or more after the business is begun or purchased.

**Administration.** The tax year is the calendar year. Tax returns must be filed by 30 April. The minimum corporate tax must be declared and paid by 31 March of each year. The minimum corporate tax may be set off against the regular income tax payable for the same tax year.

Late payments and late filings of tax returns are subject to penalties. For the minimum corporate tax, the penalty equals 50% of the amount of the tax. For corporate income tax, the following are the penalties:

- XAF200,000 per month of delay for the filing of the return. However, the total amount of the penalty cannot exceed 75% of the tax owed.
- 50% of the amount not declared if the return has a shortfall that exceeds 1/10 of the declared profit. The penalty is increased to 100% in case of bad faith.

**Dividends.** Dividends paid to nonresidents are subject to a 25% withholding tax.

Resident companies normally include dividends received in taxable income. However, a parent company may exclude up to 90% of the dividends received from a 25%-owned subsidiary.

**Foreign tax relief.** EG does not provide relief for foreign taxes paid.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the general accounting chart of the Organization for Harmonization of Business Law in Africa (Organisation pour l'Harmonisation en Afrique du Droit des Affaires, or OHADA).

Business expenses are generally deductible unless specifically excluded by law. The following expenses are deductible only if they are normal and substantiated:

- Head office overhead and remuneration for certain services (studies and technical, financial or administrative assistance) paid to nonresidents
- Royalties from patents, brands, models or designs paid to a non-Economic and Monetary Community of Central Africa (Communauté Économique et Monétaire de l'Afrique Centrale, or CEMAC) corporation participating in the management of, or owning shares in, the EG corporation

The following expenses are not deductible:

- Rent expense for movable equipment paid to a shareholder holding, directly or indirectly, more than 10% of the capital
- A portion of interest paid to a shareholder in excess of the central bank annual rate and, if the shareholder is in charge of management, on the portion of the loan exceeding one-half of the capital stock
- Commissions and brokerage fees exceeding 5% of purchased imports
- Certain specific charges, penalties, corporate income tax and individual income tax
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director), gifts and subsidies

**Inventories.** Inventories are normally valued at cost. Cost must be determined under a weighted average cost price method.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. The following are the straight-line depreciation rates for major categories of assets.

<b>Asset</b>	<b>Rate (%)</b>
Buildings	5 to 20
Plant and machinery, and transportation equipment	5 to 100
Office equipment	10 to 15

**Relief for losses.** In general, companies may carry forward net operating losses for three years. However, companies operating in the hydrocarbon sector may carry forward net operating losses for five years. Losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** EG law does not allow the filing of consolidated tax returns or provide any other form of tax relief for groups of companies. However, the OHADA Uniform Act on Accounting Law contains the principle of consolidated financial statements.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax; imposed on transactions performed in EG that are not subject to the oil and gas sector withholding tax (see Section A)	
General rate	15
Reduced rate	6
Specified products	0

<b>Nature of tax</b>	<b>Rate (%)</b>
Social security contributions; imposed on salaries; paid by	
Employer	21.5
Employee	4.5
Worker Protection Fund and Professional Training Fund; imposed on salaries; paid by	
Employer (on gross salary)	1
Employee (on net salary)	0.5

### **E. Foreign-exchange controls**

The EG currency is the CFA franc BEAC (XAF).

Exchange-control regulations exist in EG for financial transfers in the franc zone which is the monetary zone including France and its former overseas colonies. In the franc zone, transactions from XAF1 million to XAF10 million require a preliminary declaration to the Ministry of Finance. Outside the franc zone, a preliminary authorization from the Ministry of Finance and Budget is required for any transaction exceeding XAF10 million.

### **F. Tax treaties**

EG has entered into the tax treaty of the former Central African Economic and Customs Union (Union Douanière et Économique de l'Afrique Centrale, or UDEAC).

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*The tax law in Estonia has been frequently amended, and further changes are likely to be introduced. Because of these frequent changes, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Tax Rate (%) 14/20 (a)  
Capital Gains Tax Rate (%) 0/14/20 (b)

Branch Tax Rate (%)	14/20 (a)
Withholding Tax (%) (d)	
Dividends	0/7 (c)
Interest	0/20 (d)
Royalties	0/10/20 (e)
Rental Payments	20 (f)
Services	0/10/20 (g)
Salaries and Wages	20

- (a) Resident companies and permanent establishments of nonresident companies are not subject to tax on their income. They are subject only to tax at a rate of 20% on the gross amount of distributed profits and certain payments made. The tax rate is applied to the net taxable amount divided by a specified percentage. A lower income tax rate of 14% is applied to regular dividends. For further details, see Section B.
- (b) Resident companies and permanent establishments of nonresident companies are not subject to tax on their capital gains received. They are subject only to tax at a rate of 14% or 20% on the gross amount of distributed profits. Nonresident companies without a permanent establishment in Estonia are subject to tax at a rate of 20% on their capital gains derived from Estonian sources. For further details, see Section B.
- (c) Withholding tax is not imposed on dividends paid to companies. Dividends are subject to 20% (or 14% in certain cases) corporate income tax at the level of the resident distributing companies only. Withholding tax at a rate of 7% is imposed on certain profit distributions to individuals. For further details, see Section B.
- (d) Interest payments are generally exempt from withholding tax. Withholding tax at a rate of 20% is imposed on interest paid to resident individuals (including payments made by contractual investment funds on the account of the funds). Interest paid to nonresidents as a result of ownership of contractual investment funds is subject to a 20% withholding tax if more than 50% of the assets owned (directly or indirectly) by the fund during a two-year period preceding the date of the interest payment is real estate located in Estonia and if the interest recipient has at least 10% ownership in the contractual investment fund at the moment of receiving the interest. Withholding tax is not imposed on interest paid from the profits of contractual investment funds if the profits have already been taxed.
- (e) Withholding tax at a rate of 10% is imposed on payments to nonresident individuals and companies. Royalties paid to companies resident in other EU countries or Switzerland are not subject to withholding tax if the provisions of the EU Interest-Royalty Directive are satisfied. A 20% withholding tax is imposed on payments to resident individuals.
- (f) Withholding tax at a rate of 20% is imposed on payments to resident individuals and nonresidents.
- (g) The 20% rate applies to payments to nonresidents from low-tax jurisdictions (a low-tax jurisdiction is a jurisdiction that does not impose a tax on profits or distributions or a jurisdiction in which such tax would be less than 1/3 of the Estonian tax payable by resident individuals on a similar amount of business income). The 10% rate applies to payments to other nonresidents for services rendered in Estonia. A 0% rate may apply under double tax treaties.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies (except for limited partnership funds) and permanent establishments of nonresidents are not subject to tax on their income. They are subject only to tax on the following payments made to resident legal entities, nonresident companies, resident individuals and nonresident individuals:

- Dividends
- Fringe benefits
- Gifts
- Donations
- Business entertainment expenses
- Distributions of profits
- Payments not related to the business of the payer

Resident companies are companies registered (effectively the same as incorporated) in Estonia. European public limited liability companies and European Cooperative Societies that have their registered office in Estonia are deemed to be Estonian tax residents. Nonresident companies without a permanent establishment in Estonia are subject to tax on their business income derived from Estonia.

**Tax rates.** Resident companies are subject to tax on the payments described in *Corporate income tax* at a rate of 20% of the gross amount of the payments. To calculate the corporate income tax for 2018, the tax rate is applied to the net taxable amount divided by 0.8.

Beginning with 2019, a lower income tax rate of 14% is applied to regular profit distributions. A regular profit distribution is the amount of the company's last three years' average dividend that is subject to tax in Estonia. The 20% tax rate is applied to the dividend amount exceeding the regular profit distribution. The dividend paid in 2018 is the first amount to be included in the three-year average calculation.

To calculate the corporate income tax on a regular dividend, the tax rate of 14% is applied to the net taxable amount divided by 0.86.

A 20% rate applies to income derived by nonresident companies without a permanent establishment in Estonia.

**Capital gains.** Capital gains derived by resident companies and permanent establishments of nonresident companies are exempt from tax until they are distributed.

Nonresident companies without a permanent establishment in Estonia are taxed at a rate of 20% on their capital gains derived from Estonian sources.

Capital gains derived from sales of shares and securities by nonresidents are exempt from tax. However, if the shares of a company, contractual investment fund or other pool of assets are sold by a nonresident with at least a 10% holding and if at the time of the sale or at any other time during the two preceding years, real estate and buildings directly or indirectly accounted for 50% or more of the assets of the company, capital gains derived from the sale of the shares are taxable.

If a resident company is deleted from the Estonian commercial register without liquidation and its economic activities are ended, the holding of a nonresident in the company is taxed as a capital gain, which is equal to the market value of the holding less the acquisition cost. The taxation is postponed if economic activities are continued through another resident company or a permanent establishment remains in Estonia.

**Administration.** The tax period is a calendar month. Tax returns must be filed and income tax must be paid by the 10th day of the following month.

*Advance rulings.* Taxable persons may apply for advance rulings from the tax authorities. Advance rulings may relate only to actual



planned transactions, as opposed to theoretical questions. The advance ruling is binding on the tax authorities and recommended for the taxable person. The taxable person must inform the tax authorities of the execution of the transaction described in the advance ruling. A time limit for the binding nature of the ruling is set based on the taxpayer's evaluation of the time needed for the execution of the transaction.

The processing of the advance ruling may be suspended if a similar transaction is simultaneously being reviewed in challenge proceedings (administrative proceedings involving a dispute between the taxpayer and the tax authorities) or court proceedings and if the expected decision in such proceedings is crucial for the determination of the tax consequences. Advance rulings may not be issued with respect to the determination of transfer prices (determination of value of transactions between related parties).

For the advance ruling to be binding, the taxpayer must present detailed and accurate information before the beginning of the relevant transactions. If the tax laws are amended after the advance ruling has been issued but before the transaction is carried out, the advance ruling is no longer binding. The deadline for issuing an advance ruling is 60 calendar days beginning with the date of acceptance of the application. By a motivated decision (a decision that includes arguments supporting the decision) in writing, the deadline may be extended for an additional 30 calendar days. A state fee is payable for the processing of the advance-ruling application.

A summary of the ruling, except for information protected by the tax secrecy clause (the tax authorities are bound to maintain the confidentiality of information concerning a taxpayer that was acquired in the course of their activities; certain exceptions apply), is published on the tax authorities' web page. The taxable person may prohibit the disclosure of specific information.

*Reporting of intra-group loans.* Resident companies and the permanent establishments of nonresidents (except public limited funds and credit institutions) are required to report the following information on loans granted to other group companies:

- Amount of the loan
- Increase in principal balance
- Extension of term or change of other material terms

The reporting must be done on a quarterly basis.

**Dividends.** Withholding tax is not generally imposed on dividends paid. A 7% withholding tax is imposed on dividends paid to individuals if the corporate income tax of 14% has been paid by an Estonian company on the share of profits out of which the dividends are paid. Payers of dividends must pay corporate income tax at a rate of 20% or 14% on the gross amount of dividends paid. This income tax is treated as a payment of income tax by the distributing company and not as tax withheld from the recipient of the dividends.

Dividends received are not included in taxable income (see *Foreign tax relief*).

The following payments are also taxable as dividends at the level of the company:

- Decrease of share capital (if the decrease exceeds paid-in equity capital)
- Redemption of shares and the payment of liquidation proceeds in an amount that exceeds the monetary and non-monetary payments made into the equity capital

**Interest.** Interest payments are generally exempt from withholding tax. Withholding tax at a rate of 20% is imposed on interest paid to resident individuals (including payments made by contractual investment funds on the account of the funds). Interest paid to nonresidents as a result of ownership of contractual investment funds is subject to a 20% withholding tax if more than 50% of the assets owned (directly or indirectly) by the fund during a two-year period preceding the date of the interest payment is real estate located in Estonia and if the interest recipient has at least 10% ownership in the contractual investment fund at the moment of receiving the interest. Withholding tax is not imposed on interest paid from the profits of contractual investment funds if the profits have already been taxed.

**Foreign tax relief.** Dividends distributed by an Estonian company and a permanent establishment of a foreign company that had received dividends from a foreign company (except from a company located in a low-tax jurisdiction) are exempt from income tax if the following conditions are satisfied:

- The dividends are received from a taxable company resident in the European Economic Area (EEA) or Switzerland, or foreign tax has been paid on or withheld from the profits out of which the dividends were paid.
- The Estonian company receiving the dividends owns at least 10% of the shares or votes of the foreign company when the dividends were received.
- The transaction or a chain of transactions is actual (a transaction or a chain of transactions is not actual if its primary purpose or one of its primary purposes is to obtain a tax advantage), and the distributing subsidiary cannot deduct the distributed profits. The tax exemption applies to the extent that a transaction or a chain of transactions is carried out for business purposes, the economic content of which is necessary and appropriate for the business activities in question.

The following profits are also exempt from tax:

- Profits allocated to a permanent establishment of an Estonian company in an EEA country or Switzerland
- Profits allocated to a permanent establishment of an Estonian company in another foreign country if foreign tax has been paid on the profits

Profits received from a permanent establishment by an Estonian resident company remain exempt if a transaction or a chain of transactions is actual (a transaction or a chain of transactions is not actual if its primary purpose or one of its primary purposes is to obtain a tax advantage).

Any foreign tax paid or withheld can be credited by an Estonian company against income tax payable on dividend distribution.

### C. Determination of trading income

Because resident companies and permanent establishments of nonresident companies registered with the Estonian authorities are not subject to tax on their income, they need not determine their trading income for tax purposes.

Profits of Estonian contractual investment funds from immovable property are taxed immediately when profits are earned.

### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on goods and services, excluding exports	9/20
Social security tax	33
Mandatory funded pension contributions	2
Land tax	0.1 to 2.5
Unemployment insurance contributions (2018 rates); paid by	
Employer	0.8
Employee	1.6

Other significant taxes include excise duty, stamp duties, heavy vehicles tax, charges on the use of Estonian natural resources and pollution charges.

### E. Miscellaneous matters

**Foreign-exchange controls.** The official currency in Estonia is the euro (EUR).

Enterprises registered in Estonia may maintain bank accounts abroad without any restrictions.

**Debt-to-equity rules.** No debt-to-equity or thin-capitalization rules exist in Estonia.

**Anti-avoidance legislation.** Under the Taxation Act, if it is evident from the content of a transaction or act that the transaction or act is performed for the purposes of tax evasion, the actual economic substance of the transaction applies for tax purposes. If a fictitious transaction is entered into in order to conceal another transaction, the provisions of the concealed transaction apply for tax purposes. Also, see *Foreign tax relief* in Section B.

**Transfer pricing.** Under a transfer-pricing measure in the income tax law, pricing between resident and nonresident associated companies should be at arm's length. The tax authorities may adjust to an arm's-length amount the profit of a company engaging in transactions with nonresident associated persons. Persons are considered associated if they have a common economic interest or if one person has a prevalent influence over another person. The transfer-pricing measure also covers transactions between nonresident legal entities and their permanent establishments in Estonia. Transfer-pricing documentation is required for the following entities:

- Entities with more than 250 employees (together with related parties)

- Entities operating in certain industries
- Entities that had turnover, including the turnover of related parties, of at least EUR50 million in the preceding financial year
- Entities that had consolidated net assets of at least EUR43 million in the preceding financial year
- Parties to a transaction if one of the parties is a resident of a low-tax jurisdiction

*Country-by-Country Reporting.* Estonia has implemented legislation requiring the parent undertakings of multinational enterprises (MNEs) with a consolidated turnover of at least EUR750 million to submit to the tax authorities' annual groupwide reports for each entity and jurisdiction in which the MNE group operates (Country-by-Country Reporting). The first report, which was for the 2016 financial year, was due on 31 December 2017. Notification about the MNE group and the reporting entity was required to be submitted by 30 June 2017.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under Estonian domestic law.

	Dividends (a)(g)	Interest (b)	Royalties (c)
	%	%	%
Albania	0	0	5
Armenia	0	0	10
Austria	0	0	5/10 (d)
Azerbaijan	0	0	10
Bahrain	0	0	0
Belarus	0	0	10
Belgium	0	0	0/10
Bulgaria	0	0	5
Canada	0	0	0/10
China (mainland)	0	0	10
Croatia	0	0	10
Cyprus	0	0	0
Czech Republic	0	0	10
Denmark	0	0	0/10
Finland	0	0	0/10
France	0	0	0/10
Georgia	0	0	0
Germany	0	0	5/10 (d)
Greece	0	0	5/10 (d)
Hungary	0	0	0/10
Iceland	0	0	0/10
India	0	0	10
Ireland	0	0	0/10
Isle of Man	0	0	0
Israel	0	0	0
Italy	0	0	0/10
Jersey	0	0	0
Kazakhstan	0	0	15
Korea (South)	0	0	5/10 (d)
Latvia	0	0	5/10 (d)
Lithuania	0	0	0
Luxembourg	0	0	5/10 (d)
Macedonia	0	0	0
Malta	0	0	10

	<b>Dividends (a)(g)</b>	<b>Interest (b)</b>	<b>Royalties (c)</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Mexico	0	0	10
Moldova	0	0	10
Netherlands	0	0	0/10
Norway	0	0	0/10
Poland	0	0	10
Portugal	0	0	10
Romania	0	0	10
Serbia	0	0	5/10 (e)
Singapore	0	0	7.5
Slovak Republic	0	0	10
Slovenia	0	0	10
Spain	0	0	0/10
Sweden	0	0	0/10
Switzerland	0	0	0/10
Thailand	0	0	8/10 (d)
Turkey	0	0	5/10 (d)
Turkmenistan	0	0	0
Ukraine	0	0	10
United Arab Emirates	0	0	0
United Kingdom	0	0	0/10
United States	0	0	5/10 (d)
Uzbekistan	0	0	0
Non-treaty jurisdictions	0	0	10/20 (f)

- (a) Dividends paid to corporations are not subject to withholding tax under Estonian domestic law.
- (b) Interest is not subject to withholding tax under Estonian domestic law except for interest paid in certain circumstances to nonresidents as a result of ownership in foreign contractual investment funds (see Section B).
- (c) Royalties paid to a company resident in another EU country or Switzerland are not subject to withholding tax if the provisions of the EU Interest-Royalty Directive are satisfied.
- (d) The lower rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
- (e) The lower rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, but excluding software payments.
- (f) The 20% rate applies to rental payments to nonresidents. The 10% rate applies to royalties, including royalties paid for the use of industrial, commercial or scientific equipment.
- (g) Withholding tax at a rate of 7% is imposed on certain profit distribution to individuals (for further details, see Section B). This withholding tax rate is reduced to 5% (Bulgaria, Israel and Macedonia) and to 0% (Bahrain, Isle of Man, Jersey, Mexico and the United Arab Emirates).

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## A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	20
Withholding Tax (%)	
Dividends	0 (a)
Interest	10
Royalties from Patents, Know-how, etc.	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	4 (b)

(a) Effective from 1 August 2017, all dividends distributed are exempt from income tax.

(b) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to income tax on worldwide assessable income. Nonresident companies carrying on business through a branch pay tax only on Fiji-source income. A resident company is a company incorporated in Fiji. A company not incorporated in Fiji is considered a resident company if it carries on business in Fiji and has either its central management or control in Fiji or its voting power controlled by shareholders who are residents of Fiji.

**Tax rates.** In general, resident companies and branches of non-resident companies are subject to tax at a rate of 20%. Companies that are listed on the South Pacific Stock Exchange and have a resident shareholding of at least 40% are subject to tax at a rate of 10%. Foreign companies that establish their headquarters in Fiji or relocate their headquarters to Fiji are subject to tax at a rate of 17%.

Tax holidays are available to various enterprises and for various activities, including qualifying hotel projects, companies granted a tax-free regions license, qualifying information communications technology operators, approved activities in commercial agricultural farming and agro-processing, approved activities with respect to processing agricultural commodities into biofuels, approved activities in renewable energy projects and power cogeneration, medical services, residential housing development and audiovisual activities. Effective from 1 January 2017, certain licenses for hotel tax concessions are no longer granted.

**Capital gains.** The rate of the capital gains tax is 10%. Effective from 1 January 2016, the capital gains tax is administered through the Income Tax Act 2015. Previously, capital gains tax was administered through the Capital Gains Tax Decree 2011. Capital gains tax applies only to non-depreciable capital assets, while gains on depreciable capital assets are subject to income tax at a rate of 20%.

**Administration.** The Fiji tax year is the calendar year. However, for most companies, an alternative fiscal year is normally allowed. Tax for any fiscal year is payable in three installments according to the following schedule:

- 33.3% of the preceding year's tax liability by the end of the sixth month
- Another 33.3% of the preceding year's liability by the end of the ninth month
- Another 33.4% of the preceding year's liability on or before the balance date

Companies are required to file tax returns within three months after the fiscal year-end, but extensions of an additional two, four or six months are granted to tax agents, depending on the level of taxable income.

**Dividends.** Effective from 1 August 2017, all dividends distributed are exempt from income tax.

**Foreign tax relief.** Income derived by Fiji residents from treaty countries is subject to Fiji income tax, but credit is given for taxes paid, up to the amount of Fiji tax applicable on the same income.

Income derived from non-treaty countries is exempt to the extent that it was subject to income tax in such countries.

### **C. Determination of trading income**

**General.** Income is defined as the aggregate of all sources of income, including annual net profit from a trade, commercial, financial or other business.

Expenses are deductible to the extent incurred in producing taxable income. Expenditures of a personal or capital nature are generally not deductible. Deductions are allowable for certain expenditures incurred in the agricultural and mining industries. Experimentation and research and development expenses incurred in projects connected with the taxpayer's business are deductible.

**Inventories.** Fiji does not have any specific measures for stock valuation for the purposes of year-end income determination.

Valuations are generally made at cost or market value on a first-in, first-out (FIFO) or actual basis. The tax authorities have discretion to make adjustments if inventories are sold or otherwise disposed of at below market value.

**Provisions.** Provisions are not deductible until payments are made or, in the case of doubtful trading debts, until the debts are considered totally irrecoverable and have been written off.

**Tax depreciation.** The following are some of the annual depreciation rates prescribed by law for 2016 and future years.

Asset	Rate	
	Straight line (%)	Diminishing value (%)
Commercial and industrial buildings	1.25 to 7	—
Office equipment	12.5	20
Heavy commercial motor vehicles	25	40
Passenger motor vehicles	20	30
Plant and machinery	12.5	20

Tax depreciation is subject to recapture on the sale of an asset, to the extent the sales proceeds exceed the tax value after depreciation. The amount recaptured may be set off against the cost of a replacement asset; otherwise, it is taxed as ordinary income in the year of sale. In addition, a capital gain on the sale of a capital asset is subject to capital gains tax.

**Relief for losses.** Losses may be carried forward for four years. Losses incurred as a result of claiming the standard allowance are available for carryforward for a period of eight years. The standard allowance is one of the hotel incentives. It allows a hotel owner a 25% deduction with respect to capital expenditure on construction, renovation or refurbishment of a hotel. Losses are not available for carryforward if the taxpayer's business in the year in which relief is claimed is substantially different from its business in the year in which the loss was incurred.

**Groups of companies.** No group relief measures exist.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; imposed on virtually all goods and services and residential rent, if annual gross turnover exceeds FJD100,000; financial services (except insurance services) and gambling are exempt	9
Service turnover tax	10
Environmental levy; imposed on prescribed services subject to the service turnover tax	6
Fringe benefit tax	20
Social security contributions to the national provident fund, paid by	
Employer	10
Employee (maximum rate)	8



## E. Miscellaneous matters

**Foreign-exchange controls.** Most remittances abroad require approval from the Reserve Bank of Fiji. Depending on the level of the country's foreign-exchange reserve, further restrictions may be imposed on the nature, timing and amount of remittances that can be made.

**Debt-to-equity ratios.** An entity may have offshore borrowings up to FJD5 million per year without the prior approval of the Reserve Bank of Fiji. Foreign-owned companies may borrow locally any amount if a total debt-to-equity ratio of 3:1 is maintained. The total debt consists of local and offshore borrowings. Equity includes paid-up capital, shareholders' non-interest-bearing loans, retained earnings and subordinated interest-bearing loans.

**Anti-avoidance legislation.** Contracts, agreements or arrangements entered into that have the effect of altering the incidence of any tax may be rendered void by the tax authorities. However, the act does not allow for restructuring.

## F. Treaty withholding tax rates

	Dividends*	Interest	Royalties
	%	%	%
Australia	0	10	15
India	0	10	10
Japan	0	10	15
Korea (South)	0	10	10
Malaysia	0	15	15
New Zealand	0	10	15
Papua New Guinea	0	10	15
Singapore	0	10	10
United Arab Emirates	0	0	10
United Kingdom	0	10	15
Non-treaty jurisdictions	0	10	15

\* Effective from 1 August 2017, all dividends distributed are exempt from income tax.

# Finland

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## A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20 (a)
Branch Tax Rate (%)	20

**Withholding Tax (%) (b)**

Dividends	0/15/20 (c)
Interest	0/20 (d)
Royalties	20 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10 (f)

(a) See Section B.

(b) The withholding taxes generally apply only to payments to nonresidents. The rates may be reduced by tax treaties.

(c) No withholding tax is imposed on dividends paid to a parent company resident in another European Union (EU) country if the recipient of the dividends satisfies the following conditions:

- It holds directly at least 10% of the capital of the payer.
- The recipient of the dividend is a company qualifying under Article 2 of the EU Parent-Subsidiary Directive.

Companies resident in EU or European Economic Area (EEA) member states are generally eligible for the tax exemption for dividends under the same conditions as comparable Finnish companies if the Finnish withholding taxes cannot be credited in the company's state of residence and if sufficient exchange of information may take place between Finland and the state of residence of the recipient. Dividends paid to a company resident in an EU/EEA member state are subject to withholding tax at a rate of 15% if the shares constitute investment assets of the recipient company and the recipient owns less than 10% of the Finnish company.

(d) Interest paid to nonresidents is generally exempt from tax unless the loan may be deemed comparable to an equity investment. In general, interest paid to resident individuals is subject to a final withholding tax of 30% if it is paid on bonds, debentures and bank deposits.

(e) No withholding tax is imposed on royalties paid to nonresidents if all of the following conditions are satisfied:

- The beneficial owner of the royalties is a company resident in another EU country or a permanent establishment located in another EU country of a company resident in an EU country.
- The recipient is subject to income tax in its home country.
- The company paying the royalties, or the company whose permanent establishment is deemed to be the payer, is an associated company of the company receiving the royalties, or of the company whose permanent establishment is deemed to be the recipient.

A company is an associated company of another company if any of the following apply:

- The first company has a direct minimum holding of 25% in the capital of the second company.
- The second company has a direct minimum holding of 25% in the capital of the first company.
- A third company has a direct minimum holding of 25% in both the capital of the first company and the capital of the second company.

Royalties paid to resident individuals are normally subject to salary withholding.

(f) See Section C.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Companies resident in Finland are taxed on their worldwide income. Nonresident companies are taxed only on their Finnish-source income. Resident companies are generally those incorporated in Finland.

**Rate of corporate income tax.** The corporate income tax rate is 20%.

**Capital gains.** Gains derived by companies from the disposal of business assets are treated as ordinary business income. Gains derived from the disposal of machinery and equipment are deducted from the remaining book value of similar assets, reducing the depreciable basis of the remaining assets. Gains derived from the

disposal of buildings are calculated separately for each building by deducting the remaining acquisition cost from the sales price.

Gains derived by corporate entities, other than companies engaged in private equity investment activities, from the sale of shares are exempt from tax if all of the following conditions are satisfied:

- The shares are part of the seller's fixed assets.
- The seller has owned at least 10% of the shares in the company, including the shares sold, for an uninterrupted period of at least one year.
- The shares sold are shares in either a Finnish company, a company as defined in Article 2 of the EU Parent-Subsidiary Directive or a company resident in a country with which Finland has entered into a tax treaty that applies to dividends distributed by the company whose shares are sold.
- The shares are not shares in a real estate company or a company de facto engaged in the holding or administering of real estate.

Even if the above conditions are satisfied, a sale of shares under certain circumstances may result in the generation of taxable income. If the acquisition cost of the shares has at any time been depreciated on the grounds that the fair market value of the shares has declined or if a reserve has been deducted, this part of the consideration received (that is, the deducted depreciation or reserve) is taxable income. The same principle applies if the shares have at any time been the subject of a transaction between related companies and if this transaction resulted in a tax-deductible loss. Under these circumstances, the consideration received for the shares is taxable up to the amount of the earlier tax-deductible loss.

A loss incurred on the sale of shares is not tax-deductible if a gain on the sale of such shares would have been exempt from tax. If the above-mentioned requirements of tax exemption are not fulfilled, a loss from sale of shares that are part of seller's fixed assets is deductible from profit resulting from the sale of such shares during the five years following the loss-making year.

The participation exemption rules concerning capital gains, which are described above, do not apply to shares owned by capital investors. For capital investors, capital gains derived from the sale of shares are taxable income and capital losses incurred on shares are tax-deductible.

**Administration.** Companies must file the corporate income tax return within four months after the end of their accounting period. Tax return filing must be completed electronically. Nonresident companies carrying out business activities in Finland without triggering a permanent establishment should also file a tax return with a report on its activities carried out in Finland.

Corporate income tax is prepaid in installments during the accounting period, and additional advance taxes may be applied for and paid without accruing interest during the first month following the end of the financial year. After the tax return is filed and processed by the tax authorities, a final settlement or refund is made. The tax assessment is completed within 10 months after the end of the accounting period. If the taxes assessed exceed the total of the prepaid installments, interest at a rate of 2% (for 2017)

is added to the final assessment. The interest is calculated from the beginning of the second month following the end of the financial year. If the prepaid taxes exceed the final assessment, a refund with interest at a rate of 0.5% (for 2017) is paid.

The tax authorities have the right to carry out tax audits within five years from the end of the assessment year. For assessments concluded in 2017 or later, the statute of limitations is generally reduced to three years. However, the statute is six years in certain specific situations (for example, transfer-pricing matters or intra-group financing or restructuring). Under extraordinary circumstances, these time limits may be extended by a year. A company's 2015 fiscal year is open for adjustment until the end of December 2021; however, the 2016 fiscal year should only be open for adjustment until the end of December 2020.

All major corporations can expect a tax audit, usually every fifth year to seventh year.

As a result of an audit, a penalty of up to 30% of the adjusted amount of taxable income may be imposed on a corporation. A penalty charge can be added even though the adjustment does not result in additional income taxes (a change in the taxable income amount is sufficient). Also, interest is charged on the additional tax (but not on the penalties) at a specified rate (7% for 2017). Neither the penalty nor the interest is deductible when calculating taxable income.

**Dividends.** Under the current rules, a dividend distribution by a Finnish company cannot result in liability for the distributing company to pay additional income taxes on the basis of the distribution alone. This applies to dividends distributed to both Finnish residents and nonresidents.

A dividend received by a Finnish corporate entity from a company resident in Finland or from a "company," as defined in Article 2 of the EU Parent-Subsidiary Directive, is usually exempt from tax. The exemption also applies to dividends received from any other company resident in another EU/EEA country if the company paying the dividends is liable to pay income tax of at least 10%. If a Finnish corporate entity receives a dividend from a company resident in a non-EU/EEA country, the dividend is usually fully (100%) taxable.

The dividend is also fully taxable if the company paying the dividend can deduct the dividend in its tax calculation.

By exception, a dividend received by an unlisted Finnish corporate entity from a listed company is fully (100%) taxable, unless the listed company is resident in Finland or in an EU/EEA country and the recipient owns at least 10% of the shares in the distributing company.

**Distribution of funds from invested unrestricted equity capital.** The return of invested unrestricted equity to shareholders in listed companies is taxed as dividend income, effective from 1 January 2014. The return of the invested unrestricted equity from an unlisted company continues to be treated as a repayment of capital if the recipient can show that the recipient has made an investment to the company and that the invested capital is returned within

10 years from the time the investment was made. The new provisions apply to unlisted companies, effective from 1 January 2016, if the investment was made before 1 January 2014.

**Foreign tax relief.** If no tax treaty is in force, domestic law provides relief for foreign tax paid. The credit is granted if the recipient Finnish corporation pays corporate income tax on qualifying foreign-source income in the same year. If the Finnish company does not have any corporate income tax liability that year, no credit is granted. Foreign tax credits may be carried forward five years under certain conditions. Foreign tax credits may not be carried back.

Under tax treaties, foreign tax is most frequently relieved by exemption or a tax credit. With certain countries, tax sparing may also be granted.

### C. Determination of trading income

**General.** Taxable income is closely tied to the income in the statutory accounts. Most of the deductions must be booked in the statutory accounts to be valid for tax purposes. As stated in the tax law, the definitions of both income and expenses are general and broad and include all expenses that are incurred to maintain or create new taxable income.

In general, expenses are deductible if they are incurred for the purpose of acquiring or maintaining taxable income. For the 2014 financial year, entertainment expenses are fully nondeductible for corporate income tax purposes. However, effective from 1 January 2015, 50% of entertainment expenses is deductible for tax purposes. Expenses incurred to obtain tax-free income, as well as income taxes and penalties, are not deductible.

**Inventories.** Inventories are valued at the lowest of cost, replacement cost or market value on a first-in, first-out (FIFO) basis. Companies may allocate fixed manufacturing overhead to the cost of inventory for accounting and tax purposes if certain conditions are met. Obsolete inventories should be provided for or discarded.

**Provisions.** In general, the possibility of establishing provisions or reserves for tax purposes is relatively limited. Deductions of warranty reserves and provisions for doubtful debts are limited to the amount of actual expected costs. These provisions are only available for certain types of taxpayers under certain conditions.

A corporation may create a replacement reserve if it derives a capital gain on the disposal of its business premises or if it receives insurance compensation for a fixed asset because of a fire or other accident. The replacement reserve must be used to buy new depreciable assets during the next two years. This time limit can be extended on application.

If created from the profit on the sale of a previous office, a replacement reserve can only be used to buy a building or shares that entitle the holder to the use of office space and to the maintenance of that space.

Inventory and operating reserves are no longer allowed.

**Tax depreciation.** The Business Tax Act provides detailed rules for the depreciation of different types of assets. The depreciable base is the acquisition cost, which includes related levies, taxes and installation costs. The depreciation expense for tax purposes is not permitted to exceed the cumulative depreciation expense reported in the annual financial statements in the current year or in previous years. Plant machinery, equipment and buildings are generally depreciated by using the declining-balance method.

Machinery and equipment are combined into a pool for depreciation purposes. Companies may vary the annual depreciation in this pool from 0% to 25%. All machinery and equipment with a life of more than three years are classified as depreciable assets. The depreciable basis is decreased by proceeds from sales of assets in the pool. If the sales price exceeds the depreciable basis, the excess is added to taxable income. If it can be proven that the remaining balance of all machinery and equipment is higher than the fair market value as a result of injury, damage or a similar circumstance, additional depreciation may be claimed for the balance of the machinery.

Equipment with a short life (up to three years), such as tools, is usually expensed. Equipment with an acquisition price of less than EUR850 may also be expensed, with a maximum deduction of EUR2,500 per year.

The maximum depreciation rates for buildings vary from 4% to 20%. The depreciation percentage depends on the use of the building. The depreciation rate for factories, warehouses, shops and similar buildings is 7%.

Intangible assets, such as patents and goodwill, are depreciated using the straight-line method over 10 years, unless the taxpayer demonstrates that the asset's useful life is less than 10 years.

**Relief for losses.** Losses may be carried forward for 10 years. However, a direct or indirect change in the ownership of the company involving more than 50% of the shares results in the forfeiture of the right to set off losses against profits in future years. An indirect change occurs if more than 50% of the shares in the parent company owning at least 20% of the shares of the loss-making company are transferred and accordingly all of the shares owned by the parent company in the loss-making company are deemed to have changed ownership. An application may be made to the tax office for a special permit for reinstating the right to use the tax losses. The tax office has extensive discretion as to whether to grant the permit.

Losses may not be carried back.

**Groups of companies.** Corporations are taxed individually in Finland. No consolidated tax returns are applicable. A kind of group taxation is, however, introduced by allowing group contributions for limited liability companies. Group contributions are tax-deductible for the payer and included in the income of the recipient. By transfers of these contributions, income can be effectively allocated among group companies in Finland. To qualify, both companies must be resident in Finland, and at least 90% ownership, direct or indirect, must exist from the beginning of the tax year. Both companies must carry out business activities and be

taxed under the Business Tax Act. Also, they must have the same accounting period. The taxpayer cannot create a tax loss by making group contributions.

If the local tax authorities allow tax losses to be deducted regardless of a change in ownership, these losses may generally not be covered by group contributions. However, on application, the local tax authorities may allow such tax losses to be covered by group contributions only in special circumstances.

If a corporate entity or a group of corporate entities owns at least 10% of the share capital of another company, the losses of any receivables from the other company (other than sales receivables) are not tax-deductible. With the exception of the group contributions described above, the same rule applies to all other financial assistance granted to the other company without compensation that is intended to improve the other company's financial situation.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on the sale, rental, importation or repair of goods, and on services unless specifically exempt; exempt services include financial services and insurance services	24
Transfer tax on the purchase of real estate located in Finland; calculated as a percentage of the purchase price	4
Transfer tax on the purchase of shares relating to real estate; calculated as a percentage of the purchase price or other consideration	2
Transfer tax on the purchase of shares in Finnish companies; calculated as percentage of the purchase price or other consideration	1.6
Social security taxes, paid by the employer as a percentage of salaries	
Health insurance premium (2018 rate)	0.86
Employment pension premium; average rate (2018)	17.75
Group life, accident and unemployment insurance premium, on total salaries paid by the employer (average rates for 2018)	
Up to EUR2,083,500	0.65
Amount in excess of EUR2,083,500	2.60

#### E. Miscellaneous matters

**Foreign-exchange controls.** No restrictions are imposed on the repatriation of earnings, interest and royalties abroad. The commercial bank involved in the transfer must notify only the Bank of Finland for statistical purposes.

**Transfer pricing.** Related-party transactions are accepted if they are carried out at arm's length. Corporate income can be adjusted if the transactions are not as they would have been between independent parties.



Under Finnish transfer-pricing rules, group companies must prepare transfer-pricing documentation if specific circumstances exist. The aim of the documentation is to prove the arm's-length nature of the prices used in cross-border intercompany transactions. On request of the tax authorities, the transfer-pricing documentation for a specified fiscal year must be submitted within 60 days, but not earlier than 6 months after the end of the financial year. Additional clarifications concerning the documentation must be submitted within 90 days of a request by the tax authorities.

A tax penalty of up to EUR25,000 can be imposed for a failure to comply with the transfer-pricing documentation requirements, even if the pricing of the transactions was at arm's length. The adjustment of taxable income may also result in a separate tax penalty of up to 30% of the adjusted amount of income as well as penalty interest.

Country-by-Country Reporting obligations are also implemented under Finnish domestic law, with an annual obligation to file a notification regarding the reporting group entity with the Finnish tax authorities.

**Debt-to-equity rules.** Direct investments are generally made with a combination of equity and foreign or domestic loans. Finland does not have any specific thin-capitalization legislation. The law does not provide a specific debt-to-equity ratio, and a very limited amount of case law exists. Interest determined on an arm's-length basis on a loan obtained for business purposes is normally fully deductible. In the case of insufficient business reasons for the loan, the deductibility of the interest might be challenged through application of the general anti-avoidance provision.

Restrictions on the tax deductibility of interest expenses entered into force on January 2013 and were applied for the first time with respect to taxation for the 2014 tax year. They do not currently apply to financial, insurance and pension institutions or to mutual real estate and housing companies. However, legislative changes regarding this matter have been proposed. The restrictions do not apply if the taxpayer establishes that the ratio of its book equity to total assets in the financial statements is equal to or higher than the corresponding ratio in the consolidated financial statements of its ultimate parent company.

Under the new provisions, interest expenses are fully deductible against interest income. Any interest expenses exceeding interest income (that is, net interest expenses) may be fully deducted if the total amount of net interest expenses does not exceed EUR500,000 during the fiscal year.

If the EUR500,000 threshold is exceeded, net interest expenses may be deducted only to the extent that they do not exceed 25% of the taxable business profit (calculated under Section 3 of the Finnish Business Income Tax Act) after adding back the following:

- Interest expenses
- Tax depreciation
- Group contributions received (group contributions paid are subtracted)

The maximum amount of nondeductible net interest expenses corresponds to the amount of net interest expenses incurred between related parties.

The nondeductible amount of interest expenses may be deducted during subsequent years within the respective limitations for each tax year.

**Controlled foreign companies.** Under Finland's controlled foreign company (CFC) legislation, a Finnish shareholder is subject to tax on its respective share of the CFC's income if the taxpayer, alone or together with certain related parties, directly or indirectly owns at least 25% of the CFC's share capital or is entitled to at least 25% of the return on capital of the company.

A company is considered to be "controlled" if one or more Finnish tax residents directly or indirectly own at least 50% of the share capital or voting power of the company or if one or more Finnish tax residents is entitled to at least 50% of the return on capital of the company.

A foreign permanent establishment (PE) of a foreign corporation is categorized as a CFC under the same conditions as subsidiaries if the foreign PE is located in a different state than the foreign corporation and if the income of the foreign PE is not taxed in the residence state of the foreign corporation. A transitional period applied until 1 January 2015 to PEs that already existed before 31 December 2007.

To determine whether a company is a CFC, the steps described below must be followed.

It first must be determined whether the company is controlled by Finnish residents. If not, the CFC rules do not apply. Under the act, a company is controlled by Finnish residents if residents of Finland for tax purposes own more than 50% of the share capital or the voting shares of the company, or if certain other circumstances exist.

If the company is controlled by Finnish residents, the income of the company must be analyzed. The CFC rules do not apply to income derived from following activities if the activities are carried out in the state of residence of the company:

- Industrial production or similar production activity
- Shipping
- Sales or marketing activity regarding the first two categories of activities
- A company deriving its income as payments from group companies that are carrying on any of the activities mentioned above and that are resident in the same country as the company itself

If the company is not excluded from the CFC rules based on the nature of its income, it must be determined if the company is resident for tax purposes in a tax treaty country.

For a company not resident for tax purposes in a tax treaty country, it must be determined if the effective tax rate (the effective tax

rate is computed by determining the tax on taxable income calculated according to Finnish tax rules) of the company is at least 3/5 of the Finnish corporate tax rate of 20% (that is, 12%). If it is determined that the effective tax rate is below 12%, the CFC rules apply to the company.

For a company resident in a tax treaty country for tax purposes, if the effective tax rate is below 12%, the theoretical tax rate in the treaty country (corporate income tax rate according to the tax law of the country) must be determined. If the theoretical tax rate is at least 75% of the 20% corporate tax rate in Finland (that is, 15%), it must be determined whether the company has taken advantage of any special tax reliefs.

Special tax reliefs are reliefs that are not available to all companies in the company's country of residence. These reliefs include reliefs for foreign companies and reliefs for all companies based on location. If the company in a tax treaty country has not taken advantage of special tax reliefs and if the overall tax rate in its home country is at least 15%, the CFC rules do not apply. Such company is not subject to the CFC rules even if the effective tax rate for the company is less than 12%.

If the company has taken advantage of special tax reliefs, it must be determined whether the effective tax rate for the company is at least 12%. If yes, the CFC rules do not apply. However, the CFC rules do not apply to a company that has taken advantage of special tax reliefs if it is established in the following states:

- An EU or EEA member state, provided that the company is genuinely established in its state of residence and is carrying on genuine economic activities in this state (substance requirement).
- A tax treaty state with sufficient information exchange, excluding countries mentioned in the black list, provided that the company satisfies the substance requirement mentioned above. The black list is a tentative list of tax treaty countries that are considered to have substantially lower corporate income tax rates than Finland. The list includes Barbados, Bosnia and Herzegovina, Georgia, Kazakhstan, Macedonia, Malaysia, Moldova, Montenegro, Serbia, Singapore, Switzerland, Tajikistan, the United Arab Emirates, Uruguay and Uzbekistan.

**Anti-avoidance legislation.** Under a general anti-avoidance provision in the law, the tax authorities may look through certain transactions and apply substance over form in assessing taxes. The general anti-avoidance provision may also be applied if insufficient business reasons for a transaction are presented.

## F. Treaty withholding tax rates

The rates in the table below reflect the current double tax treaty rates. As a result of domestic legislation, lower rates may apply. Certain other exceptions may also apply. Please consult your local tax specialist for more information.

	<b>Dividends (aa)</b>	<b>Interest (w)</b>	<b>Royalties (cc)</b>
	%	%	%
Argentina	10/15 (b)	15 (ff)	3/5/10/15 (gg)
Armenia	5/15 (b)	5	5/10
Australia	0/5/15 (ll)	0/10 (p)	5
Austria	0/10 (ee)	0	5
Azerbaijan	5/10 (h)	0/10 (mm)	5/10 (z)
Barbados	5/15 (f)	5	0/5 (c)
Belarus	5/15 (b)	5	5
Belgium	5/15 (b)	0/10 (nn)	0/5 (c)
Bosnia and Herzegovina (v)	5/15 (b)	0	10
Brazil (qq)	20/30	20/30	20/30
Bulgaria	10	0	0/5 (c)
Canada	5/15 (f)	0/10 (mm)	0/10 (e)
China (mainland)	5/10 (b)	10	10
Croatia (v)	5/15 (b)	0	10
Cyprus	5/15 (f)	0	0
Czech Republic	5/15 (b)	0	0/1/5/10 (hh)
Denmark	0/15 (ee)	0	0
Egypt	10	0	25
Estonia	5/15	10	0
France	0	0/10 (p)	0
Georgia	0/5/10 (y)	0	0
Germany	5/15 (bbb)	0	0
Greece	13	10	0/10 (c)
Hungary	5/15 (b)	0	0/5 (c)
Iceland	0/15 (ee)	0	0
India	10	0/10 (q)	10
Indonesia	10/15 (b)	10	10/15 (g)
Ireland	0	0	0
Israel	5/15 (f)	10	10
Italy	10/15 (rr)	0/15 (mm)	0/5 (j)
Japan	10/15 (k)	10	10
Kazakhstan	5/15 (f)	10	0/10 (ss)
Korea (South)	10/15 (b)	10 (i)	10
Kosovo (v)	5/15 (b)	0	10
Kyrgyzstan	5/15 (b)	0/10 (tt)	5
Latvia	5/15 (b)	10	5/10 (x)
Lithuania	5/15 (b)	10	5/10 (x)
Luxembourg	5/15 (b)	0	0/5
Macedonia	0/15 (u)	10	0
Malaysia	5/15 (ee)	15 (i)	5
Malta	5/15 (b)	0	0
Mexico	0	0/10/15	10
Moldova	5/15 (b)	0/5 (jj)	3/7
Montenegro (v)	5/15 (b)	0	10
Morocco	7/10 (b)	10	10
Netherlands	0/15 (n)	0	0
New Zealand	15	10	10
Norway	0/15 (ee)	0	0
Pakistan	12/15/20 (ii)	10/15 (p)	10
Philippines	15/20/30 (ww)	0/15 (mm)	15/25 (m)
Poland	5/15 (b)	0/5 (uu)	5
Portugal (yy)	10/15 (b)	15	10

	<b>Dividends (aa)</b>	<b>Interest (w)</b>	<b>Royalties (cc)</b>
	%	%	%
Romania	0/5 (d)	0/5 (jj)	2.5/5 (l)
Russian Federation	5/12 (s)	0	0
Serbia (v)	5/15 (b)	0	10
Singapore	5/10 (f)	5	5
Slovak Republic	5/15 (b)	0	0/1/5/10 (pp)
Slovenia	5/15 (b)	5	5
South Africa	5/15 (ee)	0	0
Spain (zz)	10/15 (b)	10	5
Sri Lanka (yy)	15	0/10 (i)	10
Sweden	0/15 (ee)	0	0
Switzerland	0/10 (ee)	0	0
Tajikistan	5/15 (b)	0/10 (uu)	5
Tanzania	20	15	20
Thailand	15/20/30 (o)	10/25 (p)	15
Turkey	5/15 (b)	0/5/10/15 (vv)	10
Turkmenistan	5/15 (b)	10 (aaa)	10
Ukraine	5/15 (a)	0/5/10 (xx)	0/5/10 (dd)
United Arab Emirates	0	0	0
United Kingdom	0	0	0
United States	0/5/15 (f)(r)	0	0
Uruguay	5/15 (b)	10	5/10 (oo)
Uzbekistan	5/15 (f)	0/5 (jj)	0/5/10 (kk)
Vietnam	5/10/15 (bb)	10	10
Zambia	5/15 (b)	15	0/5/15 (t)
Non-treaty jurisdictions	20	20	20

- (a) The lower rate applies if the recipient is a corporation owning at least 20% of the payer.
- (b) The lower rate applies if the recipient is a corporation owning at least 25% of the payer.
- (c) The rate is 0% for royalties received for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or radio broadcasting.
- (d) The lower rate applies if the recipient is a corporation owning at least 15% of the payer.
- (e) Copyright royalties for the production or reproduction of any literary, dramatic, musical or artistic work (other than motion picture films) are exempt from tax.
- (f) The lower rate applies if the recipient is a company owning at least 10% of the voting power of the payer.
- (g) The rate is 10% for royalties for copyrights of literary, artistic or scientific works, including films and tapes; otherwise, the rate is 15%.
- (h) The 5% rate applies if the recipient is a corporation owning at least 25% and more than EUR200,000 of the capital of the payer.
- (i) Interest on certain loans is exempt from withholding.
- (j) The rate is 0% for royalties received for the use of or the right to use any copyright of literary, artistic or scientific work, excluding cinematographic films or films and tapes for television or radio broadcasting.
- (k) The 10% rate applies if the recipient has owned at least 25% of the voting rights of the payer for at least six months before the end of the payer's fiscal year. The 15% rate applies to other dividends.
- (l) The lower rate applies to royalties paid for the use of computer software and for equipment leasing.
- (m) The rate is 15% for royalties paid by an enterprise registered with and engaged in preferred areas of activities, for royalties for cinematographic films or tapes for television or broadcasting, and for royalties for the use of, or the right to use, any copyright of literary, artistic or scientific work.

- (n) The 0% rate applies if the recipient is a corporation owning at least 5% of the payer.
- (o) The 20% rate applies if the recipient of the dividends is a corporation that owns at least 25% of the payer. The 15% rate applies to dividends paid by industrial enterprises to recipients described in the preceding sentence. Otherwise, the domestic rates of 20% or 30% apply.
- (p) The lower rate applies if the recipient is a financial institution.
- (q) A lower tax rate applies in certain cases. Please consult the tax treaty.
- (r) The 0% rate applies if the receiving company owns at least 80% of the voting power of the paying company for at least 12 months and qualifies under certain provisions of the limitation-on-benefits article of the treaty.
- (s) The 5% rate applies if, at the time the dividend is payable, the recipient of the dividends owns at least 30% of the share capital of the payer and has invested in the payer foreign capital in excess of USD100,000. The 12% rate applies to other dividends.
- (t) The 0% rate applies to royalties paid for copyrights of literary, artistic or scientific works. The 5% rate applies to royalties paid for the use of cinematographic films and tapes and films for television or radio broadcasting. The 15% rate applies to royalties paid for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- (u) The 0% rate applies if the recipient of the dividends owns at least 10% of the voting rights of the payer. The 15% rate applies to other dividends.
- (v) Finland is honoring the Yugoslavia treaty with respect to Bosnia and Herzegovina, Croatia, Kosovo, Montenegro and Serbia.
- (w) Under Finnish domestic law, interest paid to nonresidents is generally exempt from tax.
- (x) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (y) The 0% rate applies if, at the time the dividend is payable, the recipient of the dividends owns at least 50% of the share capital of the payer and has invested in the payer foreign capital of EUR2 million or more. The 5% rate applies if the recipient of the dividends owns at least 10% of the share capital of the payer and has invested in the payer foreign capital in excess of EUR100,000. The 10% rate applies to other dividends.
- (z) The rate is 10% for royalties received for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or radio broadcasting. For other royalties, the rate is 5%.
- (aa) No withholding tax is imposed on dividends paid to a parent company resident in another EU country if the recipient of the dividends satisfies the following conditions:
- It holds directly at least 10% of the capital of the payer.
  - The recipient of the dividend is a company in a form mentioned in the EU Parent-Subsidiary Directive.
- Companies resident in EU or EEA states are generally eligible for the tax exemption for dividends under the same conditions as comparable Finnish companies if the Finnish withholding taxes cannot be credited in the company's state of residence.
- (bb) The 5% rate applies if the recipient is a corporation owning at least 70% of the share capital of the payer. The 10% rate applies if the recipient is a corporation owning at least 25%, but less than 70%, of the share capital of the payer. The 15% rate applies to other dividends.
- (cc) No withholding tax is imposed on royalties paid to nonresidents if all of the following conditions are satisfied:
- The beneficial owner of the royalties is a company resident in another EU country or a permanent establishment located in another EU country of a company resident in an EU country.
  - The recipient is subject to income tax in its home country.
  - The company paying the royalties, or the company whose permanent establishment is deemed to be the payer, is an associated company of the company receiving the royalties, or of the company whose permanent establishment is deemed to be the recipient.
- A company is an associated company of another company if any of the following apply:
- The first company has a direct minimum holding of 25% in the capital of the second company.
  - The second company has a direct minimum holding of 25% in the capital of the first company.
  - A third company has a direct minimum holding of 25% in both the capital of the first company and the capital of the second company.

- (dd) The 0% rate applies to royalties for software programs, patents, models or drawings. The 5% rate applies to other industrial royalties. The 10% rate applies to royalties for literary, artistic or scientific works, including cinematographic films or tapes for television or radio broadcasting.
- (ee) The lower rate applies if the recipient is a corporation owning at least 10% of the payer.
- (ff) A lower rate applies in certain circumstances. Please consult the tax treaty.
- (gg) The 3% rate applies to royalties paid to a news agency. The 5% rate applies to artistic royalties. The 10% rate applies to industrial royalties. The 15% rate applies to other royalties.
- (hh) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or radio broadcasting. The 1% rate applies to amounts paid under financial leases of equipment. The 5% rate applies to amounts paid under operating leases of equipment and computer software. The 10% rate applies to other royalties.
- (ii) The 12% rate applies if the recipient of the dividends is a corporation owning at least 25% of the payer. The 15% rate applies if the recipient of the dividends is a corporation owning less than 25% of the payer. The 20% rate applies to other dividends.
- (jj) The 0% rate applies in certain circumstances. Please consult the tax treaty.
- (kk) The 0% rate applies to royalties paid for the use of, or right to use, computer software, patents, designs, models or plans. The 5% rate applies to royalties paid for the use of, or the right to use, secret formulas or processes, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies to royalties for the use of, or right to use, trademarks and copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting.
- (ll) The 5% rate applies if the recipient is a corporation owning at least 10% of the payer's voting rights. The 0% rate applies if the Australian company has held at least 80% of the Finnish company's voting power for at least 12 months and meets certain other conditions.
- (mm) The lower rate applies to, among other interest payments, interest paid by public bodies.
- (nn) The lower rate applies to, among other interest payments, interest on current accounts and on advance payments between banks.
- (oo) The 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment, or software. The 10% rate applies to royalties paid for the following:
  - The use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting
  - The use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes
  - Information concerning industrial, commercial or scientific experience
- (pp) Copyright royalties are exempt from withholding tax. The 1% rate applies to royalties paid for finance leases of equipment. The 5% rate applies to royalties paid for operating leases of equipment, or for the use of, or the right to use, cinematographic films, films and tapes for television or radio broadcasting, or computer software. The 10% rate applies to royalties paid for the use of, or the right to use, patents, trademarks, designs, plans, formulas or processes, or for information concerning industrial, commercial or scientific experience.
- (qq) A tax treaty is in force between Finland and Brazil. However, the tax-sparing articles of the treaty applied only for the first 10 years since the signing of the treaty. This period ended on 25 December 2007.
- (rr) The lower rate applies if the Italian company holds directly more than 50% of the capital in the Finnish company.
- (ss) The beneficial owner of royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment may elect to be taxed, in the contracting state in which such royalties arise, as if the equipment were effectively connected with a permanent establishment in that state. In such case, the provisions of Article 7 (Business income) of the treaty apply to the income and deductions attributable to such equipment.
- (tt) The 0% rate applies if the interest is paid to the state or a local authority thereof, to the national bank, or to an institution of which the capital is wholly owned by the government.
- (uu) The lower rate applies to loans granted by banks.
- (vv) The 0% rate applies if the interest is paid to the state or national bank. The 5% rate applies to interest on loans to certain public entities promoting export. The 10% rate applies to loans granted by banks.

- (ww) The 15% rate applies if the recipient is a company owning at least 10% of the voting power of the payer. Otherwise, the domestic rates of 20% or 30% apply.
- (yy) A new tax treaty was signed in 2016. The Finnish parliament has ratified the treaty, but the treaty has not yet entered into force.
- (zz) A new tax treaty was signed in 2015. The Finnish parliament has ratified the treaty, but the treaty has not yet entered into force.
- (aaa) The 0% rate applies if the beneficial owner of the interest is the government of the contracting state, a local authority, the central bank, or other agency or instrumentality controlled by the government or if the loan or credit is guaranteed by one of the aforementioned bodies.
- (bbb) The lower rate applies if a company (other than a partnership or a German real estate investment trust company) holds directly at least 10% of the capital of the company paying the dividends.



# France

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**A. At a glance**

Corporate Income Tax Rate (%)	33 $\frac{1}{3}$ (a)
Capital Gains Tax Rate (%)	0/15/19/25/33 $\frac{1}{3}$ (a)(b)
Branch Tax Rate (%)	33 $\frac{1}{3}$
Withholding Tax (%)	
Dividends	30/75 (c)(d)(e)
Interest	0/75 (c)(f)(g)
Royalties from Patents, Know-how, etc.	33 $\frac{1}{3}$ /75 (c)(f)(g)
Branch Remittance Tax	30 (h)
Net Operating Losses (Years)	
Carryback	1 (i)
Carryforward	Unlimited (j)

- (a) For resident companies, surtaxes are imposed on the corporate income tax and capital gains tax. For details, see Section B.
- (b) For details concerning these rates, see Section B.
- (c) These are the withholding tax rates under French domestic law. Tax treaties may reduce or eliminate the withholding taxes.
- (d) Under the European Union (EU) Parent-Subsidiary Directive and Article 119 ter of the French Tax Code, dividends distributed by a French subsidiary to an EU parent company are exempt from withholding tax, if, among other conditions, the recipient holds or commits to hold at least 5% of the subsidiary's shares for at least two years. For details, see Section B.
- (e) The withholding tax rate is 75% for distributed profits paid into uncooperative states.
- (f) No withholding tax is imposed on interest and royalties paid between associated companies of different EU member states if certain conditions are met. For details, see Section B.
- (g) The withholding tax rate is 75% for interest on qualifying borrowings and royalties paid into uncooperative states.
- (h) Branch remittance tax may be reduced or eliminated by double tax treaties. It is not imposed on French branches of companies that are resident in EU member states and are subject to tax in their home countries.
- (i) Losses carried back may not exceed EUR1 million.
- (j) The amount of losses used in a given year may not exceed EUR1 million plus 50% of the taxable profit exceeding this limit for such year.

**B. Taxes on corporate income and gains**

**Corporate tax.** The taxation of French companies is based on a territorial principle. As a result, French companies carrying on a trade or business outside France are generally not taxed in France on the related profits and cannot take into account the related losses. However, under the French controlled foreign company (CFC) rules contained in Article 209 B of the French Tax Code, income earned by a French enterprise through a foreign enterprise may be taxed in France if such income is subject to an effective tax rate that is 50% lower than the French effective tax rate on

similar income (for further details, see Section E). French companies are companies registered in France, regardless of the nationality of the shareholders and companies that have their place of effective management in France. Foreign companies carrying on an activity in France are subject to French corporate tax on their French-source profits.

Profits derived in France by branches of nonresident companies are deemed to be distributed, normally resulting in the imposition of a branch withholding tax of 30% on after-tax income. This tax is not imposed on the profits of French branches of companies that are resident in EU member states and that are subject to corporate income tax in their home countries. It may be reduced or eliminated by tax treaties. Although branch withholding tax normally applies to undistributed profits, such profits may be exempted from the tax if an application is filed with the tax authorities and if certain requirements are met.

**Rates of corporate tax.** The standard corporate tax rate is 33⅓%.

This standard corporate tax rate is planned to decrease from 33⅓% to 25% by 2022. For financial years beginning on or after 1 January 2017, a 28% rate applies to Small and Medium Enterprises (SMEs), as defined under EU law, on the first EUR75,000 of taxable income. For financial years beginning on or after 1 January 2018, a 28% rate applies to the first EUR500,000 of taxable income of all entities (taxable income in excess of EUR 500,000 is still subject to a 33⅓% rate). For financial years beginning on or after 1 January 2019, a 28% rate will apply to the first EUR500,000 of taxable income of all entities, and taxable income in excess of EUR500,000 will be subject to a 31% rate. For financial years beginning on or after 1 January 2020, a 28% rate will apply for all entities. For financial years beginning on or after 1 January 2021, a 26.5% rate will apply for all entities. For financial years beginning on or after 1 January 2022, a 25% rate will apply for all entities.

A social security surtax of 3.3% is assessed on the corporate income tax amount. This surtax is imposed on the portion of corporate tax due exceeding EUR763,000 before offsetting the tax credits granted under tax treaties (see *Foreign tax relief*). The 3.3% surtax does not apply to companies whose annual turnover is lower than EUR7,630,000 if at least 75% of the company is owned by individuals or by companies that themselves satisfy these conditions.

Members of consolidated groups must take into account the global turnover of the group to determine whether they reach the EUR7,630,000 threshold mentioned above.

For financial years ending between 31 December 2017 and 30 December 2018, entities subject to corporate tax with revenue exceeding EUR1 billion are subject to a 15% “exceptional contribution” assessed on the corporate income tax amount before offsetting tax credits, tax reductions or other tax receivables. Entities subject to corporate tax with revenue exceeding EUR3 billion are subject to a 15% “additional contribution,” resulting in a global exceptional surtax of 30%. Members of consolidated groups must take into account the global turnover of

the group to determine whether they reach the EUR1 billion or EUR3 billion thresholds mentioned above.

Taking into account the social security surtax, the “exceptional contribution” and the “additional contribution,” the marginal effective rate of French corporate income tax is 44.43% (33.33% + 1.1% + 5% + 5%) for financial years ending between 31 December 2017 and 30 December 2018.

A reduced corporate tax rate of 15% applies to the first EUR38,120 of the profits of small and medium-sized enterprises if certain conditions are met, including the following:

- The turnover of the company is less than EUR7,630,000.
- At least 75% of the company is owned by individuals or by companies that themselves satisfy this condition and the above condition.

**Capital gains.** Capital gains derived from the sale of fixed assets by French companies are subject to corporate income tax at the standard rate.

Capital gains derived from the sale of qualifying participations that have been held for at least two years before their sale are exempt from tax. The following are qualifying participations:

- *Titres de participation* (specific class of shares for accounting purposes that enables the shareholder to have a controlling interest)
- Participations eligible for the dividend participation exemption regime if the shareholder holds at least 5% voting rights

However, the corporate income tax applies to 12% of the gross capital gains realized on qualifying participations. As a result, the effective tax rate on such gains is 4% (based on a 33⅓% standard corporate tax rate).

Capital losses incurred with respect to such qualifying participations may no longer be offset against capital gains.

A reduced 15% tax rate applies to the following:

- Capital gains derived from sales of shares in venture mutual funds (FCPRs) and venture capital investment companies (SCRs), if these shares have been held for a period of at least five years
- Income derived from the licensing of patents or patentable rights
- Capital gains realized on patents or patentable rights held for at least two years, unless the disposal takes place between related companies

Long-term capital losses relating to interests qualifying for the 15% category may only be offset against long-term capital gains corresponding to the same category.

The reduced rates also apply to various distributions made by venture mutual funds (FCPRs) and venture capital investment companies (SCRs).

Capital gains derived from sales of participating interests in companies that are predominantly real estate companies are subject to tax at the standard rate. For listed real estate companies, the rate is reduced to 19%.



Long-term capital gains derived from the first sale of participating interests in companies whose assets' value is mainly composed of television broadcasting rights are subject to tax at a rate of 25%.

**Administration.** In general, companies must file a tax return within three months following the end of their financial year.

Corporate income tax is prepaid in four installments. Companies that have their financial year ending on 31 December must pay the installments on 15 March, 15 June, 15 September and 15 December. The balance of corporate tax is due by 15 April of the following year. Other companies must pay the balance of corporate tax due within four months following the end of their financial year. The rules governing the payment of corporate income tax also apply to the payment of the 3.3% surtax.

The 15% "exceptional contribution" due for financial years ending between 31 December 2017 and 30 December 2018 from entities with revenue exceeding EUR1 billion and the 15% "additional contribution" due by entities with revenue exceeding EUR3 billion must be paid by the corporate tax balance due date at the latest, while an advance payment amounting to 95% of the exceptional and additional contributions due must be paid by the last corporate tax installment due date.

Companies must file their corporate income tax and VAT returns electronically. If a company does not comply with this requirement, a 0.2% penalty is imposed.

In general, late payment and late filing are subject to a 10% penalty. If additional tax is payable as a result of a reassessment of tax, interest is charged at 0.4% per month (4.8% per year) for interest accrued before 1 January 2018 and 0.2% per month (2.4% per year) for interest accrued from 1 January 2018 to 31 December 2020. Many exceptions and specific rules apply to interest and penalties.

**Dividends.** Dividends paid by French companies no longer carry a tax credit (*avoir fiscal*). However, under the parent-subsidiary regime, dividends received by French companies or French branches of nonresident companies are exempt from corporate income tax, except for a 5% service charge computed on the gross dividend income (net dividend income and foreign tax credits) and added back to the recipient's taxable income. Effective from 1 January 2016, such service charge is reduced to 1% for recipients that are part of a tax-consolidated group with respect to dividends distributed by a French company that is part of the tax-consolidated group or by a European company that could have been part of the tax-consolidated group if resident in France.

The parent-subsidiary regime does not apply to the following:

- Profit distributions that are deductible from the distributing company's taxable income
- Dividends distributed within an arrangement or a series of arrangements, which have been put into place for the main purpose, or one of the main purposes, of obtaining a tax advantage contrary to the object or purpose of the participation exemption regime, are not genuine having regard to all relevant facts and

circumstances (that is, not put into place for valid commercial reasons that reflect economic reality)

- Dividends received from a subsidiary established in an uncooperative country (as defined in Article 238-0 A of the French Tax Code; see Section E), unless the parent company demonstrates that the subsidiary's activities are real and do not aim to localize revenues in an uncooperative country

The parent-subsidiary regime applies if the recipient holds at least 5% of the share capital of the distributing company for at least two years.

In general, a 30% withholding tax is imposed on dividends paid to nonresident entities (12.8% for nonresident individuals). The withholding tax rate is increased to 75% for distributed profits paid into uncooperative states (see Section E), unless it is demonstrated that these distributions do not aim to localize revenues in an uncooperative state.

This tax may be reduced or eliminated by tax treaties. In addition, under the EU Parent-Subsidiary Directive, dividends distributed by French subsidiaries to EU parent companies are exempt from withholding tax, if, among other conditions, the recipient holds 10% or more of the shares of the subsidiary for at least two years (the 10% threshold is lowered to 5% if the effective beneficiary cannot credit the French withholding tax in its country of residence).

Furthermore, the withholding tax no longer applies to profits derived from stock, interests or assimilated shares distributed to collective investment vehicles (CIVs) created under foreign law and located in an EU member state or in a state that has signed a treaty with France that includes an administrative assistance provision aimed at combating tax fraud. However, to benefit from the withholding tax exemption, foreign CIVs must meet the same definition as French CIVs, and the content and actual implementation of the administrative assistance provisions must effectively allow the French tax authorities to obtain from the foreign tax authorities the information needed to verify this condition. A 15% withholding tax applies to distributions of income exempt from corporate income tax that are made by French real estate investment trusts (so-called SIICs and SPPICAVs) to French or foreign CIVs.

The 3% tax that applied to distributions paid by dividend or deemed dividend distributing entities was repealed for distributions paid from 1 January 2018. Furthermore, for previous years, the French Constitutional Court held this tax unconstitutional.

**Withholding taxes on interest and royalties.** Under French domestic law, withholding tax is no longer imposed on interest paid to nonresidents. However, a 75% domestic withholding tax is imposed on interest on qualifying borrowings paid into uncooperative states (see Section E), unless it is demonstrated that the corresponding operations do not aim to localize revenues in the uncooperative states.

A 33⅓% withholding tax is imposed on royalties and certain fees paid to nonresidents.

However, as a result of the implementation of EU Directive 2003/49/EC, withholding tax on interest and qualifying royalties paid between “associated companies” subject to corporate income tax of different EU member states was abolished. A company is an “associated company” of a second company if any of the following conditions is satisfied:

- The first company has maintained a direct minimum holding of 25% in the capital of the second company for at least two years at the time of the payment or commits itself to maintain such holding for a two-year period.
- The second company has maintained a direct minimum holding of 25% in the capital of the first company for at least two years or commits itself to maintain the holding for the two-year period.
- A third company has maintained a direct minimum holding of 25% in the capital of both the first and second companies for at least two years or commits itself to maintain such holding for a two-year period.

In these three situations, if the company chooses to undertake to keep the shares for at least two years, it must appoint a tax representative in France who would retrospectively pay the withholding tax if the shares are sold before the end of the two-year period.

Domestic withholding tax on royalties may be reduced or eliminated by tax treaties.

**Foreign tax relief.** In general, income subject to foreign tax and not exempt from French tax under the territoriality principle is taxable. However, most tax treaties provide for a tax credit that generally corresponds to withholding taxes on passive income. Loss-making companies cannot use the tax credit and, for financial years ending on 31 December 2017 or after, they are not allowed to deduct the underlying foreign tax (the withholding tax levied on foreign-source income, which gives right to a tax credit under the double tax treaty).

### C. Determination of trading income

**General.** The assessment is based on financial statements prepared according to French generally accepted accounting principles, subject to certain adjustments.

**Deductibility of interest.** In general, interest payments are fully deductible. However, certain restrictions are imposed.

Interest accrued by a French entity with respect to loans from its direct shareholders may be deducted from the borrower’s taxable income only if the following two conditions are satisfied:

- The share capital of the borrower is fully paid-up.
- The interest rate does not exceed the average interest rate on loans with an initial duration of more than two years granted by banks to French companies.

The above restriction also applies to interest paid outside France by international treasury pools established in France.

Under thin-capitalization rules, related-party interest is tax-deductible only if it meets an arm’s-length test, a minimal taxation test and a thin-capitalization test. These tests are applied on a stand-alone basis by each borrowing company.

Under the arm's-length test, the interest rate is capped at the higher of the following two rates:

- The average annual interest rate on loans granted by financial institutions that carry a floating rate and have a minimum term of two years
- The interest rate at which the company could have borrowed from any unrelated financial institution, such as a bank, in similar circumstances (that is, the market rate)

The portion of interest that exceeds the higher of the above two thresholds is not tax-deductible and must be added back to the company's taxable income for the relevant financial year.

Under the minimal taxation test, the tax deduction of interest accrued to related-party lenders is disallowed if the French taxpayer cannot prove, at the request of the French tax authorities, that the related lender is liable to corporate income tax on such interest that is at least 25% of the corporate income tax that would have been due had the lender been established in France. If the lender is domiciled or established outside France, the French corporate income tax is determined as if the lender were established or domiciled in France. If the lender is a transparent entity, such as a partnership or an investment fund, the limitation of interest deduction only applies to the extent that such entity and its relevant members are affiliated, and the minimum corporate income tax rate of 25% is considered at the level of the entity's members or shareholders.

The thin-capitalization test may limit the deductibility of interest payments even if the amount of the interest expense complies with the arm's-length test described above. It also applies to interest paid to third parties on the portion of the debt that is guaranteed by a related party, or by a party whose commitment is guaranteed by a related party of the French borrowing entity.

Under the thin-capitalization test, the interest paid in excess of the three following thresholds is not tax-deductible:

- The debt-to-equity ratio threshold, which is calculated in accordance with a formula. For the purposes of this formula, A is the amount of interest that meets the arm's-length test, B equals 150% of the net equity of the borrower at either the beginning or the end of the financial year, and C equals the total indebtedness of the French borrowing company resulting from borrowing from related companies. The following is the formula:

$$\frac{A \times B}{C}$$

- The earnings threshold, which equals 25% of the adjusted current income. The adjusted current income is the operating profit before the deduction of tax, related-party interest, depreciation and amortization, and certain specified lease rents.
- The interest income threshold, which equals the amount of interest received by the French company from related companies.

If the interest that is considered to be tax-deductible under the arm's-length test exceeds each of the three above thresholds, the portion of the interest that exceeds the highest of the above

thresholds is not tax-deductible unless the excess amount is lower than EUR150,000.

The nondeductible portion of interest is added back to the taxable income of the borrowing entity. However, it can be carried forward for deduction in subsequent financial years. A 5% annual reduction of the interest balance that is carried forward applies beginning with the second subsequent financial year.

The thresholds that limit the deductibility of interest do not apply if the French borrowing company can demonstrate that the consolidated debt-to-equity ratio of its group is higher than the debt-to-equity ratio of the French borrowing company on a stand-alone basis (based on its statutory accounts). In determining the consolidated debt-to-equity ratio of the group, French and non-French affiliated companies and consolidated net equity and consolidated group indebtedness (excluding intercompany debt) must be taken into account.

In the context of a tax-consolidated group, excess interest that is not tax-deductible under the thin-capitalization test cannot be carried forward by the company that has incurred the excess interest (see *Groups of companies*).

The deduction of interest related to the acquisition of qualifying participations is limited for companies that have qualifying participations worth more than EUR1 million if the company does not demonstrate that it effectively makes the decisions concerning these investments and that it has effective control or influence over the acquired company. The nondeductible portion is computed by applying the ratio of the acquisition price to the debts of the acquiring company. The limitation applies to the eight years following the acquisition. This limitation does not apply if the debt is not connected to the acquisition or if the group debt-to-equity ratio is higher than the ratio of the French borrowing company.

In addition, a general interest deduction cap based on the amount of the net financial expenses incurred during a financial year (that is, the financial expenses reduced by financial income) applies. Only 75% (previously 85% for the 2012 and 2013 financial years) of the net financial expenses incurred is deductible. For purposes of this rule, financial expenses (or income) are any amounts that are accrued in remuneration for monies put at the disposal of the company (or by the company to another party). For a tax-consolidated group, the interest cap applies to the net financial expenses of the tax group (excluding intercompany transactions). This provision applies to all entities subject to corporate income tax in France, including permanent establishments of foreign companies. However, it does not apply if the net financial expenses incurred by the company or by the tax group during a financial year are below EUR3 million.

**Inventories.** Inventory is normally valued at the lower of cost or market value. Cost must be determined under a weighted average cost price method. A first-in, first-out (FIFO) basis is also generally acceptable, but a last-in, first-out (LIFO) basis is not permitted.

**Reserves.** In determining accounting profit, companies must book certain reserves, such as reserves for a decrease in the value of assets, risk of loss or expenses. These reserves are normally deductible for tax purposes. In addition, the law provides for the deduction of special reserves.

**Capital allowances.** In general, assets are depreciated using the straight-line method. However, new qualifying industrial assets are generally depreciated using the declining-balance method.

Depreciable assets composed of various parts with different characteristics must be depreciated on a separate basis (these assets must be split into a principal component or structure on the one hand and into additional components on the other hand). The depreciable amount of each asset must be spread out over its likely useful life for the company, which corresponds to the time period during which the company may expect to derive a profit from it. The depreciation method applied to each asset (straight-line method or accelerated method) must also be consistent with the pace at which the company expects to derive a profit from the asset.

Periodic assessment of the residual value of each component must be conducted to establish a (non-tax deductible) provision for impairment if needed.

For tax purposes, the depreciation of assets that have not been split into components and the depreciation of the asset's principal structure that has been split into components can be spread out over the useful life commonly accepted in business practices. This rule does not apply to buildings acquired by real estate investment companies. The following are some of the acceptable straight-line rates.

Asset	Rate (%)
Commercial buildings	2 to 5
Industrial buildings	5
Office equipment	10 to 20
Motor vehicles	20 to 25
Plant and machinery	5 to 10*

\* These are the general rates. Alternatively, new plant and machinery may be depreciated using the declining-balance method at rates generally ranging from 12.5% to 50%.

Certain specified assets may be depreciated using accelerated depreciation methods. Land and works of art are not depreciable. Intangible assets are depreciable if the company can anticipate that the profits derived from the assets will end at a fixed date. In general, goodwill is not depreciable.

**Relief for tax losses.** Losses may be carried forward indefinitely. However, the amount of losses used in a given year may not exceed EUR1 million plus 50% of the taxable profit above that amount for such financial year.

In addition, enterprises subject to corporate tax may carry back losses against undistributed profits from the prior financial year. The carryback results in a credit equal to the loss multiplied by

the current corporate tax rate, but losses carried back may not exceed EUR1 million. The credit may be used to reduce corporate income tax payable during the following five years with the balance being refunded at the end of the fifth year. A significant change in the company's activity, particularly an addition or a termination of a business that infers a decrease of 50% or more of either the revenue or the average headcount and fixed assets, may jeopardize the loss carryover and carryback.

**Groups of companies.** Related companies subject to corporate tax may elect to form a tax-consolidated group. Under the tax-consolidation regime, the parent company files a consolidated return, thereby allowing the offset of losses of one group entity against the profits of related companies. The parent company then pays tax based on the net taxable income of companies included in the consolidated group, after certain adjustments for intra-group provisions are made, in particular, the following:

- Intra-group asset or share transfers, as well as any subsequent depreciation related to these transfers, are neutralized.
- Intra-group dividends not subject to the parent-subsidiary regime are neutralized.
- Intra-group provisions for bad and doubtful debts are neutralized.
- Waivers of debts and subsidies between members of the group are neutralized.
- Interest not deductible at the level of a member company in application of the thin-capitalization rules (see *Deductibility of interest*) becomes, with certain conditions and limitations, deductible at the level of the consolidated income.

If a company is acquired from a shareholder controlling the group and becomes a member of the tax-consolidated group, the amendment Charasse provides that an amount of the financing expenses of the group must be added back to the consolidated income within a nine-year period starting with the purchasing year. This amount is calculated as follows:

$$\text{Group financing expenses} \times \frac{\text{Acquisition price of the shares}}{\text{Average amount of the group's debt}}$$

The group includes the French subsidiaries in which the parent has a direct or indirect shareholding of at least 95% and for which the parent company has elected tax consolidation.

The Second Amended Finance Bill for 2014 implemented "horizontal tax consolidation" into French law, allowing a French company or permanent establishment to form a French tax consolidated group with other French companies or permanent establishments if all are owned at 95% or more by a foreign parent company or permanent establishment that is subject to a tax equivalent to French corporate income tax in another EU country or European Economic Area (EEA) country. The 95% ownership test can be met directly, or indirectly, through intermediate companies or permanent establishments that are all subject to tax in an EU/EEA country or through other French consolidated companies. This new regime applies to financial years closed on or after 31 December 2014.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	2.1/5.5/10/20
Territorial Economic Contribution; replaced the Business Activity Tax (Taxe professionnelle); capped to a certain amount of the value added by the company; maximum rate	3
Social security contributions, on gross salary (approximate percentages); paid by Employer	35 to 45
Employee	18 to 23
General social security tax ( <i>contribution sociale généralisée</i> , or CSG) on active income	9.2
General social security tax on patrimonial and financial income (for example, income from real estate and securities)	9.9
Social debt repayment tax ( <i>contribution remboursement de la dette sociale</i> , or CRDS), on all income	0.5
Social levy on patrimonial and financial income (including 4.5% contribution and 0.3% surtax)	4.8
Special social security tax ( <i>prélèvement de solidarité</i> )	2
Registration duty	
On sales of shares in stock companies (including <i>sociétés anonymes</i> , <i>sociétés par actions simplifiées</i> and <i>sociétés en commandites par actions</i> ), shares of private limited liability companies ( <i>sociétés à responsabilité limitée</i> , or SARLs) and interests in general partnerships ( <i>sociétés en nom collectif</i> , or SNCs); for sales of shares in stock companies, the tax rate is reduced to 0.1%; intragroup transfers are exempt	3
On sales of goodwill	3 to 5
On sales of professional premises, housing, businesses and shares of companies whose assets primarily consist of real estate	5

## E. Miscellaneous matters

**Foreign-exchange controls.** French exchange-control regulations have been eased. French direct investments into foreign countries are now almost completely unrestricted. In general, foreign direct investments in France, except in certain sensitive sectors, are only subject to an administrative declaration. For current operations, such as loans between residents and nonresidents and the opening of foreign bank accounts by French companies, the regulations have been almost totally eliminated.

**Payments to residents of tax havens or to uncooperative states or territories.** Under Article 238 A of the French Tax Code, interest, royalties and other remuneration paid to a recipient established in a tax haven or on a bank account located in a tax haven are deemed to be fictitious and not at arm's length. As a result, to deduct the amount paid, the French entity must prove that the



operation is effective (that it effectively compensates executed services) and is at arm's length. For purposes of the above rules, a privileged tax regime is a regime under which the effective tax paid is 50% lower than the tax that would be paid in France in similar situations.

If these payments are made to a recipient established in an uncooperative country or on a bank account located in an uncooperative country, the French entity must also prove that the operation's principal aim is not to locate the payment in that country. The list of the uncooperative countries is published at least once a year.

**Transfer pricing.** French entities controlled by, or controlling, entities established outside France are taxable in France on any profits transferred directly or indirectly to the entity located abroad through an increase or decrease in purchase or sale prices or by any other means.

In the context of a tax audit, certain companies (companies with total net sales before taxes or total gross assets equal to or greater than EUR400 million, subsidiaries owned at more than 50% by such a company, parent companies that hold more than 50% of such a company and members of a French tax consolidated group that includes at least one company that meets these criteria) must provide their transfer-pricing documentation on the tax inspector's request or within 30 days (Article L 13AA of the French Tax Procedure Code). For financial years beginning on or after 1 January 2018, the transfer-pricing documentation includes the list of information recommended by the Organisation for Economic Co-operation and Development (OECD) for the Master File (Annex I to the new Chapter V of the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations) and the Local File (Annex II to the aforementioned Chapter V). If the company fails to provide the documentation in due time, a penalty of up to either 5% of the transfer-pricing reassessment or 0.5% of the volume of the transactions carried out with related enterprises is applied, with a minimum of EUR10,000 per financial year under audit.

In addition, these companies were required to file a "light" transfer-pricing statement within six months after the filing deadline of the tax return (Article 223 quinquies B of the French Tax Code). However, for financial years ending on or after 31 December 2016, the threshold for filing this transfer-pricing statement was lowered from EUR400 million to EUR50 million. The transfer-pricing statement includes the following:

- General information about the group (main activities, companies related to the reporting entity, intangible assets held by the group and used by the reporting entity, and general description of the transfer-pricing policy applied by the group)
- Specific information for intragroup transactions
- Disclosure of change in the activity of the entity or in the transfer-pricing method being applied

Although the penalty for a not filing this transfer-pricing statement is minimal (that is, EUR150), taxpayers failing to file the report are likely to be scrutinized by the French tax authorities.

**Country-by-Country Reporting.** Implementing the OECD final report on Transfer Pricing Documentation and Country-by-Country Reporting (CbCR) Action 13 and EU Directive 2011/16/EU regarding mandatory automatic exchange of information in the field of taxation, as amended in 2016, the 2016 Finance Bill introduced a CbCR obligation for certain companies that are members of a multinational group with a consolidated turnover of at least EUR750 million (Article 223 quinquies C of the French Tax Code). The report must be filed within 12 months after the closing date of the financial year. This obligation applies to financial years beginning on or after 1 January 2016. Non-compliant companies may be subject to a penalty of up to EUR100,000.

**Controlled foreign companies.** Under Section 209 B of the French Tax Code, if French companies subject to corporate income tax in France have a foreign branch or if they hold, directly or indirectly, an interest (shareholding, voting rights or share in the profits) of at least 50% in any type of structure benefiting from a privileged tax regime in its home country (the shareholding threshold is reduced to 5% in certain situations), the profits of this foreign entity or enterprise are subject to corporate income tax in France. If the foreign profits have been realized by a legal entity, they are taxed as a deemed distribution in the hands of the French company. If the profits have been realized by an enterprise (an establishment or a branch), these profits are taxed as profits of the French company if the tax treaty between France and the relevant foreign state allows the application of Section 209 B of the French Tax Code.

For the purpose of the above rules, a privileged tax regime is a regime under which the effective tax paid is 50% lower than the tax that would be paid in France in similar situations (such a foreign company is known as a controlled foreign company [CFC]). Tax paid by a CFC in its home country may be credited against French corporate income tax.

CFC rules do not apply to profits derived from entities established in an EU member state unless the French tax authorities establish that the use of the foreign entity is an artificial scheme that is driven solely by French tax avoidance purposes.

Similarly, the CFC rules do not apply if the profits of the foreign entity are derived from an activity effectively performed in the country of establishment. The concerned company must demonstrate that the establishment of the subsidiary in a tax-favorable jurisdiction has mainly a non-tax purpose and effect by proving that the subsidiary mainly carries out an actual industrial or commercial activity.

**Debt-to-equity rules.** For a discussion on the restrictions imposed on the deductibility of interest payments, including the thin-capitalization rules, see Section C.

**Headquarters and logistics centers.** The French tax authorities issue rulings that grant special tax treatment to headquarters companies and logistics centers companies. These companies are subject to corporate income tax at the normal rate on a tax base corresponding generally to 6% to 10% of annual operating expenses,

depending on the company's size, functions assumed and risks borne. In addition, certain employee allowances are exempt from income tax.

**Reorganizations.** On election by the companies involved, mergers, spin-offs, split-offs and dissolutions without liquidation may qualify for a special rollover regime.

**Tax credit for research and development.** To encourage investments in research and development (R&D), the tax credit for R&D expenditure equals 30% of qualifying expenses related to operations of R&D (qualifying expenses equal the sum of 75% of the depreciation of fixed assets used in the research activity and 50% of staff expenses related to research) up to EUR100 million, and 5% for such expenses above EUR100 million. The rate is increased to 40% for the first year and to 35% for the following year for companies that benefit from the tax credit for the first time or that did not benefit from the regime for the five years preceding their request for the credit.

**Special tax credit.** A special tax credit called the Tax Credit for Competitiveness and Employment (Crédit d'impôt pour la compétitivité et l'emploi, or CICE) has been introduced for financial years closed on or after 31 December 2013. It is computed on the basis of salaries that are below 2.5 times the minimum wage (higher wages do not give rise to the CICE, even for the amount under the threshold). The rate is 6% for 2018 (it was 4% for 2013, 6% for 2014 to 2016 and 7% for 2017). The CICE will cease to apply in 2019.

**Tax audits.** All companies must maintain their accounting records in an electronic form when French tax authorities carry out a tax audit.

## F. Treaty withholding tax rates

The following table is for illustrative purposes only.

	Dividends %	Interest (e)(g) %	Royalties (e) %
Albania	5/15	10	5
Algeria	5/15	0/10	5/10
Andorra	5/15	0/5	0/5
Argentina	15	20	18
Armenia	5/15	10	5/10
Australia	0/5/15	0/10	5
Austria	0/15 (a)	0	0
Azerbaijan	10	10	5/10
Bahrain	0	0	0
Bangladesh	10/15	10	10
Belarus (c)	15	0/10	0
Belgium	0/10/15 (a)	15	0
Benin	— (j)	— (j)	0
Bolivia (h)	10/15	0/15	0/15
Bosnia and Herzegovina (f)	5/15	0	0
Botswana	5/12	0/10	10
Brazil	15	10/15	10/15/25
Bulgaria	5/15 (a)	0	5

	Dividends %	Interest (e)(g) %	Royalties (e) %
Burkina Faso	— (j)	— (j)	0
Cameroon	15	0/15	0/7.5/15
Canada (b)	5/15	0/10	0/10
Central African Republic	— (j)	— (j)	0
Chile (h)	15	5/10	5/10
China (mainland)(d)	5/10	10	10
Congo (Republic of)	15/20	0	15
Côte d'Ivoire	15	0/15	10
Croatia	10/15 (a)	0	0
Cyprus	10/15 (a)	0/10	0/5
Czech Republic	0/10 (a)	0	0/5/10
Ecuador	15	10/15	15
Egypt (h)	0	15	0/15
Estonia (h)	5/15 (a)	0/10	0/5/10
Ethiopia	10	0/5	7.5
Finland	0 (a)	0/10	0
Gabon	15	0/10	10
Georgia	0/5/10	0	0
Germany	0/15 (a)	0	0
Ghana	5/15	10	10
Greece	— (a) (j)	0/12	5
Guinea	15	0/10	0/10
Hong Kong	10	10	10
Hungary	5/15 (a)	0	0
Iceland	5/15	0	0
India (h)	5/10	0/10	0/10
Indonesia	10/15	10/15	10
Iran	15/20	15	0/10
Ireland	10/15 (a)	0	0
Israel	5/15	5/10	0/10
Italy	5/15 (a)	0/10	0/5
Jamaica	10/15	10	10
Japan	0/5/10	0/10	0
Jordan	5/15	0/15	5/15/25
Kazakhstan	5/15	0/10	10
Kenya	10	12	10
Korea (South)	10/15	0/10	10
Kuwait	0	0	0
Kyrgyzstan (c)	15	0/10	0
Latvia	5/15 (a)	10	5/10
Lebanon	0	0	— (j)
Libya (h)	5/10	0	0
Lithuania	5/15 (a)	0/10	5/10
Luxembourg	5/15 (a)	10	0
Macedonia	0/15	0	0
Madagascar	15/25	0/15	10/15
Malawi	10/— (k)	18	0/— (k)
Malaysia	5/15	0/15	10
Mali	— (j)	— (j)	0
Malta	5/15 (a)	0/5	0/10
Mauritania	— (j)	— (j)	0
Mauritius	5/15	0/— (k)	0/15
Mexico	0/5/15	0/5/10	0/10
Moldova (c)	15	0/10	0
Monaco	— (j)	— (j)	— (j)

	Dividends %	Interest (e)(g) %	Royalties (e) %
Mongolia	5/15	10	0/5
Montenegro (f)	5/15	0	0
Morocco	0/15	10/15	5/10/— (k)
Namibia	5/15	10	0/10
Netherlands	5/15 (a)	10	0
New Caledonia	5/15	0	0/10
New Zealand	15	0/10	10
Niger	— (j)	— (j)	0
Nigeria	12.5/15	12.5	12.5
Norway	0/15	0	0
Oman	0	0	0
Pakistan	10/15	10	10
Panama	5/15	5	5
Philippines	10/15	0/15	15
Poland	5/15 (a)	0	0/10
Portugal	15 (a)	10/12	5
Qatar	0	0	0
Romania	10 (a)	10	10
Russian Federation	5/10/15	0	0
St. Martin	0/15	0/10	0
St. Pierre and Miquelon	5/15	0	0/10
Saudi Arabia	0	0	0
Senegal	15	0/15	0/15/— (k)
Singapore	5/15	0/10	0/— (k)
Slovak Republic	10 (a)	0	0/5
Slovenia	0/15 (a)	0/5	0/5
South Africa	5/15	0	0
Spain	0/15 (a)	0/10	0/5
Sri Lanka	— (j)	0/10	0/10
Sweden	0/15 (a)	0	0
Switzerland	0/15	0	5
Syria	0/15	0/10	15
Taiwan	10	0/10	10
Thailand	15/20/— (k)	3/10/— (k)	0/5/15
Togo	— (j)	— (j)	0
Trinidad and Tobago	10/15	10	0/10
Tunisia	— (j)	12	0/5/15/20
Turkey	15/20	15	10
Turkmenistan (c)	15	0/10	0
Ukraine	0/5/15	0/2/10	0/10
USSR (c)	15	0/10	0
United Arab Emirates	0	0	0
United Kingdom	0/15 (a)	0	0
United States	0/5/15	0	0
Uzbekistan (h)	5/8	0/5	0
Venezuela	0/15	0/5	5
Vietnam (h)	5/10	0	5/10
Yugoslavia (f)	5/15	0	0
Zambia	10/— (k)	— (j)	0
Zimbabwe	10/15	10	10
Non-treaty jurisdictions	0/15/30/75 (i)	0/75 (i)	0/33⅓/75 (i)

- (a) Dividends paid by French companies to parent companies located in other EU member states are exempt from withholding tax if the parent company makes a commitment to hold at least 10% of the distributing company for an uninterrupted period of at least two years (the 10% threshold is lowered to 5% if the effective beneficiary cannot credit the French withholding tax in its country of residence).
- (b) Withholding tax rates of 5%/15% (dividends), 0%/10% (interest) and 0%/10% (royalties) apply with respect to Quebec.
- (c) France has agreed with Turkmenistan to apply the France-USSR tax treaty. France applies the France-USSR tax treaty to Belarus, Kyrgyzstan and Moldova.
- (d) The tax treaty between France and China does not apply to the Hong Kong SAR.
- (e) As a result of the implementation of EU Directive 2003/49/EC, withholding tax on interest and royalties paid between associated companies of different EU states is abolished if certain conditions are met (see Section B).
- (f) France is honoring the France-Yugoslavia treaty with respect to Bosnia and Herzegovina, Montenegro and Serbia.
- (g) The French domestic law applies. As a result, the rate is 0% under normal circumstances. The rates listed for interest in the table are the treaty rates.
- (h) The general rates under the treaty are reduced in practice according to a “most-favored-nation” clause. The rates indicated are those resulting from the application of the “most-favored-nation” clause.
- (i) The 75% rate applies only to payments made into uncooperative countries (see Section E).
- (j) The domestic rate applies.
- (k) The dash signifies the domestic rate.

# Gabon

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## A. At a glance

Corporate Income Tax Rate (%)	25/30/35 (a)(b)
Capital Gains Tax Rate (%)	25/30/35 (c)
Withholding Tax (%)	
Dividends	10/20 (d)
Interest	20 (e)
Royalties from Patents, Know-how, etc.	20 (f)
Payments for Services	20 (g)
Branch Remittance Tax	10/20 (h)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) The minimum tax is 1% of turnover (unless exempt). See Section B for details.  
 (b) Oil companies' subcontractors with a permanent establishment in Gabon are subject to tax on taxable turnover. The tax rate for these subcontractors is currently 8.75% (see Section D).  
 (c) In certain circumstances, the tax is deferred (see Section B).  
 (d) The rate is 10% if the parent-subsidiary regime applies. The 20% rate applies to payments made to resident and nonresident individuals and legal entities.  
 (e) This 20% rate applies to interest paid to resident and nonresident individuals and nonresident legal entities, excluding interest on bonds.  
 (f) This withholding tax applies to payments to nonresidents.  
 (g) This withholding tax applies to payments made by resident companies to nonresidents for services, including professional services, rendered or used in Gabon.  
 (h) This tax applies if the profits are remitted to the head office. The 10% rate applies to payments to head offices located in tax treaty countries. The rate of 20% applies to payments to head offices located in non-treaty countries.

## B. Taxes on corporate income and gains

**Corporate income tax.** Gabonese companies are taxed on the territoriality principle. As a result, Gabonese companies carrying on a trade or business outside Gabon are not taxed in Gabon on the related profits. Gabonese companies are those registered in Gabon,

regardless of the nationality of the shareholders or where the companies are managed and controlled. Foreign companies with activities in Gabon are subject to Gabonese corporate tax on Gabonese-source profits.

**Tax rates.** The standard corporate income tax rate is 30%. However, oil and mining companies are subject to tax at a rate of 35%. A reduced corporate tax rate of 25% applies to a limited number of companies. The minimum corporate tax payable is 1% of annual turnover, but not less than XAF1 million. The base for the calculation of the minimum corporate tax is the global turnover realized during the tax year. An exemption from the minimum corporate tax applies to the following companies:

- Companies exempt from corporate income tax, as provided in the general tax code
- New businesses
- Newly incorporated companies or legal entities, for their first two years, regardless of their activities

**Capital gains.** Capital gains are taxed at the regular corporate rate. The tax, however, can be deferred if all of the proceeds are used to acquire new fixed assets in Gabon within three years.

**Administration.** The tax year is the calendar year. Tax returns must be filed by 30 April.

Companies must pay the corporate tax (or the minimum tax) in two installments, which are due on 30 November and 30 January. The first installment equals 25% of the preceding year's corporate tax. The second installment equals 33.33% of such tax. Companies must pay any balance of tax due by the due date for the tax return, which is 30 April.

Late payments are subject to a penalty of 10% for the first month and 3% for subsequent months.

Late filing of the corporate tax return is subject to a penalty of XAF50,000 per month (before summons to pay), increased to XAF200,000 per month (after summons to pay), with a maximum penalty of XAF5 million.

**Dividends.** Dividends paid to resident and nonresident individuals and legal entities are subject to a 20% withholding tax.

If the parent-subsidiary regime applies, dividends received by parent companies are subject to a 10% tax. The parent-subsidiary regime applies if the following conditions are satisfied:

- The shares owned by the parent company represent at least 25% of the capital of the subsidiary.
- Both the parent and subsidiary have their seat in a Central African Economic and Monetary Community (CEMAC) member country (Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon).
- The holding company retains the shares registered in its own name for at least two years from the date of issuance of the shares.

**Foreign tax relief.** In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from Gabonese tax under the territoriality principle is taxable net of the foreign



tax. However, Gabon's tax treaties with Belgium, Canada and France provide a tax credit that corresponds to the amount of the withholding tax.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the general accounting chart of the Organization for the Harmonization of Business Law in Africa.

Business expenses are generally deductible unless specifically excluded by law. To be deductible, an expense must satisfy the following general conditions:

- It must be made in the direct interest of the company or linked to the normal management of the company.
- It must be real and justified.
- It must result in the diminution of the net assets of the company.
- It must be registered in the company books as an expense of the related fiscal year.
- It must not be expressly excluded from deductible expenses by law.
- It must not be considered as an abnormal transaction.

The following expenses are deductible, subject to the conditions mentioned above:

- Head office overhead and remuneration for certain services (studies and technical, financial or administrative assistance) paid to nonresidents. The deduction is limited to 10% of chargeable income before taking into account such expenses.
- Royalties from patents, brands, models or designs paid to a non-CEMAC corporation participating in the management of, or owning shares in, the Gabonese corporation.

The following expenses are not deductible:

- Rent expense for movable equipment paid to a shareholder holding, directly or indirectly, more than 10% of the capital
- A portion of interest paid to a shareholder in excess of the central bank annual rate plus two points and, if the shareholder is in charge of management, on the portion of the loan exceeding one-half of the capital stock
- Commissions and brokerage fees exceeding 5% of purchased imports
- Certain specific charges, penalties and corporate tax
- Most liberalities (payments that do not produce a compensatory benefit, such as excessive remuneration paid to a director), gifts and subsidies

**Inventories.** Inventories are normally valued at cost or market value. Cost must be determined on a weighted-average cost price method. A first-in, first-out (FIFO) basis is also generally acceptable.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates specified by the tax law. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Constructions	5 to 20
Plant and machinery and transport equipment	5 to 33.3
Office equipment	To 33.3

An accelerated depreciation method may be used for certain fixed assets, subject to the approval of the tax authorities.

**Relief for tax losses.** Losses may be carried forward five years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** Gabonese law does not allow the filing of consolidated tax returns. Tax rules applicable to groups of companies are discussed below.

*Corporate income tax.* Costs incurred within a group are deductible for tax purposes. These costs include assistance fees, interest on partner current accounts and rentals of goods within the group.

Capital gains derived from intragroup operations are taxable at a reduced rate of 20% instead of a rate of 30%, unless they are subject to other favorable exemption regimes.

*Tax on investment income.* Tax on Gabonese-source investment income (for example, dividends) paid to companies of the same group are subject to the Tax on Income from Movable Capital (Impôt sur le Revenu des Capitaux Mobiliers, or IRCM) at a rate of 5%. This income is normally taxable at a rate of 20% (or 10% if the company is located in the CEMAC area).

A 10% rate applies if the income is paid by the head company to a partner who is an individual or legal entity.

Subject to conditions, a tax credit in Gabon may be granted even for tax paid to countries that have not entered into a tax treaty with Gabon.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Business activity tax ( <i>license</i> ); calculated based on the nature of the business, the value of equipment and the number of employees	Various
Special tax on subcontractors of petroleum companies; a global tax including a contractual payment amount, income tax and payroll tax; on taxable turnover	8.75
Registration duties, on transfers of real property or businesses	4 to 8

Nature of tax	Rate (%)
Social security contributions, on an employee's gross salary limited to XAF1,500,000 a month	
Employer	16
Employee	2.5
Medical health contributions, on an employee's gross salary limited to XAF1,500,000 a month	
Employer	4.1
Employee	1
Value-added tax (VAT); imposed on corporations realizing annual turnover in excess of XAF60 million from general business activities and on corporations realizing annual turnover in excess of XAF500 million from forestry development activities	
Standard rate	18
Reduced rate, on certain items such as sugar	10
Reduced rate on sales of cement and the rendering of services related to cement	5
Exports and international transport	0
Withholding tax on local service providers that are not subject to VAT; tax based on the total amount of the invoice	9.5

## E. Miscellaneous matters

**Foreign exchange controls.** The CEMAC Act, dated 29 April 2000, provides exchange-control regulations, which apply to financial transfers outside the franc zone, which is a monetary zone including France and its former overseas colonies.

**Specific tax incentive regime on mergers and similar operations.** A specific tax incentive regime for mergers and similar operations is available. To benefit from this regime, all of the following conditions must be satisfied:

- The transferee (beneficiary company in the transfer) must have its registered office in Gabon.
- An agreement must be obtained from the Minister of Finance, after approval of the Director General of Taxes if foreign companies are involved in the operation.
- The operation must be justified by economic reasons instead of fiscal reasons.
- The new shares must be held for a period of five years after the transfer.

## F. Treaty withholding tax rates

Gabon has signed a multilateral tax treaty with the CEMAC members, which were formerly members of the Central African Economic and Customs Union (UDEAC). Gabon has also entered into the African and Mauritian Common Organization (OCAM) multilateral tax treaty, as well as tax treaties with Belgium, Canada and France. The withholding rates under these multilateral treaties and the treaties with Belgium, Canada and France are listed in the following table.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Belgium	15	15	10
Benin	15	15	– (a)
Cameroon	15	15	– (a)
Canada	15	10	10 (a)
Central African Republic	15	15	– (a)
Chad	15	15	– (a)
Congo (b)	15	15	– (a)
Côte d'Ivoire	15	15	– (a)
Equatorial Guinea	15	15	– (a)
France	15	10	10
Senegal	15	15	– (a)
Togo	15	15	– (a)
Non-treaty jurisdictions	20	20 (c)	20

- (a) Withholding tax is not imposed, but the income is subject to tax in the state of the recipient.
- (b) Congo and Gabon have signed both the CEMAC (UDEAC) and OCAM treaties. The withholding rates are the same under each treaty.
- (c) See footnote (e) to Section A.

# Georgia

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*Because of the rapidly changing economic and political situation in Georgia, changes are expected to be made to the Tax Code of Georgia. As a result, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 (b)
Withholding Tax (%)	
Dividends	5
Interest	5
Royalties	5 (c)
Management Fees	10 (c)
Income from International Transport or International Communications	10 (c)
Income from Oil and Gas Operations	4 (c)
Interest, Royalties and Payments of Other Georgia-Source Income to Companies Registered in Low-Tax Jurisdictions	15
Payments of Other Georgia-Source Income	10 (c)
Branch Remittance Tax	0

- (a) Resident companies and permanent establishments of nonresident companies are not subject to tax on their income. They are subject only to tax at a rate of 15% on distributed profits and certain payments made. The tax rate is applied to the taxable object divided by a specified percentage (for further details, see Section B).
- (b) Resident companies and permanent establishments of nonresident companies are not subject to tax on their capital gains received. They are subject only to tax at a rate of 15% on distributed profits. Nonresident companies without a permanent establishment in Georgia are subject to tax at a rate of 15% on their capital gains derived from Georgian sources. For further details, see Section B.
- (c) These withholding taxes apply to payments to foreign companies.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies and permanent establishments of nonresident companies are not subject to tax on their income. They are subject only to tax on the following taxable objects:

- Distributed profits
- Expenses incurred and other payments not related to economic activity

- Free-of-charge supplies of goods or services and transfers of funds
- Representative expenses exceeding statutory limits prescribed by the Tax Code of Georgia (TCG)

*Distributed profits.* Distributed profit consists of cash or non-cash dividends distributed by a legal entity to its partners or shareholders.

Activities that are not considered distributions of profits include, among others, the following:

- Distributions of dividends among Georgian legal entities
- Distributions of dividends received from foreign enterprises (other than companies registered in low-tax jurisdictions)

Repatriations of profits attributable to permanent establishments of nonresident entities are treated as distributions of profits. Profit attributable to a permanent establishment is a profit that the permanent establishment would have made if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions.

Distributions of profits include the following:

- Transactions conducted with related resident entities that are not subject to tax on distributions of profit (that is, they are taxed under the old regime) if the contractual price of such transactions differs from the market price
- International controlled transactions that are not at arm's length
- Transactions conducted with persons that are exempt from corporate income tax or personal income tax under the TCG if the contractual price of such transactions differs from the market price

*Incurred expenses and other payments not related to economic activity.* The TCG contains a list of expenses or payments that are subject to corporate income tax. Such expenses include, among others, expenses that are not documentarily proven or that were not incurred for the purpose of deriving profit, income or compensation. In addition, certain payments to persons registered in low-tax jurisdictions are taxable.

*Free-of-charge supplies of goods and services and transfers of funds.* Supplies that are not aimed at gaining profit, income or compensation are considered to be free of charge. In addition, a shortage of inventory or fixed assets is considered a free-of-charge supply and is subject to corporate income tax.

Free-of-charge supplies of goods or services are exempt from tax under the following circumstances:

- The supply was taxed at the source of payment.
- The supply represents a donation to a charitable organization and does not exceed 10% of the net profit for the preceding calendar year.
- The recipient of the goods, services or funds is a state authority, municipal body or legal entity of public law.

*Representative expenses.* Representative expenses exceeding 1% of revenues or expenses for the preceding calendar year are taxable.

Commercial banks, credit unions, insurance companies, microfinance organizations and pawnshops will be taxed in accordance with new system described above, effective from 1 January 2019. Until then, the tax base of these entities is determined as the difference between the gross taxable income and the amount of deductions stipulated under the TCG.

Foreign legal entities without a permanent establishment in Georgia are subject to withholding tax on their Georgian-source income at a rate of 4%, 5%, 10% or 15% (see Section A).

**Tax rate.** The regular corporate income tax rate is 15%. To calculate corporate income tax, the tax rate is applied to the taxable objects described above divided by 0.85.

**Special types of enterprises.** The Georgian tax law provides for beneficial tax treatment for enterprises operating in Georgia with the following statuses:

- International Financial Company
- Special Trade Company
- Free Industrial Zone Company
- Virtual Zone Person
- Tourist Enterprise
- Agricultural Cooperative

The Georgian Tax Authorities (GTA) grant the above statuses according to the rules defined by the Minister of Finance of Georgia. The statuses are described below.

*International Financial Company.* A financial institution may obtain the status of International Financial Company for the purpose of tax benefits if its Georgian-source income derived from financial operations and/or financial services does not exceed 10% of its worldwide income. Income received from financial operations and financial services between International Financial Companies is not considered to be income received from Georgian sources. An International Financial Company must be established outside a Free Industrial Zone. International Financial Companies are exempt from corporate income tax on profits and distributions of profits derived from financial operations, financial services and/or the sale of securities issued by nonresident persons.

*Special Trade Company.* An entity conducting its activities in an authorized warehouse may be granted Special Trade Company status for corporate income tax exemption purposes. A Special Trade Company may supply and re-export foreign goods from a customs warehouse, as well as purchase foreign goods from an entity without such status for further supply or re-export. A Special Trade Company may also derive income (including Georgian-source income) from other allowable activities if such income does not exceed the sum of GEL1 million and 5% of the customs value of foreign goods brought into Georgia. In addition, a Special Trade Company may derive income exempted from corporate income tax and from the sale of fixed assets used in economic activities for more than two years. A Special Trade Company is prohibited from importing or purchasing Georgian goods for further supply, rendering of services in Georgia to a

Georgian entity, individual entrepreneur and/or to a permanent establishment of a foreign enterprise and operating a customs warehouse. The status of Special Trade Company is canceled for a calendar year if an authorized representative of such company submits an application to the GTA at least five business days before the beginning of the relevant calendar year. A Special Trade Company is exempt from corporate income tax on distributed profits received from allowable activities except for income received from the sale of fixed assets.

*Free Industrial Zone Company.* Free Industrial Zone Company status for tax purposes may be granted to a company operating in a Free Industrial Zone. Free Industrial Zone Companies primarily engage in the manufacturing and export of goods outside Georgia from a Free Industrial Zone. The status of Free Industrial Zone Company is subject to cancellation if the company engages in activities prohibited by the law. Free Industrial Zone Companies are exempt from corporate income tax on distributed proceeds from activities allowed within a Free Industrial Zone.

*Virtual Zone Person.* Virtual Zone Person status for tax purposes may be granted to a company engaged in information technology activities. Virtual Zone Persons are exempt from corporate income tax on distributions of profits derived from the supply of self-produced information technology outside Georgia.

*Tourist Enterprise.* Tourist Enterprise status for tax purposes may be granted to a company that builds a hotel for the purpose of the sale and leaseback of the assets, or part of the assets, of the hotel and uses the building in hotel operations. Distribution of profit derived from the rendering of hotel services and the incurrence of expenses in the course of such activity by tourist enterprises are exempt from corporate income tax until 1 January 2026.

*Agricultural Cooperative.* Agricultural Cooperative status for tax purposes may be granted to a company in accordance with the Law of Georgia on "Agricultural Cooperative." Agricultural Cooperatives are exempt from corporate income tax on distributed profits derived from the initial supply of agricultural products produced in Georgia before industrial processing of the products (that is, a change of commodity code occurs) until 1 January 2018.

**Capital gains.** No separate capital gains tax is imposed in Georgia. Capital gains derived by resident companies and permanent establishments of nonresident companies are not subject to corporate income tax until they are distributed.

**Administration.** The reporting period for the entities subject to corporate income tax on distribution of profit is a calendar month. Such entities must submit a corporate income tax return and pay the respective tax by the 15th of the month following the reporting month.

The reporting period for commercial banks, credit unions, insurance companies, microfinance organizations and pawnshops is a calendar year. Such entities must file an annual corporate income tax return and make a balancing payment of corporate income tax by 1 April of the year following the reporting year.



These entities must make advance payments of corporate income tax. Each payment is equal to 25% of the corporate income tax liability for the preceding year. The due dates for the payments are 15 May, 15 July, 15 September and 15 December. Advance payments of tax are applied against the corporate income tax liability for the current tax year.

If the total advance payments exceed the tax due for the tax year, the excess is applied against any outstanding liabilities for other taxes. If no outstanding tax liabilities exist, taxpayers may apply overpayments against future tax liabilities or claim a refund.

Interest is charged on late tax payments at a rate of 0.05% of the tax due for each day of delay. If the tax return is not filed by the due date, a penalty is imposed. This penalty equals 5% of the amount of tax payable stated in the tax return for each complete or incomplete month of delay. However, the total amount of the penalty may not be less than GEL50 or more than 30% of the amount of tax liability. A penalty for an understatement of tax liability or overstatement of a tax credit that results from a change of the taxable point by the GTA is imposed at a rate of 10% of the relevant amount. The percentage is 50% in all other cases. No penalty is imposed if a taxpayer voluntarily files an adjusted tax return before an order on the tax offense or on the conducting of a tax inspection is issued.

**Dividends.** A dividend withholding tax is imposed on dividends paid by Georgian enterprises to individuals, not-for-profit companies and foreign legal entities. However, dividends paid to Georgian legal entities are not subject to withholding tax. The current dividend withholding tax rate is 5%.

The following types of dividends are not subject to withholding tax:

- Dividends paid by International Financial Companies
- Dividends paid by Free Industrial Zone Companies in Free Industrial Zones
- Dividends paid on free-floating securities (debt or equity securities listed on the stock exchange with a free-float rate in excess of 25% as of 31 December of the current and preceding reporting year, according to information provided by the issuer of the securities to the stock exchange)
- Dividends paid by Agricultural Cooperatives to their members until 1 January 2018
- Dividends paid by Georgian resident entities to the state

**Interest.** An interest withholding tax is imposed on interest payments made by permanent establishments of nonresidents or residents or on their behalf to individuals, organizations or nonresidents without a permanent establishment in Georgia.

However, the interest paid to resident banks is not subject to withholding tax. The current interest withholding tax rate is 5%.

The following types of interest payments are not subject to withholding tax:

- Interest paid by financial institutions licensed according to the Georgian law. However, the interest is included in gross income if the recipient is also a licensed financial institution.

- Interest paid by Free Industrial Zone Companies in Free Industrial Zones. Such interest is not included in the gross income of the recipient.
- Interest paid on free-floating securities. Such interest is not included in the gross income of the recipient.
- Interest paid on debt securities issued by Georgian entities listed on recognized foreign stock exchanges. Such interest is not included in the gross income of the recipient.
- Interest paid on debt securities issued by International Financial Institutions (a list of International Financial Institutions is contained in a resolution of the government of Georgia).

**Foreign tax relief.** Foreign income tax paid on income generated from foreign sources may be credited against Georgian tax imposed on the same income, limited to the amount of such Georgian tax (that is, up to the amount of corporate income tax that would have been payable on such income in Georgia). To credit foreign tax paid abroad, payment evidence should be provided to the GTA.

### C. Determination of taxable income

**General.** Until 1 January 2019, the tax base of commercial banks, credit unions, insurance companies, microfinance organizations and pawnshops equals the difference between the gross taxable income and the amount of deductions stipulated under the TCG. Consequently, the rules provided below in this section apply only to these entities. These entities will be taxed in accordance with the new system (that is, on distribution of profit), effective from 1 January 2019.

Taxable income of entities mentioned above is computed on the basis of International Financial Reporting Standards, modified by certain tax adjustments. It includes the following:

- Trading income
- Capital gains
- Income from financial activities
- Assets received free of charge
- Works and services
- Other items of income

Income received in foreign currency is converted into Georgian lari (GEL) at the daily exchange rate determined by the National Bank of Georgia (NBG) for the date of receipt of the income.

Commercial banks, credit unions, insurance companies, microfinance organizations and pawnshops may deduct from gross income all documented expenses contributing to the generation of such income. However, certain expenses are nondeductible or partially deductible for tax purposes.

### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); imposed on goods and services supplied in Georgia and on imported goods; reverse-charge VAT is imposed on works and services carried out in Georgia by nonresident entities	

Nature of tax	Rate (%)
Property tax; on the average annual net book value of fixed assets	1
Property tax for leasing companies on leased assets	0.6

Georgia also imposes import and excise taxes.

### E. Miscellaneous matters

**Foreign-exchange controls.** The Georgian currency is the lari (GEL). The lari is a non-convertible currency outside Georgia. Enterprises may buy or sell foreign currencies through authorized banks or foreign-exchange offices in Georgia.

Georgia does not impose restrictive currency-control regulations. Enterprises may open bank accounts abroad without any restriction if they declare such accounts (other than deposit accounts) with the GTA within five working days after opening such accounts. In general, all transactions performed in Georgia must be conducted in lari. Transactions with nonresident entities can be conducted in other currencies.

**Transfer pricing.** Under the transfer-pricing (TP) rules set by the TCG, the arm's-length principle applies to transactions carried out by taxpayers with related parties. The TP rules generally apply to cross-border transactions between related parties. These rules may also apply to transactions between a Georgian resident entity and an unrelated foreign entity that is a resident of a low-tax jurisdiction or offshore country and transactions between a Georgian company and its permanent establishment.

The generally accepted transfer-pricing methods include the following:

- Comparable uncontrolled price method
- Resale price method
- Cost-plus method
- Net profit margin method
- Profit split method

The Minister of Finance of Georgia is authorized to provide detailed descriptions of TP methods, their application rules and other procedural rules.

In 2013, the Minister of Finance of Georgia enforced the Instruction "On Pricing International Controlled Transactions," which is in accordance with the TCG provisions. The Instruction covers the following items:

- Scope of transactions subject to Georgian transfer-pricing rules
- Acceptable transfer-pricing methods
- Comparability criteria
- Information sources
- Arm's-length range
- Procedure for advance pricing agreements
- Transfer-pricing documentation requirements
- Other procedural issues

It also outlines required actions for companies doing business in Georgia.

**Thin capitalization.** The thin-capitalization rules were abolished, effective from 1 January 2017.

## F. Treaty withholding tax rates

Georgia has entered into tax treaties with 54 countries. The table below lists the withholding tax rates under these treaties. In general, if the withholding tax rate provided in a treaty exceeds the rate provided by the TCG, the latter rate applies.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Armenia	5/10 (a)	10	5
Austria	0/5/10 (b)	0	0
Azerbaijan	10	10	10
Bahrain	0	0	0
Belarus	5/10 (c)	5	5
Belgium	5/15 (c)	0/10 (d)	5/10 (e)
Bulgaria	10	10	10
China (mainland)	0/5/10 (b)	10	5
Croatia	5	5	5
Cyprus	0	0	0
Czech Republic	5/10 (f)	0/8 (g)	0/5/10 (h)
Denmark	0/5/10 (i)	0	0
Egypt	10	10	10
Estonia	5/15 (m)	10	10
Finland	0/5/10 (j)	0	0
France	0/5/10 (k)	0	0
Germany	0/5/10 (l)	0	0
Greece	8	8	5
Hungary	0/5 (u)	0	0
Iceland	5/10 (cc)	0/5	5
India	10	10	10
Iran	5/10 (a)	10	5
Ireland	0/5/10 (j)	0	0
Israel	0/5 (w)	0/5 (y)	0
Italy	5/10 (f)	0	0
Japan	15	10	0/10 (bb)
Kazakhstan	15	10	10
Korea (South)	5/10 (v)	10	10
Kuwait	0/5 (x)	0	10
Latvia	5/10 (n)	0/10 (z)	10
Liechtenstein	0	0	0
Lithuania	5/15 (o)	10	10
Luxembourg	0/5/10 (p)	0	0
Malta	0	0	0
Netherlands	0/5/15 (q)	0	0
Norway	5/10 (v)	0	0
Poland	10	10	10
Portugal	5/10 (f)	10	5
Qatar	0	0	0
Romania	8	10	5
San Marino	0	0	0
Serbia	5/10 (f)	10	10
Singapore	0	0	0
Slovak Republic	0	5	5
Slovenia	5	5	5
Spain	0/10 (r)	0	0

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Sweden	0/10 (aa)	0	0
Switzerland	10	0	0
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	5/10 (a)	10	10
United Arab Emirates	0	0	0
United Kingdom	0/5/10 (s)	0	0
Uzbekistan	5/15 (t)	10	10
Non-treaty jurisdictions	5	5	5

- (a) The 5% rate applies if the actual recipient of the dividends is a company (other than a partnership) that holds directly at least a 25% share in the capital of the payer of the dividends. The 10% rate applies in all other cases.
- (b) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than EUR2 million (or the equivalent amount in Georgian lari). The 5% rate applies if the beneficial owner is a company that holds directly or indirectly at least 10% of the capital of the payer of the dividends and that has invested in the payer more than EUR100,000 (or the equivalent amount in Georgian lari). The 10% rate applies in all other cases.
- (c) The 5% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer of the dividends. The 15% rate applies in all other cases.
- (d) The 0% rate applies if the recipient is the beneficial owner of interest on a commercial debt-claim, including a debt-claim represented by commercial paper, resulting from deferred payments for goods, merchandise or services supplied by an enterprise or if the recipient is the beneficial owner of interest on a loan of any nature that is not represented by a bearer instrument and that is granted by a banking enterprise. The 10% rate applies in all other cases.
- (e) The 5% rate applies if the beneficial owner of the royalties is a company. The 10% rate applies in all other cases.
- (f) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends. The 10% rate applies in all other cases.
- (g) The 0% rate applies if the recipient is the beneficial owner of interest on credit sales of industrial, commercial or scientific equipment. The 8% rate applies in all other cases.
- (h) The 0% rate applies if the recipient is the beneficial owner of royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, except for computer software and including cinematographic films, and films or tapes for television or radio broadcasting. The 5% rate applies if the recipient is the beneficial owner of royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment. The 10% rate applies if the recipient is the beneficial owner of royalties paid for the use of, or the right to use, patents, trademarks, designs or models, planes, secret formulas or processes, computer software or information concerning industrial, commercial or scientific experience.
- (i) The 0% rate applies if either of the following circumstances exists:
  - The actual recipient of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than EUR2 million (or the equivalent amount in Danish krone or Georgian lari).
  - The beneficial owner of the dividends is the other contracting state or the central bank of that other state, any national agency or any other agency (including a financial institution) owned or controlled by the government of the other contracting state.

The 5% rate applies if the actual recipient is a company that holds directly or indirectly at least 10% of the capital of the payer of the dividends and that has invested in the payer more than EUR100,000 (or the equivalent amount in Danish krone or Georgian lari). The 10% rate applies in all other cases.
- (j) The 0% rate applies if the actual recipient of the dividends is a company (other than a partnership) that holds directly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than EUR2 million (or the equivalent amount in Georgian lari). The 5% rate applies if the actual recipient is a company (other than a partnership) that holds directly at

least 10% of the capital of the payer of the dividends and that has invested in the payer more than EUR100,000 (or the equivalent amount in Georgian lari). The 10% rate applies in all other cases.

- (k) The 0% rate applies if the actual recipient of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than EUR3 million (or the equivalent amount in Georgian lari). The 5% rate applies if the actual recipient is a company that holds directly or indirectly at least 10% of the capital of the payer of the dividends and that has invested in the payer more than EUR100,000 (or the equivalent amount in Georgian lari). The 10% rate applies in all other cases.
- (l) The 0% rate applies if the actual recipient of the dividends is a company (other than a partnership) that holds directly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than EUR3 million (or the equivalent amount in any currency). The 5% rate applies if the actual recipient is a company (other than a partnership) that holds directly at least 10% of the capital of the payer of the dividends and that has invested in the payer more than EUR100,000 (or the equivalent amount in any currency). The 10% rate applies in all other cases.
- (m) The 5% rate applies if the actual recipient of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends and that has invested in the payer at least EUR100,000. The 15% rate applies in all other cases.
- (n) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends and that has invested in the payer at least USD75,000. The 10% rate applies in all other cases.
- (o) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends and that has invested in the payer at least EUR75,000. The 15% rate applies in all other cases.
- (p) The 0% rate applies if the actual recipient of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than EUR2 million (or the equivalent amount in Georgian lari). The 5% rate applies if the actual recipient is a company that holds directly or indirectly at least 10% of the capital of the payer of the dividends and that has invested in the payer more than EUR100,000 (or the equivalent amount in Georgian lari). The 10% rate applies in all other cases.
- (q) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer of the dividends and that has invested in the payer more than USD2 million (or the equivalent amount in euros or Georgian lari). The 5% rate applies if the recipient is a company that holds at least 10% of the capital of the payer of the dividends. The 15% rate applies in all other cases.
- (r) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (s) The 0% rate applies if the beneficial owner of the dividends is a company that is a resident of the other contracting state and controls, directly or indirectly, at least 50% of the voting power in the company paying the dividends and that has invested at least GBP2 million or the equivalent amount in the currency of Georgia in the share capital of the company paying the dividends. The 5% rate applies if the beneficial owner of the dividends is a resident of the other contracting state and is a company that controls, directly or indirectly, at least 10% of the voting power in the company paying the dividends. The 10% rate applies in all other cases.
- (t) The 5% rate applies if the actual recipient of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends. The 15% rate applies in all other cases.
- (u) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership that is not liable to tax) that has held directly at least 25% of the capital of the company paying the dividends for an uninterrupted period of at least 12 months before the decision to distribute the dividends. The 5% rate applies in all other cases.
- (v) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (w) The 0% rate applies if the beneficial owner of the dividends is any of the following:
  - A company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends

- The other contracting state or the central bank of the other contracting state
- A pension fund or other similar institution providing pension schemes in which individuals may participate to secure retirement benefits if such pension fund or other similar institution is established and recognized for tax purposes in accordance with the laws of the other state.

The 5% rate applies in all other cases.

- (x) The 0% rate applies if the beneficial owner of the dividends is a company that has invested in the payer more than USD3 million (or the equivalent amount in Georgian lari). The 5% rate applies in all other cases.
- (y) The 0% rate applies to pension funds and recipients of interest on corporate bonds traded on a stock exchange in the other state and issued by a company that is a resident of that state. The 5% rate applies in all other cases.
- (z) The 0% rate applies to interest arising in a contracting state that is derived and beneficially owned by the government of the other contracting state, including its political subdivisions and local authorities, the central bank or any financial institution wholly owned by that government, and to interest derived from loans guaranteed by that government. The 10% rate applies in all other cases.
- (aa) The 0% rate applies if the beneficial owner of the dividends is a company (or partnership) that holds at least 10% of the capital or the voting power of the company paying the dividends. The 10% rate applies in all other cases.
- (bb) The 0% rate applies to royalties paid as consideration for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films and films or tapes for radio or television broadcasting. The 10% rate applies to royalties paid as consideration for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- (cc) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.

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## A. At a glance

Corporate Income Tax Rate (%)	15 (a)
Trade Tax Rate (Average Rate) (%)	14
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%)	
Dividends	25 (a)(b)(c)(d)
Interest	0 (e)(f)
Royalties from Patents, Know-how, etc.	15 (a)(b)(f)(g)(h)
Remuneration to Members of a Supervisory Board	30 (h)
Payments for Construction Work	15 (a)(b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1 (i)
Carryforward	Unlimited (j)

- (a) A 5.5% solidarity surcharge is imposed (see Section B).
- (b) On application, these rates may be reduced by tax treaties.
- (c) This withholding tax applies to dividends paid to residents and nonresidents. Under the 2009 Annual Tax Act, for dividends paid to nonresident corporate entities, this rate may be reduced to 15% if the nonresident dividend recipient qualifies as an eligible recipient under the German anti-treaty shopping rules.
- (d) These rates may be reduced under the European Union (EU) Parent-Subsidiary Directive. Under the EU Parent-Subsidiary Directive, on application, a withholding tax rate of 0% applies to dividends distributed by a German subsidiary to an EU parent company if the recipient has owned 10% or more of the share capital of the subsidiary for a continuous period of 12 months at the time the dividend distribution takes place and if the German anti-treaty shopping rules do not apply.
- (e) A 25% interest withholding tax is imposed on the following types of interest:
- Interest paid by financial institutions. The rate is 15% if the loan is not recorded in a public debt register.
  - Interest from over-the-counter business. Over-the-counter business refers to bank transactions carried out over the bank counter, without the securities being on deposit at the bank.
  - Interest from certain types of profit-participating and convertible debt instruments.
- The interest withholding tax is not imposed on intercompany loans. Non-residents may apply for a refund of the withholding tax if a treaty exemption applies. If a nonresident is required to file an income tax return in Germany, the withholding tax is credited against the assessed corporate income tax or refunded.
- (f) These rates may be reduced by tax treaties or under the EU Interest-Royalty Directive. Under the EU Interest-Royalty Directive, on application, German withholding tax is not imposed on interest and royalties paid by a German resident company to an associated company located in another EU member state. To qualify as associated companies, a minimum 25% shareholding or a common parent is required, among other requirements.
- (g) The withholding tax rate on royalties from patents, know-how and similar items is 15% for payments to nonresident corporations if such items are registered in Germany or used in a German permanent establishment.
- (h) This withholding tax applies to payments to nonresidents only.
- (i) The loss carryback, which is optional, is available for corporate income tax purposes, but not for trade income tax purposes. The maximum carryback is EUR1 million.
- (j) The carryforward applies for both corporate income tax and trade tax purposes. Effective for tax years ending after 31 December 2003, the maximum loss carryforward that may be used for corporate and trade tax purposes is restricted to EUR1 million for each tax year plus 60% of annual taxable income exceeding EUR1 million (so-called minimum taxation). The carryforward is subject to the change-of-ownership rule (see Section C).

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporations, such as stock corporations (Aktiengesellschaft, or AG) and limited liability companies

(Gesellschaft mit beschränkter Haftung, or GmbH), that have their corporate seat or place of management in Germany (resident corporations) are subject to corporate income tax (Körperschaftsteuer) on worldwide income, unless otherwise provided in tax treaties.

A nonresident corporation, whose corporate seat and place of management are located outside Germany, is subject to corporate income tax only on income derived from German sources. Income from German sources includes, among other items, business income from operations in the country through a branch, office or other permanent establishment, including a permanent representative, and income derived from the leasing and disposal of real estate located in Germany.

**Rates of corporate income tax.** Corporate income tax is imposed at a rate of 15% on taxable income, regardless of whether the income is distributed or retained.

A 5.5% solidarity surcharge is imposed on corporate income tax, resulting in an effective tax rate of 15.825%. Prepayments of corporate income tax and withholding tax payments are also subject to this surcharge.

**Trade tax.** Municipalities impose a trade tax on income. However, for purposes of this tax, taxable income is subject to certain adjustments. The major adjustments include a 25% add-back of interest expenses with respect to debt, a 6.25% add-back of license payments, a 5% add-back of lease payments for movable assets and a 12.5% add-back of lease payments for immovable assets. The effective average trade tax rate amounts to approximately 14%. Taking into account the various municipality multipliers, the combined average tax rate for corporations (including corporate income tax, solidarity surcharge and trade tax) ranges from approximately 23% to 33%.

If a company operates in several municipalities, the tax base is allocated according to the payroll paid at each site. Certain enterprises, such as specified banks and real estate companies, receive privileged treatment under the trade tax law.

**Withholding tax on construction work.** Taxpayers and entities that are corporate bodies under public law (for example, cities and municipalities) must withhold a tax of 15% from payments made for construction work provided in Germany. The tax must be withheld even if the work provider does not have a tax presence in the form of a permanent establishment or permanent representative in Germany unless the work provider obtains a "certificate of non-taxation" from the competent tax office. Construction work providers may obtain a refund of the withholding tax if they can prove that no German tax liability against which the withholding tax could be applied exists.

**Capital gains and losses.** Capital gains of corporations, except those derived from sales of shares, are treated as ordinary income. However, rollover relief is granted if gains derived from disposals of real estate are reinvested in real estate within the following four years and if certain other conditions are met.

Capital gains derived by corporations from sales of shares in corporations are generally exempt from corporate income tax and

trade tax. Five percent of the capital gain is deemed to be a non-deductible expense. As a result, the exemption is effectively limited to 95% of the capital gain. Based on recent case law, the 5% deemed expense add-back should not apply to nonresident corporate sellers, even if the nonresident seller cannot claim treaty protection. The 95% tax exemption for capital gains received by a corporate shareholder is not granted to banks, financial services institutions and financial enterprises that purchase shares with the intention of realizing short-term profits for their own account.

However, to the extent that write-downs of the shares have previously been deducted for tax purposes, capital gains from sales of shares are not exempt.

Capital gains derived from the disposal of tainted shares are, in principle, 95% exempt from tax. Tainted shares may result from corporate reorganizations (for example, contributions of qualifying businesses or partnership interests into corporations in return for shares or share swaps) that are carried out at tax book values or below fair market values. The subsequent disposal of the tainted shares results in a (full or partial) retroactive taxation of the original reorganization that gave rise to the share taint. In general, after a seven-year holding period, the shares lose their taint.

In general, capital losses are deductible. However, capital losses are not deductible if a gain resulting from the underlying transaction would have been exempt from tax. Consequently, capital losses from sales of shares or write-downs on shares are not deductible. In addition, capital losses and write-downs on loans to related parties may not be deductible under certain circumstances.

**Administration.** The tax year is the calendar year. If a company adopts an accounting period that deviates from the calendar year, tax is assessed for the taxable income in the accounting period ending within the calendar year. The adoption of a tax year other than the calendar year requires the consent of the tax office.

Annual tax returns must be filed by 31 May of the year following the tax year. However, an extension to 31 December of the year following the tax year is usually granted if a licensed tax consultant prepares the return.

Payments made with respect to the estimated corporate income tax liability, usually determined at one-quarter of the liability for the previous year, are due on 10 March, 10 June, 10 September and 10 December. Prepayments of trade tax are due on 15 February, 15 May, 15 August and 15 November. Final payments are due one month after the tax assessment notice issued by the tax authorities is received by the taxpayer.

Late tax payments and tax refunds are generally subject to interest of 0.5% per month. Interest begins to accrue 15 months after the end of the calendar year for which the tax is assessed. The interest is not deductible for corporate income and trade tax purposes if the tax itself is not deductible. Late payment penalties are also charged at 1% a month if the unpaid balance is not settled within one month from the date of the assessment notice issued by the tax office. A penalty of up to 10% of the tax liability, but not more than EUR25,000, can be assessed if the tax return is not filed by the due date, including extensions granted.

**Dividends.** Dividends received by German corporations and branches of nonresident corporations from their German and foreign corporate subsidiaries are exempt from tax. However, a minimum shareholding requirement of 10% applies for this participation exemption for corporate income tax purposes. In addition to this domestic rule, an applicable tax treaty may provide for an exemption for foreign dividends. The tax exemption for dividends is granted only if the dividend payment is not tax-deductible as a business expense at the level of the distributing entity (linking rule).

Five percent of the tax-exempt dividend income is treated as a nondeductible expense, while the expenses actually incurred are deductible. Consequently, only 95% of the dividends received by a corporation is effectively exempt from tax. The 95% tax exemption for dividends received by a corporate shareholder is not granted for portfolio dividends (less than 10% shareholding) or to banks, financial services institutions and financial enterprises that purchase shares with the intention of realizing short-term profits for their own account.

The participation exemption applies for trade tax purposes if the dividends are received from corporations in which the parent holds at least 15% as of 1 January of the calendar year in which the dividend distribution takes place. For dividends from EU corporations, the required minimum shareholding is 10%. For dividends from third-country corporations, the shares (minimum shareholding of 15%) must be held continuously since 1 January of the calendar year in which the dividend distribution takes place and the subsidiary's gross income must be realized exclusively or almost exclusively from active business. A tax exemption on the basis of a double tax treaty may apply for trade tax purposes.

**Foreign tax relief.** Under German domestic tax law, income from foreign sources, except for foreign dividends received by a qualifying corporate shareholder (see *Dividends*), is usually taxable, with a credit for the foreign income taxes paid, up to the amount of German tax payable on the foreign-source income, subject to per-country limitations. Excess foreign tax credit cannot be carried back or carried forward. Instead of a foreign tax credit, a deduction may be claimed for foreign income tax. This may be beneficial in loss years and in certain other instances. In general, German tax treaties provide for an exemption from German taxation of income from foreign real estate and foreign permanent establishments (activity requirements generally apply).

### **C. Determination of trading income**

**General.** Taxable income of corporations is based on the annual financial statements prepared under German generally accepted accounting principles (GAAP), subject to numerous adjustments for tax purposes. After the annual financial statements have been filed with the tax authorities, they may be changed only to the extent necessary to comply with GAAP and the tax laws.

Acquired goodwill must be capitalized for tax purposes and may be amortized over 15 years. Intangibles acquired individually must also be capitalized for tax purposes and may be amortized

over their useful lives (normally between 5 and 10 years). A company's own research and development and start-up and formation expenses may not be capitalized for tax purposes. They must be currently expensed.

**Inventories.** Inventory is basically valued at acquisition cost or production cost, unless a lower value (that is, the lower of reproduction or repurchase cost and market value) is indicated. Under certain conditions, the last-in, first-out (LIFO) method can be used to value inventory assets if the assets are of a similar type.

**Provisions.** In general, provisions established under German GAAP are accepted for tax purposes. However, in past years, the scope of tax-deductible provisions has been severely limited by certain rules, including, among others, the following:

- Liabilities or accruals of obligations whose fulfillment is contingent on future revenue or profit may be recorded only when the condition occurs.
- Provisions for foreseeable losses from open contracts may not be recorded.
- Future benefits arising in connection with the fulfillment of an obligation must be offset against costs resulting from the obligation.
- Non-monetary obligations may be accrued using the direct cost and the necessary indirect cost.
- Provisions for obligations resulting from the operation of a business must be built up in equal increments over the period of operation.
- Provisions for pension obligations must be calculated on an actuarial basis using an interest rate of 6% and built up over the period of employment.

If built-in losses contained in the above provisions or liabilities materialize on their transfer at fair market value, the resulting losses may generally only be deducted for tax purposes over a period of 15 years.

Non-interest-bearing debt must be discounted at an annual rate of 5.5% if the remaining term exceeds 12 months.

**Depreciation.** For movable fixed assets purchased or produced after 31 December 2007, tax depreciation must be calculated using the straight-line method (as an exception, the declining-balance method could have been applied for movable assets purchased or manufactured between 1 January 2009 and 31 December 2010). Movable assets with acquisition costs that do not exceed EUR800 (previously EUR410) can be fully depreciated in the year of acquisition, regardless of their useful lives. Useful lives of movable assets are published by the Federal Ministry of Finance, based primarily on tax audit experience; deviation from published useful life is possible, but requires justification by the taxpayer. Tax depreciation rates for buildings are provided by law. The Federal Ministry of Finance has published tax depreciation rates for movable fixed assets generally usable in trade and industry. Schedules for assets specific to certain industries are also available. The following are some of the straight-line rates under the general list.

Asset	Rate (%)
Office equipment	6 to 20
Motor vehicles	10 to 16.6
Plant and machinery	6 to 12.5
Airplanes	5
Personal computers or notebooks and related equipment	33.3
Nonresidential buildings (offices, retail and factories)	
Constructed before 1 January 1925	2.5
Constructed after 31 December 1924 and application for the construction permit filed before 1 April 1985	2
Application for the construction permit filed after 31 March 1985	3*

\* The rate is 4% if the application for the construction permit was filed or the purchase agreement was dated before 1 January 2001.

**Mark-to-market rule.** Under a mark-to-market rule, a tax deduction for the write-down of an asset because of a permanent impairment in value is allowed only if the value is permanently lower (for fixed assets) or is lower than the acquisition costs (not just temporarily). This rule is particularly relevant for assets that are not subject to ordinary depreciation, such as land or shares (however, write-downs of shares are not tax effective; see Section B). For assets that have been written down to their going-concern value, the write down must be reversed as soon as and to the extent that the asset has increased in value.

**Disallowed items.** After income for tax purposes has been determined, certain adjustments need to be made to calculate taxable income. Major adjustments include the following nondeductible expenses:

- Income taxes (corporate income tax, solidarity surcharge and trade tax) and any interest expense paid with respect to these taxes
- Interest expenses (see *General interest expense limitation*)
- Penalties
- Fifty percent of supervisory board fees
- Thirty percent of business meal expenses
- Gifts to non-employees exceeding EUR35 per person per year and input value-added tax (VAT) regarding such expenses
- Expenses incurred in direct connection with tax-exempt income items (see the discussion of dividends in Section B)

In addition, as a result of the exemption for capital gains derived from sales of shares (see Section B), losses from sales of shares, write-downs of shares or, under certain circumstances, write-downs on loans to related parties are no longer deductible for tax purposes and must be added back to the tax base.

**General interest expense limitation.** The interest expense limitation rule applies to all loans (that is, group and third-party loans, regardless of recourse) and to businesses resident in Germany, companies residing abroad but maintaining a permanent establishment in Germany, and partnerships with a German branch.



Under the interest expense limitation rule, the deduction of interest expense exceeding interest income (net interest expense) is limited to 30% of taxable earnings before (net) interest, tax, depreciation and amortization (EBITDA). Tax-exempt income and partnership income should not be considered in the calculation of the taxable EBITDA.

The limitation rule does not apply if one of the following exemption rules applies:

- Exemption threshold. The annual net interest expense is less than EUR3 million.
- Group clause. The company is not a member of a consolidated group (a group of companies that can be consolidated under International Financial Reporting Standards [IFRS]). The group clause does not apply if both of the following circumstances exist:
  - A shareholder who, directly or indirectly, holds more than 25% in the corporation or a related party of such shareholder grants a loan to the company.
  - The interest exceeds 10% of the company's net interest expense.
- Escape clause. The equity ratio of the German subgroup is at least as high as the equity ratio of the worldwide group (within a 2% margin). A "group" is defined as a group of entities that could be consolidated under IFRS, regardless of whether a consolidation has been actually carried out. The equity ratio is calculated on the basis of the IFRS/US GAAP/EU local country GAAP consolidated balance sheet of the ultimate parent. The same accounting standard is applied to a German group but subject to several complex technical adjustments, such as a deduction for unconsolidated subsidiaries. The access to the escape clause is limited in the case of certain loans from non-consolidated shareholders (related party debt exception).

Unused EBITDA can be carried forward over a five-year period. However, the carryforward does not apply if one of the above-mentioned exemptions from the interest expense limitation rule applies or if a positive net interest balance exists. The EBITDA carryforward is forfeited in the course of reorganizations but not under the loss-trafficking rules (see *Tax losses*).

Nondeductible interest expense can be carried forward indefinitely but is subject to the loss-trafficking rules (see *Tax losses*). A deduction is possible in the following years in accordance with the interest expense limitation rules. The nondeductibility is final in the case of a transfer, merger, termination or liquidation of the business or in the case of a permanent excess of limitation amounts (that is, net interest expense is permanently higher than 30% of the taxable EBITDA and the exemption clauses are not fulfilled; as a result, the deduction of all of the interest expense is permanently not achievable).

The interest expense limitation rules may be incompatible with German constitutional law according to the German Federal Tax Court, which has recently referred the case to the German Constitutional Court.

**Constructive distributions of income.** Adjustments to taxable income as a result of a violation of arm's-length principles are

deemed to be constructive distributions of income (see the discussion of transfer pricing in Section E).

**Tax losses.** Tax losses may be carried forward without time limitation. Under the restrictions of the so-called minimum taxation, only 60% of annual taxable profits in excess of EUR1 million can be offset by loss carryforwards. As a result, 40% of the portion of profit exceeding EUR1 million is subject to tax.

This tax loss carryforward rule applies for both corporate income tax purposes and trade tax purposes. For corporate income tax (not trade tax) purposes, an optional loss carryback is permitted for one year up to the maximum amount of EUR1 million.

Under the German loss-trafficking rule, tax loss carryforwards are forfeited proportionally if, within a five-year period, more than 25% of the shares of a loss-making entity are directly or indirectly transferred to a single new shareholder or a group of shareholders. If, within a five-year period, more than 50% of the shares are transferred, the entire loss carryforward is forfeited. To prevent abuse of the rule, the rule includes a measure under which investors with common interests and acting together are deemed to be one acquirer for the purposes of the rule.

The following exceptions apply to the loss-trafficking rule:

- **Group restructuring exception.** A transfer of shares is not considered to be harmful if it occurs within a “100% controlled group.” A group is considered to be a “100% controlled group” if, after a direct or indirect transfer, the same person owns directly or indirectly 100% of the transferor and transferee, or if the acquirer is holding all of the shares in the seller of the shares or the seller is holding all of the shares in the acquirer of the shares.
- **Built-in gain exception.** For harmful share transfers, a loss carryforward is not forfeited up to the amount of the loss company’s built-in gains to the extent that these built-in gains are taxable in Germany. Consequently, built-in gains allocable to subsidiaries are not taken into account; see the discussion of capital gains and losses in Section B.

The carryforward of losses is also allowed in certain limited shareholder change situations if strict business continuation requirements are met.

Loss carryforwards are also forfeited in the course of a merger, change of legal form or liquidation of the loss-making company.

The Federal Constitutional Court recently decided that the proportional forfeiture of loss carryforwards is unconstitutional under German tax law in the case of a harmful change of ownership of more than 25% and up to 50% in the shareholding of a company. The court case applies for fiscal years beginning from 1 January 2008 through 31 December 2015. The court has not yet decided if the respective tax rule would also be unconstitutional under German tax law in case of a change of shareholding of more than 50%, but this question is now also pending.

By 31 December 2018, the German legislator is required to change the loss-trafficking rule (retroactively from 1 January 2008 onward) to be in line with German constitutional law.

**Groups of companies.** German tax law provides a tax consolidation for a German group of companies (Organschaft), which allows losses of group companies to be offset against profits of other group companies. Only German resident companies in which the parent company has held directly or indirectly the majority of the voting rights since the beginning of the fiscal year of the subsidiary may be included (this requirement is known as financial integration). A tax consolidation may cover corporate income tax, trade tax and VAT. To make the Organschaft effective for corporate income tax and trade tax purposes, the parent company and the German subsidiaries must enter into a profit-and-loss absorption agreement (Gewinnabführungsvertrag) for a minimum period of five years. Partnerships do not qualify as subsidiaries in a corporate income tax or trade tax Organschaft, but they may under certain circumstances be a VAT group subsidiary.

An Organschaft subsidiary must have its place of management in Germany and its legal seat in Germany or an EU/European Economic Area member state.

A domestic or foreign corporation, individual or partnership may become the head of an Organschaft if, in addition to the above requirements, the following requirements are met:

- The company has an active trade or business (generally assumed for corporations).
- The investments in the subsidiaries are assets of a German branch.
- The branch profits (including the income of the subsidiaries) are subject to German taxation for both domestic direct tax and tax treaty purposes.

The Organschaft for VAT requires the following:

- Financial integration (see above).
- Economic integration of the lower-tier entities. Economic integration exists if the business activities of the members of the group complement each other.
- Integration in organizational matters. Organizational integration exists if the group parent is able to impose its will on the group members and does so in the day-to-day business.

In contrast to the other Organschaft forms, Organschaft for VAT can begin and end during the course of the fiscal year.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Real property tax, on assessed standard value of real property; rate varies by municipality	0.65 to 2.83
Real estate transfer tax (RETT), on sales and transfers of real property, including buildings, and on certain transactions that are deemed to be equivalent to transfers of real property, such as the assignment of at least 95% of the shares of a German or foreign company that holds the title to domestic real property (however, a group exception may apply); levied on the purchase price of the real property or, in certain	

Nature of tax	Rate (%)
situations (such as when at least 95% of the shares of a real estate-owning company are transferred), on the assessed standard value of the real property	
Rate for real estate located in Bavaria and Saxony	3.5
Rate for real estate located in Hamburg	4.5
Rate for real estate located in Baden-Württemberg, Bremen, Lower Saxony Mecklenburg-West Pomerania, Rhineland-Palatinate and Saxony-Anhalt	5
Rate for real estate located in Berlin and Hesse	6
Rate for real estate located in Brandenburg, North Rhine-Westphalia, Saarland, Schleswig-Holstein and Thuringia	6.5
Value-added tax (VAT or Umsatzsteuer); on application, foreign enterprises may receive refunds of German VAT paid if they are neither established nor registered for VAT purposes in Germany; this application must be filed by non-EU enterprises by 30 June and by EU enterprises by 30 September, in the year following the year in which the invoice was received by the claimant)	
Standard rate	19
Reduced rate	7

## E. Miscellaneous matters

**Foreign losses.** In principle, losses incurred by foreign permanent establishments are not deductible if a German tax treaty provides that a permanent establishment's income is taxable only in the country where it is located. However, these losses may be taken into account if they are incurred in non-treaty countries or if a tax treaty provides for the credit method, subject to the condition that the foreign branch is engaged in a specified active trade.

**Foreign-exchange controls.** No controls are imposed on the transfer of money in and out of Germany. However, specific reporting requirements for certain transactions must be met.

**Debt-to-equity rules.** The interest expense limitation rule (see Section C) replaced the former thin-capitalization rules. Consequently, no statutory debt-to-equity ratio currently applies.

**Anti-avoidance legislation.** Several tax laws contain anti-avoidance legislation. The Corporate Income Tax Act deals with constructive dividends by corporations, both in Germany and abroad. The Foreign Transactions Tax Act deals with all kinds of related or affiliated taxpayers, such as individuals, partnerships and corporations, and is restricted to cross-border transactions. It contains extensive provisions on controlled foreign company (CFC) and passive foreign investment company income. The General Tax Code contains a general anti-abuse rule stating that a tax liability cannot be effectively avoided by an abuse of legal forms and methods if obtaining a tax advantage is the only reason for such an arrangement.

The Income Tax Act provides anti-abuse rules that are aimed at preventing the unjustified reduction of German withholding taxes under a tax treaty, under the EU Parent-Subsidiary Directive or

under the EU Interest-Royalty Directive (treaty or directive shopping). Effective from 1 January 2012, the German anti-treaty-shopping rule was changed to conform to EU law. However, the increased substance requirement must still be fulfilled (see Section F). A European Court of Justice case reviewing the compatibility of the German anti-treaty-shopping rule with EU law is currently pending.

Germany's newer tax treaties include "switch-over" clauses as well as "subject-to-tax" clauses. Domestic treaty-overriding rules, which are aimed at preventing double non-taxation, also exist.

**Transfer pricing.** German tax law contains a set of rules that allow the adjustment of transfer prices. These rules include general measures on constructive dividend payments and constructive contributions and a specific adjustment provision in the CFC legislation. All of the measures mentioned in the preceding sentence are based on the arm's-length principle. Germany has implemented the Authorized Organisation for Economic Co-operation and Development (OECD) Approach (AOA). As a result, permanent establishments and partnerships are treated as separate entities, similar to corporations.

The Foreign Transactions Tax Act now specifically provides that the preferential methods for determining the transfer price are the traditional transaction methods (comparable uncontrolled price method, resale-minus method and cost-plus method) if comparable transactions can be determined. In addition, the code contains express language with respect to the determination of the arm's-length character of a transfer price if no comparables can be found. Effective from 1 January 2008, a special set of rules directed at securing the German tax revenue have been incorporated into the code. These rules deal with the determination of transfer prices in the event of a transfer of business functions abroad.

Specific documentation rules apply for transfer-pricing purposes. On request of a tax auditor, the taxpayer is required to submit the transfer-pricing documentation within 60 days (in the case of extraordinary business transactions, within 30 days). Non-compliance with these rules may result in a penalty (if imposed) of at least EUR100 per day of delay up to a maximum of EUR1 million. If no documentation is provided or if the documentation is unusable or insufficient, a surcharge of 5% to 10% of the income adjustment is applied with a minimum surcharge of EUR5,000.

A Country-by-Country Reporting (CbCR) requirement applies to German taxpayers for fiscal years beginning after 31 December 2015, if they belong to a group with consolidated revenues of at least EUR750 million in the preceding fiscal year. The providing of a master file in addition to a local file on request will be required for fiscal years beginning after 31 December 2016 if the German taxpayer's revenue was at least EUR100 million in the preceding fiscal year.

**Real estate investment trusts.** Effective from 1 January 2007, Germany introduced the real estate investment trust (REIT), which is a tax-exempt entity. In general, a REIT is a listed German stock corporation (AG) that satisfies certain conditions, including, but not limited to, the following:

- It has a free float (volume of shares traded on the stock exchange) at the time of listing of at least 25%.
- Its real estate assets account for at least 75% of its gross assets.
- Rental income from real estate accounts for at least 75% of its total income.
- Ninety percent of its income is distributed to its shareholders.

**Investment Tax Reform Act.** On 1 January 2018, the German Investment Tax Reform Act enters into force. This law provides for the following three tax regimes:

- Regular “investment funds,” which are subject to taxation at the fund level
- “Special-investment funds,” which have to meet further conditions and are taxed semi-transparently with certain options and exemptions
- All other investment vehicles (especially partnerships), which are subject to the general rules of (corporate or individual) income taxation depending on the legal form and status

Both German and foreign investment funds, as well as special-investment funds, are no longer fully exempt from tax at the fund level. The transparency principle is being replaced by taxation of the following types of domestic income at the fund level:

- Dividend payments from German-based corporations are subject to a flat tax regime of 15% on the gross dividends received by the fund. The tax exemption under Section 8b of the German Corporate Income Tax Act does not apply.
- Net income from letting and the sale of German real estate are subject to tax at a rate of 15% plus the solidarity surcharge (15.825% in total).
- Other German-source income, which would be subject to German taxation if received by a foreign investor (for example, income from renewable energy investments or commercial partnership investments), is subject to tax at a rate of 15% plus the solidarity surcharge (15.825% in total).

All other income is not subject to German corporate income tax (for example, interest income, profits deriving from forward contracts or foreign dividends, as well as foreign real estate proceeds). In general, investment funds are subject to German trade tax. However, an exemption from German trade tax applies if the business purpose is limited to the investment and management of funds for the joint account of the unitholders and no active entrepreneurial management of the assets is performed. Special-investment funds are generally exempt from trade tax.

Special-investment funds can opt for transparent taxation for certain German domestic income. If the option is exercised, the income subject to tax at the investor level. Certain rules and limitations apply.

In general, a German investor is subject to tax on its investment fund income (that is, distributions, profits from the sale of units in the investment fund, as well as to the so-called flat tax on a deemed profit, if no distributions are made [so-called *Vorabpauschale*]). The applicable tax rate depends on the individual situation of the investor (for example, corporate vehicle or individual vehicle). Special tax regimes (partial tax exemptions) might apply depending on the respective asset allocation of the

fund as well as on the individual situation of the investor (tax exemption of 15% to 80%). Half of the respective partial exemption for corporate income tax and individual income tax purposes is granted for trade tax purposes. In general, foreign investors are not subject to tax in Germany on any of their investment fund income.

Income derived from special-investment funds (distributed income, deemed distributed income and profits from the sale or redemption of shares) is subject to regular corporate income tax, individual income tax (if fund units are allocated to business assets) and trade tax at the investor level, depending on the individual tax situation. In general, the participation exemption for German individual income tax and German corporate income tax purposes applies if the respective conditions are met.

**Mutual assistance.** Germany exchanges tax-relevant information with various countries based on tax treaties, other bilateral agreements (for example, the Intergovernmental Agreement between Germany and the United States with respect to the US Foreign Account Tax Compliance Act [FATCA]), EU Directives (such as the EU Mutual Assistance Directive) and multilateral agreements (such as the OECD's Multilateral Competent Authority Agreement for the Common Reporting Standard [CRS]). Recently enacted legislation focuses in particular on the automatic exchange of information.

**Automatic exchange of financial account information.** Under the FATCA Intergovernmental Agreement of 31 May 2013 and the FATCA Implementation Decree of 23 July 2014, German financial institutions must report certain financial account information regarding US reportable accounts on an annual basis to the German Federal Central Tax Office (Bundeszentralamt für Steuern), which automatically exchanges this information with the US Internal Revenue Service. In addition, effective from 1 January 2016, Germany implemented the CRS. German financial institutions are required to identify reportable accounts, which are the accounts held by the following:

- An individual or certain entities resident in a CRS zone country
- “Passive nonfinancial entities” (as defined) with one or more controlling persons resident in a CRS zone country

These accounts must then be reported annually by 31 July for the preceding reporting period to the German Federal Central Tax Office (with first reporting in 2017 for 2016), which passes this information on to the competent tax authorities where the reportable person is tax resident.

Under both exchange-of-information regimes, the term “financial institution” is defined rather broadly and does not only include banks, financial services companies, investment funds and insurance companies, but also certain holding companies, treasury centers, captive finance companies, other investment entities, pension entities and certain other entities.

**Automatic exchange of advance cross-border rulings and advance pricing agreements.** The German implementation of changes to the EU Mutual Assistance Directive provides for the automatic exchange of advance cross-border rulings and advance pricing

arrangements (APAs) between EU member states. The information exchange occurs within three months after the end of the calendar half-year in which the advance cross-border rulings were granted. In line with the EU directive, the information exchange obligation affects rulings and arrangements that are issued, amended or renewed as of 1 January 2017. However, under certain conditions, rulings and arrangements that have been issued or amended since 1 January 2012 are also subject to exchange.

## F. Treaty withholding tax rates

The rates listed below reflect the lower of the treaty rate, the rate under domestic tax law or the rate under the EU Parent-Subsidiary Directive, which has been incorporated into the German Income Tax Act (Section 43b ITA).

Under the amended German anti-treaty shopping rules, effective from 1 January 2012, tax relief is denied if and to the extent that the foreign company does not earn its gross income from its own economic activities and if at least one of the following two conditions is met:

- For income not resulting from the foreign company's own economic activity, no economic or other relevant reason exists to interpose the foreign company.
- The foreign company does not participate in the general marketplace with appropriately equipped business premises.

In addition, a foreign company not earning its gross income from its own economic activities has the burden of proof that the above-mentioned conditions are not met and, as a result, the withholding tax relief should be granted; that is, the foreign company has the burden of proof with respect to the existence of economic or other relevant reasons for its interposition and the burden of proof with respect to its business substance. If a foreign company earns its gross income from genuine economic activities, no business purpose test or substance test as mentioned above is required for the application of the tax relief under a treaty or an EU directive. If a foreign company earns income from both genuine economic activities and non-genuine economic activities and if, with respect to the non-genuine business activities, the business purpose and substance tests are met, the foreign company can obtain tax relief under EU law and/or the applicable tax treaty, regardless of the fulfillment of any percentage threshold for the income from genuine economic activities. If either of the conditions is not met, then the relief is denied for the income from non-genuine economic activities.

	<b>Dividends (1)</b>	<b>Interest (2)</b>	<b>Royalties</b>
	%	%	%
Albania	5 (y)	5	5
Algeria	5 (y)	10 (e)	10
Argentina	15 (c)	15 (d)(e)(f)	15
Australia	15	10 (e)	10
Austria	0 (y)(ii)	0	0
Azerbaijan	5 (c)(y)	10 (d)(o)	5/10 (nn)
Bangladesh	15 (c)	10 (d)(e)	10
Belarus	5 (c)(y)	5 (d)(e)(f)	3 (t)
Belgium	0 (ii)	15 (h)	0
Bolivia	10 (c)	15 (d)(e)	15



	<b>Dividends (1)</b>	<b>Interest (2)</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Bulgaria	0 (c)(y)(ii)	5 (d)	5
Canada	5 (c)(y)	10 (d)(e)(i)	10 (q)(r)
China (mainland) (u)	5 (c)(y)(rr)	10 (d)(e)(f)	10 (r)
Costa Rica	5 (y)	5 (e)	10
Côte d'Ivoire	15 (c)	15 (d)(e)	10
Croatia	5 (c)(y)	0 (d)	0
Cyprus	0 (y)(ii)	0	0
Czechoslovakia (ff)	0 (y)(ii)	0	5
Denmark	0 (y)(ii)	0	0
Ecuador	15	15 (e)(f)	15
Egypt	15 (c)	15 (d)(e)(bb)	15 (p)
Estonia	0 (c)(y)(ii)	10 (d)(e)	10 (r)
Finland	0 (c)(y)(ii)	0 (d)	5 (t)
France	0 (c)(y)(ii)	0 (d)	0
Georgia	0 (c)(y)	0 (d)	0
Ghana	5 (c)(y)	10 (d)(e)	8
Greece	0 (ii)	10 (e)	0 (n)
Hungary	0 (c)(y)(ii)	0 (d)	0
Iceland (s)	5 (y)	0	0
India	10 (c)	10 (d)(e)	10
Indonesia	10 (c)(y)	10 (d)(e)	15 (cc)(ee)
Iran	15 (y)	15 (e)	10
Ireland	0 (a)(y)(ii)	0 (a)	0 (a)
Israel	5 (a)(y)(pp)	5 (a)(e)	0 (a)
Italy	0 (c)(y)(ii)	10 (d)(e)	5 (q)
Jamaica	10 (y)	12.5 (e)(k)	10
Japan	0 (d)(qq)	0 (d)	0
Kazakhstan	5 (c)(y)	10 (d)(e)(ll)	10
Kenya	15	15 (e)	15
Korea (South)	5 (c)(y)	10 (d)(e)	10 (r)
Kuwait	5 (c)(y)	0 (d)	10
Kyrgyzstan	5 (c)(y)	5 (d)(e)	10
Latvia	0 (c)(y)(ii)	10 (b)(d)(e)	10 (r)
Liberia	10 (y)	20 (e)(k)	10 (v)
Liechtenstein	0 (qq)	0	0
Lithuania	0 (c)(y)(ii)	10 (b)(d)(e)	10 (r)
Luxembourg	0 (y)(ii)	0	5
Macedonia	5 (c)(y)	5 (d)	5
Malaysia	5 (c)(y)	10 (d)	7
Malta	0 (c)(y)(ii)	0 (d)	0
Mauritius	5 (y)	0	10
Mexico	5 (c)(y)	10 (d)(e)(jj)	10
Mongolia	5 (c)(y)	10 (d)(e)	10
Morocco	5 (a)(y)	10 (a)(e)	10 (a)
Namibia	10 (c)(y)	0 (d)	10
Netherlands	0 (y)(ii)	0 (g)	0
New Zealand	15 (c)	10 (d)(e)	10
Norway	0 (c)(y)	0 (d)	0
Pakistan	10 (c)(y)	20 (d)(e)(k)	10
Philippines	5 (c)(y)	10 (d)(e)(f)	10
Poland	0 (c)(y)(ii)	5 (d)(e)	5
Portugal	0 (c)(ii)	15 (d)(e)(k)	10
Romania	0 (c)(y)(ii)	3 (d)(e)	3
Russian Federation	5 (c)(y)	0 (d)	0
Singapore	5 (y)	8 (e)	8

	<b>Dividends (1)</b> %	<b>Interest (2)</b> %	<b>Royalties</b> %
Slovenia	0 (y)(ii)	5 (d)(e)	5
South Africa	7.5 (y)(dd)	10 (a)	0 (a)
Spain	0 (c)(y)(ii)	0 (d)	0
Sri Lanka	15 (c)	10 (d)(e)	10
Sweden	0 (c)(ii)	0 (d)	0
Switzerland	0 (c)(y)(z)	0 (d)(z)	0
Syria	5 (c)(y)	10 (d)	12
Tajikistan	5 (c)(y)	0 (d)	5 (oo)
Thailand	15 (y)	25 (e)(k)	15 (x)
Trinidad and Tobago	10 (a)(y)	15 (a)(e)(k)	10 (a)(t)
Tunisia	10 (y)	10 (e)	15 (t)
Turkey	5 (c)(y)	10 (d)	10
Ukraine	5 (c)(y)	5 (b)(d)(e)	5 (l)
USSR (gg)	15 (c)	5 (d)(e)	0
United Arab Emirates	5 (c)(y)	0 (d)	10
United Kingdom	0 (a)(c)(y)(ii)	0 (a)(d)	0 (a)
United States	0 (c)(y)(aa)	0 (d)	0 (w)
Uruguay	5 (c)(y)	10 (d)(e)	10
Uzbekistan	5 (c)(y)	5 (d)(e)	5 (r)
Venezuela	5 (c)(y)	5 (d)(e)	5
Vietnam	5 (c)(y)	10 (d)(e)(kk)	10 (mm)
Yugoslavia (hh)	15	0	10
Zambia	5 (y)	10 (e)	10
Zimbabwe	10 (c)(y)	10 (d)(e)	7.5
Non-treaty jurisdictions	25 (oo)(pp)	0/15/25 (j)(pp)	15 (pp)

- (1) These rates also apply to silent partnership income. Under German tax law, income from a silent partnership is regarded as a dividend if the silent partnership is characterized as a typical silent partnership. Profits from an atypical silent partnership are considered business profits. Income from participation rights (Genussrechte) is treated as a dividend if the holder participates in profits and liquidation results. Otherwise, the income from participation rights is considered to be interest for treaty purposes.
- (2) German interest withholding tax is imposed only on interest paid by financial institutions, on interest from over-the-counter business and on interest payments on convertible and profit-sharing bonds and participating loans (for details, see footnote (g) to Section A). In addition, interest on loans secured by fixed property located in Germany is subject to a limited German tax liability; tax on such interest is not imposed by withholding tax but by the issuance of an assessment notice on the filing of a tax return. If not otherwise noted, the treaty withholding tax rate also reduces the German statutory tax rate for interest on loans secured by fixed property located in Germany.
- (a) The rate applies if the income is subject to tax in the other state.
- (b) The rate is 2% (0% under the Latvia and Lithuania treaties) for interest on loans granted by banks or for interest on loans granted in connection with sales on credit of industrial, commercial or scientific equipment or sales of merchandise or services between enterprises.
- (c) Silent partnership income is taxed at the domestic rate of 25% (reduced on application for refund to 15% if the recipient is a corporation and if the German anti-treaty shopping rules do not apply).
- (d) Interest on participating loans and profit-sharing bonds is taxed at 25% (reduced on application for refund to 15% if the recipient is a corporation and if the German anti-treaty shopping rules do not apply).
- (e) Under the Bolivia and Kazakhstan treaties, interest is exempt from withholding tax if it is paid to a contracting state. Under the other treaties, interest paid to the contracting states or subdivisions or paid to certain banks may be exempt from withholding tax.
- (f) A 10% rate (0% under the Belarus treaty) may apply to certain types of interest, such as interest paid on bank loans, or interest paid in connection with the sale of industrial, commercial or scientific equipment or with financing activities in the public sector. Regarding the treaties with China and the Philippines, the interest may be taxed only in the contracting state in which the recipient is a resident if the recipient is the beneficial owner of the interest and if the interest is paid in connection with the sale of commercial or

- scientific equipment on credit; or (only relevant for the Philippines) in connection with the sale of goods by an enterprise to another enterprise on credit.
- (g) Interest on convertible bonds and profit-sharing bonds is taxed at 15%.
- (h) Interest paid to an enterprise is exempt from withholding tax if either of the following applies:
- The recipient is a company owning more than 25% of the paying company.
  - The interest is derived from bonds other than commercial bills of exchange.
- (i) Interest on securities issued by a contracting state or subdivision thereof or paid to certain state banks or to a contracting state or subdivision thereof is exempt from withholding tax.
- (j) Interest on loans secured by immovable property located in Germany may be subject to the 15% (25% until 2007) corporate income tax rate.
- (k) Interest payments to banks or on loans granted by banks may be subject to a 10% withholding tax rate.
- (l) A 0% rate applies to royalties for the use of, or right to use, scientific rights, patents, marks, samples, models, plans, formulas or procedures, as well as to royalties for the disclosure of industrial, commercial or scientific know-how.
- (m) Interest payments to a company that is genuinely carrying on a banking enterprise or is controlled by one or more companies genuinely carrying on such an enterprise are exempt from tax.
- (n) Royalties for motion picture films are treated as business profits.
- (o) Interest is exempt from withholding tax in Germany if the recipient is the government, the Central Bank of Azerbaijan or the national petroleum funds. Interest is exempt from withholding tax in Azerbaijan if it is paid on a loan guaranteed by the German government or if the recipient is the government, the German Central Bank, the Reconstruction Loan Corporation or the German Investment and Development Company (DEG).
- (p) Trademark royalties are taxed at a rate of 25%.
- (q) Copyright royalties for literary, dramatic, musical or artistic works (except motion picture films or television videotapes for Canada) are exempt from withholding tax.
- (r) For royalties with respect to the use of technical, commercial or scientific equipment, the rate is reduced to 0% under the Canada treaty, to 6% under the China treaty, to 5% under the Estonia, Latvia and Lithuania treaties, to 2% under the Korea treaty and to 3% under the Uzbekistan treaty.
- (s) Agreement has been reached on a new tax treaty, but the content has not yet been published.
- (t) A 0% rate applies to royalties for the use of, or the right to use, copyrights, including those for films and television. For Tunisia, the rate is 10% and does not apply to film and television copyrights. For Finland and Tunisia, copyrights specifically include those for literary, scientific and artistic works. For Trinidad and Tobago, they specifically exclude film and television copyrights. Under the Belarus treaty, the rate is 5% for royalties paid for the use of, or the right to use, copyrights of literary and artistic works, including films, television and broadcasts.
- (u) This treaty does not apply to the Hong Kong and Macau Special Administrative Regions (SARs).
- (v) A 20% rate applies to payments made for trademarks or for copyrights, excluding motion picture films or tapes for television or broadcasting.
- (w) Royalties for copyrights of literary or artistic works, motion picture films, or television or broadcasting are taxed at 20%.
- (x) Royalties for copyrights of literary, artistic or scientific works are taxed at 5%.
- (y) The treaty withholding tax rate increases to 15% (Albania, China [10%/15%; see footnote (rr)], Estonia, Mongolia, Switzerland, Syria, Ukraine and United Arab Emirates, 10%; Georgia and Israel, 5%/10%; United States, 5%/15%; Philippines and Vietnam, 10%/15%; Iran, Thailand, Trinidad and Tobago and Zimbabwe, 20%) if the recipient is not a corporation owning at least 25% (Algeria, Austria, Bulgaria, Canada, Croatia, Cyprus, Denmark, France, Ghana, Hungary, Ireland, Israel, Japan, Kuwait, Macedonia, Malaysia, Malta, Mauritius, Mexico, Mongolia, Namibia, Poland, Romania, Russian Federation, Singapore, Spain, Syria, Tajikistan, United Arab Emirates, United Kingdom and Uruguay, 10%; Georgia, 10%/50%; United States, 10%/80%; Venezuela, 15%; Belarus, Costa Rica, Pakistan, Switzerland and Ukraine, 20%; Philippines and Vietnam, 70%/25%) of the distributing corporation or if the participation does not have a specific value (Azerbaijan EUR150,000; Belarus EUR81,806.70; Georgia EUR3 million/EUR100,000; Russian Federation EUR80,000). Under the treaty with the United Arab Emirates, a tax rate of 15% applies to real estate investment corporations that are not or only partially subject to tax.
- (z) A 0% rate may apply under the EU-Switzerland treaty.

- (aa) The United States treaty provides for a 0% rate if the participation is at least 80% for a period of 12 months and if the conditions of the Limitation of Benefit test under Article 28 are fulfilled.
- (bb) The rate is reduced to 0% for interest paid on a loan guaranteed by Hermes-Deckung (this relates to security given by the German government for loans in connection with deliveries by German suppliers to foreign customers, particularly customers in developing countries).
- (cc) The rate is reduced to 10% for royalties for the use of commercial or scientific equipment.
- (dd) The 7.5% rate applies to dividends paid to companies owning at least 25% of the voting shares of the payer. A 15% rate applies if a recipient company owns less than 25% of the voting shares and if it is subject to tax on such dividend income. Otherwise, the full domestic German rate applies.
- (ee) The withholding tax rate applicable to fees for technical services is 7.5%.
- (ff) Germany has agreed with the Czech Republic and the Slovak Republic to apply the treaty with the former Czechoslovakia.
- (gg) Germany honors the USSR treaty with respect to all former Soviet republics except for Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, the Russian Federation and Ukraine. This has been acknowledged by Armenia, Moldova and Turkmenistan. Germany has entered into tax treaties with Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, the Russian Federation, Tajikistan, Ukraine and Uzbekistan. Withholding tax rates under these treaties are listed in the above table. Germany is engaged in tax treaty negotiations with Armenia and Turkmenistan.
- (hh) The treaty with the former Yugoslavia applies to Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. Germany has entered into tax treaties with Croatia, Macedonia and Slovenia. The tax rates under these treaties are listed in the table above.
- (ii) Dividends distributed by a German subsidiary to an EU parent company are exempt from withholding tax if the recipient owns 10% or more of the subsidiary. This exemption also applies if the participation is 10% or more and if the EU country where the parent company is located provides the exemption reciprocally. If the EU directive does not apply, the following rules apply:
- The withholding tax rate increases to 5% (Finland 10%) if the recipient owns at least 10% (Czechoslovakia, Estonia, Finland, Italy, Latvia, Lithuania and Slovenia, 25%) of the distributing company.
  - For Belgium, Czechoslovakia, Italy, Portugal and Sweden, the withholding tax rate increases to 15% (Ireland, 10%; Greece, 25%) for all shareholdings (under the Sweden treaty, only for shareholdings of less than 10%). Under the Netherlands and United Kingdom treaties, a rate of 10% applies for dividend payments to pension schemes.
- (jj) The rate is 5% for interest on loans granted by banks.
- (kk) The rate is reduced to 5% as long as German domestic law does not impose withholding tax on interest payments to nonresidents.
- (ll) The rate is 0% for interest in connection with sales of merchandise.
- (mm) The rate is reduced to 7.5% for royalties in connection with the use of technical equipment.
- (nn) Under the Tajikistan treaty, the 5% rate applies to the following:
- Royalties for the use of, or the right to use, copyrights of literary or artistic works, including motion picture films, or for the use of, or the right to use, names, pictures or similar personal rights
  - Royalties for the recording of artistic or athletic shows for television or radio broadcasting
  - Royalties for the use of, or the right to use, scientific rights, patents, trademarks, samples, models, plans, formulas or procedures for commercial and industrial or scientific know-how
- Under the Azerbaijan treaty, a 10% rate applies to the royalties described in the first two bullets above, while a 5% rate applies to the royalties described in the third bullet.
- (oo) Under the 2009 Annual Tax Act, the rate may be reduced to 15% if the non-resident dividend recipient qualifies under the German anti-treaty shopping rules.
- (pp) A 5.5% solidarity surcharge applies.
- (qq) The 0% rate applies to corporations if, at the time the dividend distribution takes place, the recipient has held a direct and continuous shareholding of at least 10% (Japan, 25%) of the voting rights for the last 12 months (Japan, 18 months). The withholding tax rate is increased to 5% if the corporation does not fulfill the requirement of 10% of the voting rights for the last 12 months (Japan, 6 months) before the dividend distribution. Regarding

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Liechtenstein, on application, the 5% tax can be refunded if the requirement of 10% of the voting rights for a continuous 12 months is fulfilled after the dividend distribution has taken place. A 15% withholding tax rate applies in all other cases, especially, regarding Liechtenstein, to certain investment funds.

- (rr) A 15% rate applies to dividends that are paid out of income or gains derived from immovable property within the meaning of Article 6 by an investment vehicle.

Germany has initialed and/or signed new tax treaties with Armenia, Australia, Belgium, Croatia, Ecuador, Egypt, Finland, Greece, Iceland, Macedonia, Oman, Poland, Singapore, South Africa, Sri Lanka, Trinidad and Tobago, Tunisia and Turkmenistan. At the time of writing, the domestic legal procedures for the entry into force of those treaties had not yet been concluded.

Germany is negotiating or renegotiating tax treaties with Argentina, Bangladesh, Bolivia, Canada, Colombia, Cuba, Denmark, Ethiopia, Ghana, the Hong Kong SAR, India, Indonesia, Jordan, Korea (South), Kuwait, Kyrgyzstan, Liberia, Morocco, Namibia, Portugal, Qatar, Rwanda, Serbia, Sweden, Switzerland, Tajikistan, Tanzania, Thailand, Ukraine and Vietnam.

# Ghana

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## A. At a glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%) (a)	
Dividends	8 (b)
Interest	8 (b)
Royalties	15 (c)
Management and Technology Transfer Fees	20 (c)
Directors' Fees	20
Technical Service Fees	20 (c)
Branch Remittance Tax	8

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**Net Operating Losses (Years)**

Carryback	Unlimited (d)
Carryforward	3/5 (e)

- (a) Applicable to payments to residents and nonresidents.
- (b) This is a final tax for both residents and nonresidents without a permanent establishment in Ghana.
- (c) This is a final tax for nonresidents without a permanent establishment in Ghana only.
- (d) Losses incurred on completion of long-term contracts may be carried back to prior tax years.
- (e) Enterprises that operate in government priority sectors (petroleum operations, minerals and mining operations, energy and power, manufacturing, farming, agro-processing, tourism, and information and communication technology businesses) are allowed to carry forward their losses for a period of five years. All other enterprises are allowed to carry forward their losses for a period of three years. In addition, losses incurred by venture capital financing companies on the disposal of shares invested in venture capital subsidiary companies under the Venture Capital Trust Fund Act, 2004 (Act 680) and losses incurred by qualifying venture capital financing companies on shares in any venture may be carried forward for five years after the disposal of the shares.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their business or investment income for the year, regardless of whether the source of the income still exists. A company is resident in Ghana if it is incorporated under the laws of Ghana or if its management and control are exercised in Ghana at any time during the year. Permanent establishments of nonresident companies in Ghana are also subject to tax on their worldwide income.

**Rates of corporate income tax.** The standard corporate income tax rate is 25%. However, various other tax rates apply to income derived from specified business activities.

Income derived from non-traditional exports is taxed at a rate of 8%. Income derived by banks from loans granted to farming enterprises is subject to tax at a rate of 20%. The rate of tax applicable to income derived by financial institutions from loans to leasing companies is 20%.

Rural or community banks are subject to tax at a rate of 1% for a period of 10 years beginning with their first year of operations.

The corporate income tax rate applicable to companies principally engaged in the hotel industry is 22%.

For petroleum extracting companies, the tax rate is 35%. The rate is consistent with the rate provided in the publicly disclosed petroleum agreements that have been signed with the government of Ghana. After a company has recovered all outlays from an oil field plus a specified rate of return after deduction of tax, royalties and an inflation adjustment, the government may negotiate for an additional share of the crude oil profits.

Mining companies are subject to corporate income tax at a rate of 35%. A holder of a mining lease, restricted mining lease or small-scale mining license must pay a royalty with respect to minerals obtained from its mining operations in Ghana. The royalty must be paid at the prescribed rate and in the prescribed manner.

*Tax incentives.* Ghana offers tax exemptions and tax reductions to companies engaged in specified industrial activities.

Income derived by companies from the business of constructing affordable low-cost residential premises for lease or sale is subject to tax at a rate of 1% for a period of five tax years (years of assessment). The tax-incentive period begins with the tax year in which the company begins its operations. If the company's accounting year differs from the calendar year, the beginning of the tax-incentive period is the tax year in which the accounting period of the first year of operations begins.

Rural banks are subject to tax at a rate of 1% for their first 10 years of operation.

The income of a venture capital financing company is subject to tax at a rate of 1% for five years if the company satisfies the eligibility requirements for funding under the Venture Capital Trust Fund Act. The tax-incentive period begins with the tax year in which the company satisfies the eligibility requirements.

Cocoa farmers are exempt from tax on income derived from cocoa. Cattle ranchers are subject to tax at a rate of 1% for the first 10 tax years. Income derived from tree crops, such as coffee, oil palm, shea nut, rubber and coconut, is subject to tax at a rate of 1% for 10 years following the first harvest. For a company's first five years of operations, income derived from livestock (other than cattle), fishing and cash crops, such as maize, rice, pineapple, cassava and yam, is subject to tax at a rate of 1%.

Income of a company from an agro-processing business conducted wholly in Ghana is subject to tax at a rate of 1% for a period of five tax years. The period begins with the tax year in which the company begins commercial production. If the company's accounting year differs from the calendar year, the beginning of the period is the tax year in which the accounting period of the first year of production begins.

Income of a company that commercially produces cocoa byproducts wholly in Ghana from substandard cocoa beans, cocoa husks and other cocoa waste as the principal raw materials is subject to tax at a rate of 1% for a period of five tax years. The tax-incentive period begins with the tax year in which the company begins commercial production. If the company's accounting year differs from the calendar year, the beginning of the period is the tax year in which the accounting period of the first year of production begins.

The income of a company whose principal activity is the processing of waste, including recycling of plastic and polythene material for agricultural or commercial purposes, is subject to tax at a rate of 1% for a period of seven tax years. This period begins with the tax year in which the company begins its operations. If the company's accounting year differs from the calendar year, the beginning of the tax-exemption period is the tax year in which the accounting period of the first year of operations begins.

Nonresident companies engaged in air and sea transportation are exempt from tax if the Commissioner-General of the Ghana Revenue Authority (GRA) is satisfied that the same types of companies resident in Ghana are granted an equivalent exemption by the nonresident company's country of residence.



Manufacturing enterprises, other than those operating in free zones or engaged in the export of non-traditional goods, located in regional capitals other than Accra are entitled to a 25% income tax rebate, while manufacturing enterprises located outside regional capitals other than Tema are entitled to a 50% income tax rebate.

**Capital gains.** A company that derives a gain from the realization of a capital asset is required to include the gain in its business income unless the asset is held or used for investment purposes. In such case, the gain is included in determining the company's investment income.

To calculate a gain from the realization of a capital asset, the cost basis of the asset is deducted from the proceeds received on the disposal of the asset. The cost basis of a chargeable asset is the sum of the following:

- Cost of the asset including incidental costs
- Expenditure incurred to alter or improve the asset
- Expenditure relating or incidental to the disposal of the asset

**Administration.** The Ghana Revenue Authority (GRA) is responsible for the administration and collection of all taxes.

The tax year is the calendar year. If a company's accounting year differs from the calendar year, its basis period for a tax year is the accounting year ending within the tax year.

Companies must file their tax returns within four months after the end of their accounting year.

Assessed tax must be paid on the date specified in the notice of assessment from the Commissioner-General of the GRA. In general, companies whose accounting year differs from the tax year must make quarterly payments at the end of the third, sixth, ninth and twelfth months of their accounting year.

Companies that fail to pay income tax by the due date are liable to pay interest at 125% of the statutory rate on the amount of tax that remains unpaid, in addition to the tax payable. The interest is compounded monthly.

To make tax collection more efficient, taxpayers are segmented into the following three categories:

- Large taxpayers
- Medium taxpayers
- Small taxpayers

**Dividends.** An 8% withholding tax is imposed on dividends paid to resident shareholders, unless exempt, and nonresident shareholders. This is a final tax.

**Foreign tax relief.** Foreign tax paid on foreign income is allowed as a credit against tax payable with respect to the foreign income received in Ghana. The amount of tax chargeable with respect to the income is reduced by the amount of the credit.

### C. Determination of trading income

**General.** Chargeable income is based on the income reported in entities' financial statements, subject to certain adjustments.

To be deductible, expenses must be wholly, exclusively and necessarily incurred in the production of income by the company during the financial year. Expenses that may be deducted include the following:

- Interest (subject to thin-capitalization rules; see Section E)
- Rent
- Repair of plant, premises, machinery and fixtures (see *Repairs*)
- Bad debts (see *Provisions*)
- Research and development expenditure
- Financial costs (see *Financial costs*)

**Repairs.** Expenditure on repairs and improvements to a depreciable asset are deductible expenses, regardless of whether they are of a capital nature. However, the amount deductible is limited to 5% of the written-down value of the pool to which the depreciable asset belongs. The excess expenditure is added to the written-down value of such pool.

**Financial costs.** Financial costs other than interest incurred by an entity are deducted in calculating the income of the entity from an investment or business. However, the deduction is limited to the sum of the following:

- Financial gains to be included in calculating the income of the entity from the business or investment
- Fifty percent of the chargeable income of the entity for the year from the business or investment, calculated without including financial gains derived by the entity or deducting financial costs incurred by the entity

Any outstanding financial costs can be carried forward to up to five tax years.

The timing of the inclusions and exclusions of financial gains and costs is determined in accordance with generally accepted accounting principles (GAAP).

**Inventories.** In determining the chargeable income of a person from a business, the cost of inventory used in generating the income is deducted. The deductible amount is determined by adding to the value of the opening stock the expenses incurred by the person that is included in the cost of trading stock and deducting the value of the closing stock from the amount.

**Provisions.** Bad debts incurred in business are deductible if the company proves to the satisfaction of the Commissioner-General of the GRA that the debts have become bad, and that it has taken all reasonable steps to ensure payment, but to no avail. Under the Tax Act, provisions for bad and doubtful debts are not allowed for tax purposes.

All amounts recovered with respect to bad debts that were deducted must be included in income for the accounting year of the recovery.

**Research and development expenditure.** Expenses with respect to research and development are deductible if the expenses are wholly, exclusively and necessarily incurred in generating the income of the business, regardless of whether the expense is of a capital nature.

**Capital allowances (tax depreciation).** Capital allowances are granted on depreciable assets. Depreciable assets are classified into five main classes. Assets in Classes 1, 2, and 3 are placed in separate pools, and capital allowances granted with respect to the pool. Capital allowances for Classes 4 and 5 assets are granted on individual assets of the same class. To claim capital allowances, a company must satisfy the following conditions:

- It used the asset in the production of the income.
- It incurred cost in purchasing the asset.

Capital allowances granted for a particular tax year are deemed to be deductions in arriving at the chargeable income or loss of the company.

The following table presents the various classes of assets and details for calculating their capital allowances (capital allowances granted with respect to assets used in mining and petroleum operations are not included in the table).

Class	Assets	Rate %	Formula for calculating capital allowances
1	Computers and data handling equipment, together with peripheral devices	40	$(A \times B \times C) \div 365$ (a)
2	Automobiles; buses and minibuses; goods vehicles; construction and earth-moving equipment, heavy general purpose or specialized trucks; trailers and trailer-mounted containers; plant and machinery used in manufacturing; and costs of a capital nature with respect to long-term crop planting costs	30	$(A \times B \times C) \div 365$ (a)
3	Railroad cars, locomotives and equipment; vessels, barges, tugs, and similar water transportation equipment; aircraft; specialized public utility plant, equipment, and machinery; office furniture, fixtures and equipment; and any depreciable asset not included in another class	20	$(A \times B \times C) \div 365$ (a)
4	Buildings, structures and similar works of a permanent nature	10	$(A \times B \times C) \div 365$ (b)(c)
5	Intangible assets	– (d)	$[(A \div D) \times C] \div 365$ (c)(e)

- (a) A is the written-down value of the pool at the end of a basis period, B is the depreciation rate applicable to the pool, and C is the number of days in the period.
- (b) A is the cost base of the asset, B is the depreciation rate, and C is the number of days in the basis period.
- (c) The total amount of capital allowances granted for a Class 4 or 5 asset may not exceed the cost basis of the asset.
- (d) The rate is determined by formula.
- (e) A is the cost base of the asset, C is the number of days in the basis period, and D is the useful life of the asset in whole years calculated at the time the asset is acquired.

*Mining and petroleum.* A different method applies for granting capital allowances for mining and petroleum companies or contractors. For mining and petroleum operations, assets are pooled on a year-by-year basis, and assets acquired each year represent a separate pool. Capital allowances are calculated on straight-line basis at a rate of 20% on each separate pool.

**Relief for losses.** Enterprises engaged in government priority sectors are permitted to carry forward losses for a period of five years. However, enterprises operating in any other sector of the economy are allowed to carry forward losses for a period of three years.

Losses incurred on completion of long-term contracts may be carried back to prior tax years.

**Groups of companies.** Each company within a group must file a separate tax return. Offsetting of losses against profits among members of the group is not allowed.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); imposed on all supplies of goods and services made in, or goods imported into, Ghana, except for exempt items; services imported for the person's own consumption are subject to a reverse VAT charge	15
National Health Insurance Levy (NHIL); imposed on all supplies of goods and services made in or imported into Ghana, except for supplies that are specifically exempt; services imported for the person's own consumption are subject to a reverse a NHIL charge	2.5
VAT Flat Rate Scheme; retailers and wholesalers of goods must charge VAT and NHIL on their supplies at a flat rate; input VAT and NHIL incurred by persons under the scheme cannot be claimed	3

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Ghana is the Ghana cedi (GHS).

The Foreign Exchange Act, 2006 (Act 723) governs foreign-exchange controls in Ghana. However, the Bank of Ghana exercises much discretion in administering the act.

**Anti-avoidance legislation.** A company must obtain a tax-clearance certificate to engage in certain transactions, including the purchase of goods in commercial quantities from producers, distributors, manufacturers or importers. The Commissioner-General of the GRA has the power to disregard or re-characterize fictitious arrangements and schemes entered into or carried out for the purposes of avoiding tax. The income tax law contains the following three specific anti-avoidance measures:

- Income splitting (see Section C)
- Transfer pricing (see *Transfer pricing*)
- Thin capitalization (exempt-debt to exempt-equity ratio; see *Debt-to-equity ratio*)

**Transfer pricing.** Ghana introduced transfer pricing regulations in September 2012. The regulations follow the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines. The regulations allow the use of the transfer-pricing methods outlined in the OECD guidelines and the use of an alternative method if the methods stated are not appropriate for determining the arm's-length price for the transaction. On the filing of a return, the Commissioner-General can use an alternative transfer-pricing method if the Commissioner-General takes the view that the method used does not result in the arm's-length price for a transaction.

The regulations also require entities that enter into related-party transactions to prepare contemporaneous documentation to support their returns. Entities must also submit transfer-pricing returns as part of their annual income tax returns within four months after the end of the accounting year.

**Debt-to-equity ratio.** If an “exempt-controlled resident entity,” other than a financial institution, has an “exempt debt” to “exempt equity” ratio in excess of 3:1, no deduction is allowed for interest paid or a foreign-exchange loss incurred on the portion of the debt that exceeds the 3:1 ratio. Broadly, an “exempt-controlled resident entity” is a resident entity of which at least 50% of its underlying ownership or control is held by an “exempt person,” which is a nonresident person or a resident person meeting certain criteria. The law also provides detailed definitions of “exempt debt” and “exempt equity.”

## F. Treaty withholding tax rates

The following are the maximum withholding rates under Ghana's double tax treaties for dividends, interest, royalties, and management and technology transfer fees.

	Dividends	Interest	Royalties and management and technology transfer fees
	%	%	%
Belgium	5	10	15
France	8	10	15
Denmark	5	8	8

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	<b>Dividends</b>	<b>Interest</b>	<b>Royalties and management and technology transfer fees</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Germany	8	10	15
Italy	5	10	10
Netherlands	8	10	15
South Africa	8	10	15
United Kingdom	8	10	15
Non-treaty jurisdictions	8	8	15/20*

\* The 15% rate applies to royalties. The 20% rate applies to management and technical service fees.

# Gibraltar

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## A. At a glance

Corporate Income Tax Rate (%)	10 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	10 (a)
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (b)

- (a) A tax rate of 20% applies to utility, energy and fuel supply companies and companies abusing a dominant market position.
- (b) In general, the carryforward is unlimited. However, if both a change in ownership and a major change in the nature or conduct of a trade carried on by the company occurs within a three-year period, losses incurred before the change in ownership cannot be offset against losses incurred subsequent to the change in ownership.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies are taxed on profits “accrued in or derived from” Gibraltar. “Accrued in or derived from” is defined by reference to the location of the activities that generate the profits. If a company’s income results from an underlying activity that requires a license and regulation under any law of Gibraltar, the income is deemed to accrue in and derive from Gibraltar, except for income from activities carried on outside Gibraltar by a branch or permanent establishment.

The above rule applies regardless of whether a company is registered in Gibraltar or whether it is ordinarily resident in Gibraltar. A company is ordinarily resident in Gibraltar if central management and control is exercised there.

**Rates of corporation tax.** All companies are chargeable on taxable profits at a rate of 10%, except for utility, energy and fuel supply companies and companies deemed to be abusing a dominant market position, which are subject to tax at a rate of 20%.

**Capital gains.** Capital gains are not taxed in Gibraltar. Capital losses are not deductible.

**Administration.** For financial periods ending on or after 1 January 2016, all companies that are registered in Gibraltar or that have income assessable to tax in Gibraltar are required to file a return. For prior financial periods, only companies with income assessable to tax in Gibraltar were required to file a return. Returns, accounts and computations must be filed within nine months after the end of the month in which the financial period ends.

For financial periods ending on or after 1 January 2016, all companies incorporated in Gibraltar that declare a dividend in a financial period are required to file a dividend return within nine months after the end of the month in which that financial period ends. Before 2016, only companies incorporated in Gibraltar that declared a dividend in favor of a person ordinarily resident in Gibraltar or in favor of another company incorporated in Gibraltar were required to file a dividend return.

Companies must make payments on account of their corporation tax by 28 February and 30 September each year. Each payment is made toward the tax liability for the financial period in which the payment on account is due. The amount of payment on account due is based on the tax payable for the last relevant financial period. An application can be made for a reduced or zero payment if basing the payment on a prior year would result in an excessive payment. The final payment with respect to a financial period is due within nine months after the end of the month in which that financial period ends.

Companies not complying with filing and payment deadlines are subject to penalties and surcharges.

A self-assessment system requires companies to assess correctly their tax liabilities or face significant penalties.

Companies may request advance tax rulings.

**Dividends.** Dividends paid by Gibraltar companies are not subject to withholding tax. Tax credits are attached to dividends paid by companies incorporated in Gibraltar. This tax credit equals the tax paid by the company on the profits out of which the dividend is paid. Restrictions may apply to how such tax credits may be utilized.

Dividend income is not taxable in the following circumstances:

- The dividend is received by a company from another company.
- The dividend is received by a person who is not ordinarily resident in Gibraltar.
- The dividend is received from a company that has its shares listed on a recognized stock exchange.
- The dividend represents the distribution of profits or gains on which no tax has been charged in accordance with the provisions of the Income Tax Act 2010 (the act contains rules governing the allocation of dividends to specific profits or gains).

The above exceptions may be subject to the anti-avoidance provisions introduced into the EU Parent-Subsidiary Directive, which apply from 31 December 2015.



**Interest.** Withholding tax is not imposed on the payment of interest. Interest income is not taxable, except for the following:

- Interest on loans or advances by one company to another company if the interest from an individual company is GIP100,000 or more per year. Under an anti-avoidance measure, interest received or receivable from different companies is considered to be from the same company for the purposes of the GIP100,000 threshold if those companies are “connected persons.” For this purpose, interest is deemed to be accrued and derived in Gibraltar if the company in receipt of the interest is a Gibraltar-registered company.
- Interest income of a company that lends to, or takes deposits from, the general public or engages in similar activities.

**Royalties.** Royalty income received or receivable by a company is taxable. Such income is deemed to be accrued and derived in Gibraltar if the company receiving the royalties is a Gibraltar-registered company.

**Foreign tax relief.** Unilateral tax relief is granted with respect to tax paid or payable in another jurisdiction on income from that jurisdiction. This is restricted to the tax that would otherwise have been payable in Gibraltar on that income.

### C. Determination of trading income

**General.** Taxable profits are determined based on financial statements prepared in accordance with Gibraltar generally accepted accounting practice (GAAP), or UK GAAP or International Financial Reporting Standards, subject to certain adjustments and provisions.

In general, expenses must be incurred wholly and exclusively for the purposes of the trade, business, profession or vocation. However, specific reliefs and prohibitions exist for certain expenses.

Certain expenses are either not deductible or are subject to restrictions, including the following:

- Interest paid or payable to a person not resident in Gibraltar is not deductible to the extent that the interest is charged at a rate greater than a reasonable commercial rate.
- Depreciation and amortization of assets are not deductible (instead capital allowances are given; see *Tax depreciation [capital allowances]*).
- Contributions to a provident, pension or other fund for the benefit of employees are not deductible if the fund has not been approved by the Commissioner of Income Tax.
- The cost of entertaining existing and potential clients and persons introducing business, are deductible, but detailed rules restrict deductibility.
- For a branch or a company with a branch, the deduction for certain head office expenses or certain expenses incurred by a branch for the common purpose of the company is restricted to 5% of gross income of the branch.
- “General” expenses are apportioned between chargeable and non-chargeable income on a pro rata basis. The part of such expenses attributable to non-chargeable income is not deductible.

**Tax depreciation (capital allowances).** The first GIP30,000 of plant and machinery (including, among other items, fixtures, fittings, equipment and commercial motor vehicles) acquired in a financial period is fully deductible in that period. In addition, the first GIP50,000 of qualifying capital expenditure on information technology investment in a financial period is also fully deductible.

All such assets are pooled for tax purposes. The pool is increased with respect to any additions in excess of initial allowances given, and reduced by the proceeds of any disposals in the period. The allowance for the year is then calculated at 15% of the value of the pool. The pool value is then reduced by that allowance and the remaining balance carried forward to the next period. For companies taxed at 20% (see *Rates of corporate tax*), the annual allowance is given at 20% instead of 15%.

**Groups of companies.** Gibraltar law does not provide for tax consolidation. It does not have any provision for group relief (that is, the use of tax losses of one group company by another group company).

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Stamp duty	
On the issuance or increase of authorized share capital, or on the issuance of loan capital; fixed amount per transaction	GIP10
On the purchase of real estate in Gibraltar	
First- and second-time buyers	
First GIP260,000 of purchase price	0%
Balance above GIP260,000 to GIP350,000	5.5%
Balance above GIP350,000	3.5%
Other buyers	
Purchase price not exceeding GIP200,000	0%
Purchase price between GIP200,001 and GIP350,000	2% on first GIP250,000, and 5.5% on balance
Purchase price of over GIP350,000	3% on first GIP350,000, and 3.5% on balance
Social insurance contributions, on employees' wages and salaries; payable on weekly wages by Employer	20% (subject to minimum of GIP16.50 per employee per week and maximum of GIP36.50 per employee per week)
Employee (under 60)	10% (subject to minimum of GIP5.50 per week and maximum of GIP27.50 per week)

## E. Miscellaneous matters

**Foreign-exchange controls.** Restrictions are not imposed on foreign exchange or on inward or outward investments. The transfer of profits and dividends, loan principal and interest, royalties and fees is unlimited, subject to company law.

**Anti-avoidance legislation.** Gibraltar tax law contains several anti-avoidance provisions.

The Commissioner of Income Tax may disregard part or all of arrangements that are deemed to be artificial and/or fictitious and whose purpose is to reduce or eliminate tax payable.

Any “notifiable arrangement” or “notifiable proposal” must be disclosed to the Commissioner of Income Tax. Detailed procedures exist for seeking clearance in advance of proposals. A timetable is provided for the Commissioner to request further information, to notify the applicant that anti-avoidance provisions will or will not apply, or to notify the applicant that the Commissioner requires a further 21 days to make a decision.

In certain circumstances, the deduction for expenses incurred in favor of a connected party or parties may be restricted to the lower of 5% of turnover or 75% of profit before taking into account the expenses in question.

**Debt-to-equity ratios.** Thin-capitalization rules apply to interest paid by a company in the following circumstances:

- The interest is paid to a connected party that is not a company.
- The loan is secured by assets belonging to a connected party that is not a company.

In the above circumstances, if the loan is not considered to be on arm’s-length terms and if the loan capital to equity ratio is greater than 5:1, interest paid by the company may be treated as a dividend instead of a deductible expense.

Interest paid to a connected party in excess of the amount that would have been charged on an arm’s-length basis may be deemed to be a dividend instead of a deductible expense.

Interest may be disallowed as a deductible expense if both of the following circumstances exist:

- The loan is secured by a cash deposit made with the lender (or party connected to the lender) or secured by certain investments.
- The income from the cash deposit or investment is not assessable to tax.

## F. Tax treaties

Gibraltar has no tax treaties in force. Gibraltar has implemented the European Union (EU) Parent Subsidiary Directive and the EU Directive on Interest and Royalties. Notwithstanding the legislation arising from these EU directives, Gibraltar does not impose withholding tax on dividends, interest or royalties.

# Greece

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*At the time of writing, changes to the tax law were expected. Because of these expected changes, readers should obtain updated information before engaging in transactions.*

**A. At a glance**

Corporate Income Tax Rate (%)	29 (a)
Capital Gains Tax Rate (%)	29 (b)
Branch Tax Rate (%)	29
Withholding Tax (%)	
Dividends	15 (c)
Interest	
Bank Interest	15 (d)(e)
Interest on Treasury Bills and Corporate Bonds	15 (d)(e)
Repos and Reverse Repos	15 (d)(e)
Other Interest	
Paid to Greek Legal Entities	15
Paid to Foreign Legal Entities	15 (e)(f)
Royalties from Patents, Know-how and similar payments	20 (e)(f)
Technical Service Fees, Management Service Fees, Consulting Service Fees and Fees for Similar Services	0/20 (g)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) Under Law 4472 of 19 May 2017, business income realized by legal persons or legal entities as of 1 January 2019 will be taxable at a 26% rate (with the exception of credit institutions, which will continue to be taxed at the currently applicable 29% rate), provided that several conditions set forth in the Economic Adjustment Program for Greece are met (such conditions will be assessed by the International Monetary Fund and the European Commission).
- (b) For details regarding the taxation of capital gains derived by legal persons or legal entities, see Section B.
- (c) The 15% withholding tax rate applies to dividends and interim dividends distributed by a Greek corporation (*anonymos eteria*, or AE; in certain countries, a corporation is referred to as a *société anonyme*, or SA) and profits distributed by a Greek limited liability company (*eteria periorismenis efthisis*, or EPE). This 15% withholding tax is subject to rates applicable under double tax treaties or under the European Union (EU) Parent-Subsidiary Directive (amended by Directive 2011/96/EC).
- (d) This 15% withholding tax is subject to rates applicable under double tax treaties or under the EU Interest-Royalties Directive.
- (e) This is a final tax if the beneficiary is a legal person (for example, a company) or legal entity that satisfies both of the following conditions:
- It does not have its tax residency in Greece.
  - It does not maintain a permanent establishment for corporate income tax purposes in Greece.

- (f) This 20% withholding tax is subject to rates applicable under double tax treaties or under the EU Interest-Royalties Directive. No tax is withheld on payments of royalties made to legal persons or legal entities that have their tax residence in Greece or that have a Greek permanent establishment in Greece.
- (g) No tax is withheld if the recipient has its tax residency in Greece or another EU/European Economic Area (EEA) country; otherwise, a 20% withholding tax applies.

## B. Taxes on corporate income and gains

**Corporate income tax.** Greek companies are taxed on their worldwide income. Foreign business enterprises are taxed only on income derived from a permanent establishment in Greece or on profits generated in Greece. An AE, SA or EPE is Greek if its corporate seat or place of effective management is located in Greece.

A legal person or entity is considered to be a Greek tax resident in the following cases:

- It is incorporated or established under Greek law.
- It has its registered office in Greece.
- Its place of effective management is in Greece at any time during the tax year.

The “place of effective management” concept should be reviewed on an ad hoc basis in the context of the factual background of each case. For this purpose, indicative criteria are listed, such as the following:

- The place where the day-to-day management of the company takes place
- The place where strategic business decisions are made
- The place where the annual general meeting of shareholders or partners or the board of directors takes place
- The place where the accounting books of the company are held
- The residence of the members of the board of directors

In addition, the Greek tax administration may examine additional factors, such as the residence of the majority of the shareholders or partners.

**Rate of corporate income tax.** The standard corporate income tax rate is currently 29% (see footnote [a] in Section A about the rate to be applied for business income realized by legal persons or legal entities as of 1 January 2019).

**Capital gains.** Capital gains earned by legal entities are treated as business income and are subject to corporate income tax at the standard rate of 29% if they derive from the following:

- Disposals of fixed assets
- Transfers of businesses as going concerns
- Disposals of real estate property that do not constitute a business activity per se
- Transfers of securities (such as listed shares, unlisted shares, interests in partnerships, treasury bills, Greek state bonds and derivatives)

Sales of listed shares are also subject to a 0.2% transaction duty.

**Administration.** The fiscal year coincides with the calendar year. Legal persons or entities keeping double-entry books may set their tax year to end on 30 June or on any other date coinciding with the tax year-end of their foreign shareholder. An option for a tax year exceeding 12 months is not available. Greek SAs or AEs, Greek EPEs and branches of foreign companies must file an annual corporate income tax return by the end of the sixth month following the end of their fiscal year.

In general, on filing their annual corporate income tax return, legal entities must make an advance payment against the next year's income tax liability. Such advance payment equals the amount calculated by applying a rate of 100% to the income tax due for the year for which the return is filed. The final payment of tax is calculated by subtracting the advance payment made in the preceding year and other prepayments of tax (including taxes withheld at source) and foreign taxes paid on foreign-source income from the amount of tax due. The foreign tax credit cannot exceed the amount of Greek tax otherwise payable on the foreign-source income.

A description of the penalties is provided below; if more than one penalty applies to the same tax offense, only the provision providing for the largest penalty applies.

A failure to file a corporate income tax return or to file in time a corporate income tax return results in the imposition of an administrative penalty ranging from EUR100 (if no tax is due) to EUR500 (if tax is due).

A failure to pay corporate income tax as a result of filing an inaccurate corporate income tax return results in the imposition of the following penalties:

- If the filing of an inaccurate corporate income tax return results in a difference of corporate income tax of 5% to 20%, the penalty equals 10% of the amount of the difference between the tax assessed on the basis of the tax return and the corrective tax assessment.
- If the filing of inaccurate corporate income tax return results in a difference of corporate income tax exceeding 20% but not exceeding 50%, the penalty equals 25% of the amount of the difference.
- If the filing of inaccurate corporate income tax return results in a difference of corporate income tax exceeding 50%, the penalty equals 50% of the amount of the difference.

A failure to file a corporate income tax return when corporate income tax would be due results in the imposition of a penalty equal to 50% of the amount of corporate income tax avoided.

In addition to the above, interest in arrears for the late payment of corporate tax is assessed; the current rate is 0.73% per month.

A failure to file a withholding tax return, the filing of an inaccurate withholding tax return or the failure to pay withholding taxes on time results in the imposition of a penalty equal to 50% of the amount of the unpaid tax.

**Dividends.** A 15% withholding tax is imposed on dividends and interim dividends distributed to Greek or foreign beneficiaries by

Greek SAs and profits distributed by Greek EPEs, unless an applicable double tax treaty provides otherwise (see Section F) or unless tax relief is available under the EU Parent-Subsidiary Directive (90/435/EEC), as amended by Directive 2011/96/EC). For details regarding the rules in this directive, please see below. This tax represents the final tax liability of the recipient with respect to the dividends received if the recipient is a legal entity that does not have tax residency in Greece and does not maintain a permanent establishment in Greece.

A Greek subsidiary is not required to withhold the 15% withholding tax from dividends and interim dividends distributed to their EU parent companies if all of the following conditions are satisfied:

- The EU parent company holds a minimum 10% participation in the Greek subsidiary.
- The EU parent company holds the above participation in the Greek subsidiary for at least two consecutive years.
- The recipient EU parent company satisfies all of the following additional conditions:
  - It has one of the legal types listed in Annex I of EU Directive 2011/96/EC.
  - It is tax resident in one of the EU member states (and is not considered tax resident in any non-EU country).
  - It is subject to one of the taxes listed in Annex I of Section B of EU Directive 2011/96/EC, with no option for a tax exemption.

Effective from 1 January 2014, if a Greek tax resident legal person distributes dividends to its parent company and if the parent company has not completed the two-year holding period for a 10% participation but meets the rest of the exemption requirements (see above), the distribution can be exempt from withholding tax, provided that the local Greek tax resident legal person deposits a bank guarantee in an amount based on a specific calculation. This amount is almost equal to the amount of the dividend withholding tax due.

**Foreign tax credit.** Foreign-source income is usually taxable with a credit for foreign income taxes paid, up to the amount of Greek tax corresponding to the foreign-source income. The credit cannot exceed the amount of Greek tax payable on the same amount.

### C. Determination of trading income

**General.** Taxable income for all legal entities consists of annual gross income, less allowable deductions. In principle, expenses may be deducted only from gross income for the fiscal year in which they are incurred.

In general, effective from 1 January 2014, all ordinary business expenses and specific items mentioned in the tax law may be deducted for tax purposes (with the exception of certain expenses that the law explicitly indicates are not deductible for tax purposes) only if the following conditions are satisfied:

- They are made in the interest of the business or in the ordinary course of its business transactions.



- They reflect an actual transaction that has a value not considered lower or higher than the actual value, based on indirect audit methods (cross-checks).
- They are recorded in the accounting books for the period in which they are incurred and are supported by proper documentation.

Special reference is made to the deductibility of expenses made for scientific and technological research.

The new Income Tax Code also includes a list of nondeductible expenses.

**Inventories.** Effective from 1 January 2014, inventory and semi-finished products must be evaluated according to current accounting principles. The tax law does not determine any official method for stock valuation. However, beginning with the tax year in which a valuation method is first used by a company for valuation of its inventory and semifinished products, the company must use the method for a minimum of four years.

**Provisions.** Bad debt provisions and write-offs are deductible for corporate income tax purposes at a rate defined on a case-by-case basis, based the amount of the uncollected debt and the time period during which the debt remains uncollected.

For uncollected debts that do not exceed EUR1,000 and that are overdue for a period of more than 12 months, the taxpayer may establish a provision equal to 100% of the debt.

For uncollected debts that exceed EUR1,000 and that are overdue, the taxpayer may establish a provision equal to the following:

- 50% of the debt if it is overdue from 12 to 18 months
- 75% of the debt if it is overdue from 18 to 24 months
- 100% of the debt if this is overdue for more than 24 months

Restrictions are imposed on the formation of bad debt provisions for a shareholder or partner holding at least a 10% participation in a business and for business' subsidiaries with a minimum 10% participation. Special rules are also provided for the deduction of bad debt provisions by banks, leasing and factoring companies.

**Depreciation.** Depreciation is performed by applying a specific depreciation rate to the acquisition or construction cost for a business asset. The depreciation of each fixed asset begins the month following the month in which the asset is first used or put into service by the taxpayer. The following table provides the annual depreciation rates, effective from 1 January 2014.

Categories of assets	Depreciation rate (%)
Buildings, installations, facilities industrial installations, non-building facilities, warehouses and special loading and unloading vehicles	4
Plots of land used for mining purposes and quarries, except those used for ancillary mining activities	5
Public means of transportation (including airplanes, trains and ships)	5

Categories of assets	Depreciation rate (%)
Machinery and equipment (except for personal computers [PCs] and software)	10
Means of transportation of individuals	16
Means of transportation of goods	12
Intangible assets and royalties and expenses of multiannual depreciation	10
PCs and software	20
Equipment used for scientific and technological research	40
Other fixed assets	10

An option exists for one-off depreciation of fixed assets valued up to EUR1,500 in the year in which the assets are acquired and placed in service. Newly established companies are eligible to claim depreciation for all of their fixed assets at a 0% rate for their first three years.

**Relief for losses.** Tax losses may be carried forward to offset business profits in the following five consecutive tax years from the tax year in which they are incurred. The right to carry forward tax losses ceases to apply if changes in ownership or voting rights exceed 33% in value or number, unless it is proven that the transfer was not made for the purpose of tax avoidance or tax evasion. Offsetting of losses incurred abroad against business profits derived domestically is not allowed, with the exception of income arising in other EU or EEA member states that is not exempted based on an applicable double tax treaty. Losses may not be carried back.

**Groups of companies.** Each company forming part of a group must file a separate return. The law does not provide for consolidated tax returns or other group relief.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT)	
Standard rate	24
Reduced rate	13
	(special reduced rate of 6%)
Stamp duty on private loan agreements	2.4/3.6
Capital duty	1.1
Annual real estate tax; imposed on the value of real estate owned by legal entities; the rate depends on the zone of the real estate, its surface, year built, whether the property faces a national road and other factors	Various
Special property tax; imposed on the "objective" value of real estate property; the tax does not apply if the company has listed shares or if it discloses its corporate structure and the ultimate individual shareholders or partners are revealed	15
Real estate transfer tax; imposed on taxable value	3

## E. Miscellaneous matters

**Foreign-exchange controls.** As of July 2015, important restrictions have been introduced with respect to the transfer of money out of Greece. As a general rule, the transfer of funds to a foreign credit institution may be subject to certain preapprovals from the side of the Greek credit institution or from the competent Administrative Credit Committee of Greece; otherwise, it is prohibited (although some exemptions exist). Readers should obtain updated information before engaging in any transaction because the relevant rules are subject to amendment on a regular basis.

**Transfer pricing.** The Greek tax law includes a transfer-pricing clause (Articles 21 and 22 of the Code of Fiscal Procedure) that is aligned with international standards. In addition, the transfer-pricing legislation requires that an enterprise maintain documentation files.

Effective from 1 January 2014, a new definition of “associated/affiliate enterprises” is introduced. The new law defines the term “associated person,” which extends to legal entities, individuals and any other body of persons. The term encompasses two persons if any of the following circumstances exists:

- One of them holds directly or indirectly shares, parts or quotas in the other of at least 33%, estimated on the basis of total value or number, or equivalent profit participation rights or voting rights.
- Another third person participates directly or indirectly in the other two in any of the aforementioned ways.
- Between them, direct or indirect management dependence or control exists or the possibility exists for one person to exercise decisive influence over the other or for a third person to do so in both of them.

Effective from 1 January 2014, the concept of advance pricing arrangements (APAs) is introduced in Greek transfer-pricing legislation.

**Debt-to-equity rules.** No deduction is allowed for interest expenses (with the exception of interest on banking loans and corporate bond loans) incurred on loans granted by third parties to the extent that the interest rate exceeds the interest that would be payable if the applicable interest rate were equal to the interest rate for loans connected with revolving accounts to non-credit or non-financial enterprises, as published by the Bank of Greece.

Under the rules applicable for fiscal years beginning on or after 1 January 2017, interest expense in excess of interest income (net interest expense) that exceeds 30% of Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA) plus nondeductible expenses is not deductible for tax purposes. However, notwithstanding the above rule, interest expense in excess of interest income is fully deductible as a business expense if the cumulative amount of interest expenses recorded in the accounting books does not exceed EUR3 million per year.

The amount of interest expense that is not deductible for corporate income tax purposes in accordance with the above debt-to-equity rules may be carried forward as a deductible expense with no restriction (indefinitely).

The above debt-to-equity rules do not apply to credit institutions.

**Controlled foreign corporations.** Controlled foreign corporation (CFC) rules are introduced in Greece, effective from 1 January 2014. These rules are designed to deal with tax avoidance of Greek companies through the shifting of revenues to subsidiaries in low-tax jurisdictions. Basically, these rules provide for the inclusion in the taxable income of the Greek companies of undistributed passive income (for example, interest, dividends and royalties) of foreign subsidiaries under the conditions stipulated in the law.

**Mergers and acquisitions.** Company law regulates mergers and acquisitions in Greece. However, significant tax exemptions and relief for company restructurings may be available.

**Transfers of operations.** The tax law regulates the tax treatment of a group business restructuring that results in a transfer of operations (exit taxation). In the case of a local or cross-border intra-group restructuring qualifying as a transfer of functions, assets, risks and business opportunities (profit potential), the transfer of these items are considered a “transfer package” for the purposes of the law. If, within the context of such restructuring, a transfer of an intangible asset takes place (among other transfers), such transfer must be made for consideration according to the arm’s-length principle, taking into account the total value of the underlying assets and the transfer package (relevant functions and risks transferred). If the taxpayer can prove that no significant intangible assets have been transferred and that arm’s-length consideration has been paid with respect to the specific transfer that took place, the transfer-package provisions do not apply.

**General anti-avoidance rule.** Fiscal Procedure Code Law 4174/2013 introduced a general anti-avoidance rule. Under this rule, the tax administration may disregard any artificial arrangement or series of arrangements that aim at the evasion of taxation and lead to a tax advantage. An arrangement is considered artificial if it lacks commercial substance and aims for the evasion of taxation or a tax benefit. To determine if an arrangement is artificial, various characteristics are examined. For purposes of this measure, the goal of an arrangement is to avoid taxation if, regardless of the subjective intention of the taxpayer, it is contrary to the object, spirit and purpose of the tax provisions that would apply in other cases. To determine the tax advantage, the amount of tax due after taking into consideration such arrangements is compared to the tax that would be payable by the taxpayer under the same conditions in the absence of such an arrangement.

**Law 89/1967 regime.** Enterprises licensed to operate under the Law 89/1967 regime may enter into a favorable APA with the tax authorities. A license may be granted to enterprises under this regime if certain conditions are met. The principal condition is that the company must be exclusively engaged in the provision of specific services to foreign associated companies, the foreign head office or foreign branches. The Ministry of Economy and Finance grants the license after reviewing and approving the applicant’s transfer-pricing study (based on the cost-plus method).

## F. Treaty withholding tax rates

Under most double tax treaties, the rates in the table below apply to the extent that the amount of interest or royalties is at arm's length. The domestic withholding tax rates apply to any excess amounts. In addition, certain recent double tax treaties include an anti-abuse clause.

Greece has implemented EU Directive 2003/49/EC. Under this directive, withholding tax on interest and royalties paid between associated companies of different EU member states was abolished, effective from 1 July 2013.

The following table provides treaty withholding tax rates for dividends, interest and royalties.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Albania	5	5	5
Armenia	10	10	5
Austria	0/5/15 (m)(n)	0/8 (o)	0/7 (o)
Azerbaijan	8	8	8
Belgium	0/5/15 (m)(n)	0/10 (l)(o)	0/5 (o)
Bosnia and Herzegovina	5/15 (m)	10	10
Bulgaria	0/15 (n)	0/10 (o)	0/10 (o)
Canada	5/15 (m)	10	10
China (mainland)	5/10 (m)	0/10 (l)	10
Croatia	0/5/10 (m)(n)	10	0/10 (o)
Cyprus	0/15 (n)	0/10 (o)	0 (e)
Czechoslovakia (i)	0/15 (n)	0/10 (o)	0/10 (o)
Denmark	0/15 (n)	0/8 (o)	0/5 (o)
Egypt	10	15	15
Estonia	0/5/15 (m)(n)	0/10 (o)	0/10 (a)(o)
Finland	0/15 (n)	0/10 (o)	0/10 (k)(o)
France	0/10 (n)	0/10 (o)	0/5 (o)
Georgia	8	8	5
Germany	0/15 (n)	0/10 (o)	0
Hungary	0/15 (n)	0/10 (o)	0/10 (o)
Iceland	5/15 (m)	8	10
India	15	15	20
Ireland	0/5/15 (m)(n)	5	0/5 (o)
Israel	15	10	10
Italy	0/15 (n)	0/10 (j)(o)	5 (a)(g)(o)
Korea (South)	5/15 (m)	8	10
Kuwait	0/5 (p)	0/5 (p)	15
Latvia	0/5/10 (m)(n)	0/10 (o)	0/10 (a)(o)
Lithuania	0/5/15 (m)(n)	0/10 (o)	0/10 (a)(o)
Luxembourg	0/15 (n)	0/8 (o)	0/7 (h)(o)
Malta	0/5/10 (m)(n)	0/8 (o)	0/8 (o)
Mexico	10	0/10 (l)	10
Moldova	5/15 (m)	10	8
Morocco	5/10 (m)	10	10
Netherlands	0/15 (n)	0/8/10 (f)(o)	0/7 (h)(o)
Norway	15	10	10
Poland	0/15 (n)	0/10 (o)	0/10 (o)
Portugal	0/15 (n)	0/15 (o)	0/10 (o)
Qatar	5	0/5 (q)	5
Romania	0/15 (n)	0/10 (o)	0/5/7 (a)(h)(o)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Russian Federation	5/10 (m)	7	7
San Marino	5/10 (m)	10	5
Saudi Arabia	5	5	10
Serbia	5/15 (m)	10	10
Slovenia	0/15 (n)	0/10 (o)	0/10 (o)
South Africa	5/15 (m)	8 (j)	5/7 (a)(h)
Spain	0/5/10 (m)(n)	0/8 (o)	0/6 (o)
Sweden	0/15	0/10 (o)	0/5 (o)
Switzerland	0/15 (n)	0/10 (o)	0/5 (o)
Tunisia	15	15	12
Turkey	15	0/12 (l)	10
Ukraine	5/10 (m)	10	10
United Arab Emirates	0/5 (r)	0/10 (r)	5
United Kingdom	0/15 (n)	0	0
United States	15	0 (b)	0 (d)
Uzbekistan	8	10	8
Non-treaty jurisdictions (c)	15	15	20

- (a) The rate is 5% for royalties paid for the use of industrial, commercial or scientific equipment (7% under the Romania and South Africa treaties).
- (b) The 0% rate applies if the recipient does not control directly or indirectly more than 50% of the voting power in the payer. However, the 0% rate does not apply to interest paid to US recipients to the extent that the interest is paid at an annual rate exceeding 9%.
- (c) For details, see Section A.
- (d) The 0% rate does not apply to cinematographic film royalties paid to US residents.
- (e) The rate is 5% for film royalties.
- (f) The rate is 8% if the recipient is a bank or similar entity.
- (g) The rate is 0% for copyright royalties for literary, artistic or scientific works, including films.
- (h) The rate is 5% for royalties for literary, artistic or scientific works, including films.
- (i) Greece honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.
- (j) Under the South Africa treaty, the rate is 0% for interest paid to the South Africa Reserve Bank. Under the Italy treaty, the rate is 0% for interest payments made by the Greek government, interest payments made to the Italian government and interest payments relating to government loans.
- (k) The 10% rate applies to copyright royalties for literary, artistic or scientific works.
- (l) The rate is 5% if the recipient is a bank. Under the China, Mexico and Turkey treaties, the rate is 0% if the recipient is a government bank.
- (m) The 5% rate applies if the recipient of the dividends is a company that owns more than 25% of the payer corporation.
- (n) The 0% rate applies if the conditions of the EU Parent-Subsidiary Directive are met (for Switzerland, the 0% rate applies if the conditions of the European Community (EC)-Switzerland agreement providing for measures equivalent to those in Directive 2003/48/EC are met).
- (o) The 0% rate applies if the terms of the EU Interest-Royalties Directive are met; for Switzerland, the 0% rate applies if the conditions of the EU-Switzerland agreement providing for measures equivalent to those in Directive 2003/48/EC are met.
- (p) The 0% rate for dividends and interest payments applies if the recipient is the government of Kuwait or a state division or subdivision, the Central Bank of Kuwait or other government organizations or government funds.
- (q) The 0% rate on interest payments applies if the recipient is the government of Qatar.
- (r) The 0% withholding tax rate for dividends and interest payments applies if the recipient is the government of the United Arab Emirates (UAE) or its political subdivisions, the Central Bank of the UAE or certain UAE investment authorities.

# Guam

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## A. At a glance

Corporate Income Tax Rate (%)	21
Capital Gains Tax Rate (%)	21
Branch Tax Rate (%)	21
Withholding Tax (%) (a)	
Dividends	30 (b)
Interest	30 (b)(c)
Royalties from Patents, Know-how, etc.	30 (b)
Branch Profits Tax	30 (d)
Net Operating Losses (Years)(e)	
Carryback	0
Carryforward	Unlimited

- (a) The withholding tax rates may be reduced under tax treaties (see Section E).  
 (b) Imposed on payments to nonresidents.  
 (c) Interest on certain portfolio debt obligations issued after 18 July 1984 and bank deposit interest not effectively connected to a trade or business in Guam are exempt from withholding.  
 (d) The branch profits tax is imposed on the earnings of a foreign corporation attributable to its branch, reduced by earnings reinvested in the branch and increased by withdrawals of previously reinvested earnings.  
 (e) Applicable to losses generated after 2017.

## B. Taxes on corporate income and gains

The system of corporate income taxation in force in Guam, a territory of the United States, is a mirror image of the US income tax system. The applicable law is the US Internal Revenue Code, with “Guam” substituted for all references to the “United States.” Therefore, for a description of the income taxation of corporations resident or doing business in Guam, refer to the sections on the United States and substitute “Guam” for each reference to the “United States.”

Income taxes are paid to the government of Guam, which administers its tax system.

Under an agreement between the United States and Guam, Guam had the authority to separate its system of taxation from the US Internal Revenue Code, effective 1 January 1991. Because a comprehensive Guam Tax Code has not yet been developed, this date has been extended, and the mirror system of taxation continues to apply to Guam until a new code goes into effect. A Guam Tax Code Commission has been formed and has begun work on the new law.

The government of Guam, through the Guam Economic Development Authority, is authorized by law to allow tax rebates to qualified investors. Qualifying Certificates (QCs) for tax incentives are granted based on the investment commitment as well as on the potential for creating new employment and expanding the base of the island's industry. These incentives are aimed primarily at manufacturers, insurance companies, trusts, commercial fishing companies, corporate headquarters, specialized medical facilities, high-technology companies, agricultural enterprises and tourism-development companies. In general, the tax rebates can amount to up to 75% of income tax paid for up to 20 years. Certain insurance companies may qualify for a 100% income tax rebate.

### C. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Gross receipts tax, on sales of tangible personal property and services, excluding wholesale activities (the gross receipts tax rate is temporarily increased from 4% to 5% from 1 April 2018 through 30 September 2018.)	4%
General sales tax; on sales of tangible personal property and services (excluding banking and lending services, foreign-currency services, and insurance services); effective from 1 October 2018	2%
Use tax, on goods imported into and consumed in Guam (businesses are subject to either gross receipts tax or use tax, not both)	4%
Hotel occupancy tax	11%
Real property tax, on appraised value of	
Land	0.0972%
Improvements	0.3888%
Liquid fuel taxes, imposed per gallon	
Aviation	4 cents
Diesel	14 cents
Other	15 cents
Alcoholic beverage excise tax	
Malted fermented beverages	7 cents per 12 fluid ounces
Distilled beverages	USD18 per gallon
Vinous beverages	USD4.95 per gallon
Tobacco excise tax	
Cigarettes	USD15 per 100 cigarettes



Nature of tax	Rate
Cigars	40 to 50 cents per cigar
Other tobacco products	USD40 per pound per pound
Documents tax, on conveyances and on mortgages of real property	0.1%
Social security contributions (US system), imposed on	
Wages up to USD128,400 (for 2018); paid by	
Employer	7.65%
Employee	7.65%
Wages in excess of USD128,400 but not in excess of USD200,000 (for 2018); paid by	
Employer	1.45%
Employee	1.45%
Wages in excess of USD200,000 (for 2018); paid by	
Employer	1.45%
Employee	2.35%
Miscellaneous license fees	Various

#### D. Miscellaneous matters

**Foreign-exchange controls.** Guam does not impose foreign-exchange controls.

**Debt-to-equity rules.** The US thin-capitalization rules apply in Guam.

**Transfer pricing.** The US transfer-pricing rules apply in Guam.

#### E. Tax treaties

The Guam Foreign Investment Equity Act was signed into law on 24 August 2002 and amends the Organic Act of Guam with respect to the application of the Guam territorial income tax laws. The Guam Foreign Investment Equity Act provides that the tax rate under Sections 871, 881, 884, 1441, 1442, 1443, 1445 and 1446 of the US Internal Revenue Code of 1986, on any item of income from sources in Guam is the same as the rate that would apply with respect to such item were Guam treated as part of the United States for purposes of the treaty obligations of the United States. However, this provision does not apply to determine the tax rate on any item of income received from a Guam payer, if for any tax year, the tax on the Guam payer was rebated under Guam law (see Section B for a discussion of the QC rebates).

# Guatemala

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**A. At a glance**

Corporate Income Tax Rate (%) (a)(b)	
Regime on Profits from Business	
Activities	25
Optional Simplified Regime on Revenue	
from Business Activities	7 (c)
Capital Gains Tax Rate (%) (a)	10
Branch Tax Rate (%) (a)(b)	
Regime on Profits from Business	
Activities	25
Optional Simplified Regime on Revenue	
from Business Activities	7 (c)
Withholding Tax (%) (d)	
Dividends	5
Interest	10 (e)
Royalties	15
Payments for Scientific, Technical and	
Financial Advice	15
Commissions	15
Fees	15
Transportation	5
Salaries	15
Insurance and Reinsurance	5
News Services, Videos and Films	3
Net Operating Losses (Years)	
Carryback	0
Carryforward	0

- (a) For details regarding the Regime on Profits from Business Activities and the Optional Simplified Regime on Revenue from Business Activities, see Section B.
- (b) Subsidiaries and branches are subject to the same tax treatment (that is, as independent taxpayers separate from their parents and headquarters).
- (c) See Section B for further information.
- (d) The withholding taxes, other than the dividend withholding tax, apply to nonresidents without a permanent establishment in Guatemala. For information regarding dividends, see *Dividends* in Section B.
- (e) For details regarding the withholding tax on interest, see Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** The Income Tax Law (ITL) provides that income derived from activities rendered or services used in Guatemala is considered Guatemalan-source income and must be classified and taxed under one of the following categories:

- Income from business activities
- Income from employment
- Income from capital

**Corporate income tax rates.** Income from business activities is income derived from ordinary or occasional trade or business. Companies that generate income from business activities may choose to be taxed under one of the following tax regimes:

- Regime on Profits from Business Activities, which applies on a net income basis (authorized expenses are deductible)
- Optional Simplified Regime on Revenue from Business Activities, which applies on a gross receipts basis (no deductions are allowed)

Under the Regime on Profits from Business Activities, companies may deduct expenses incurred to generate taxable income or to preserve the source of such income, except in specific circumstances in which the law imposes limits on deductibility. The taxable income is subject to tax at a rate of 25%. In addition, a 1% Solidarity Tax applies (see Section D).

Alternatively, companies may elect to be taxed under the Optional Simplified Regime on Revenue from Business Activities. Under this regime, companies are subject to income tax on their “taxable income,” which is understood to be the difference between gross income and exempt income. The first GTQ30,000 (approximately USD4,091) of taxable income is subject to tax at a rate of 5%, and the exceeding amount is subject to tax at a rate of 7%. No deductions are allowed. Taxpayers that choose to operate through this scheme are subject to final withholding tax.

Companies operating under the Drawback Regime, the Free Trade Zone Regime or the Santo Tomas de Castilla Free-Trade and Industrial Zone (La Zona Libre de Industria y Comercio de Santo Tomás de Castilla, or ZOLIC) Regime benefit from a 100% income tax exemption for income earned from export activities. However, on 31 March 2016, the Emerging Law for the Preservation of Employment (Decree No. 19-2016) entered into force. The purpose of the law is to limit access to benefits for taxpayers under the Drawback Regime and the Free Trade Zone Regime.

**Income from capital and capital gains.** Income from capital (other from dividends; see *Dividends*) and capital gains generated in Guatemala are taxed at a rate of 10%, regardless of the regime elected by the taxpayer. The following types of income are classified as income from capital and are subject to tax in Guatemala:

- Royalties
- Income from leasing and subleasing (if not part of the taxpayer’s ordinary trade or business)
- Interest and other types of returns derived from investments that are received by residents or nonresidents with permanent establishment in Guatemala

Under the ITL, the following gains are subject to capital gains tax in Guatemala:

- Gains derived from the transfer of shares issued by resident entities
- Gains derived from the transfer of shares issued by foreign entities that own immovable or movable property located in Guatemala
- Gains derived from the transfer of movable or immovable assets, lottery tickets, raffle tickets or similar items or from the incorporation of assets located in Guatemala into the taxpayer's property

**Administration.** The statutory tax year runs from 1 January through 31 December.

Companies operating under the Regime on Profits from Business Activities must file an annual income tax return and make any payment due within three months after the end of the tax year. Companies operating under the Optional Simplified Regime on Revenue from Business Activities must file an annual information tax return within three months after the end of the tax year. Interest and penalty charges are imposed for late payments of taxes.

Under the Regime on Profits from Business Activities, companies must make quarterly advance income tax payments, which are credited against the final income tax liability. In addition, taxpayers that are qualified as Special Taxpayers must file the annual income tax return together with financial statements audited by a certified public accountant or an independent audit firm.

Companies operating under the Optional Simplified Regime on Revenue from Business Activities settle their tax through final withholding payments made by the payer. They must file a monthly tax return in which they separately determine the total amounts of gross income, exempt income, income subject to withholding tax and income subject to direct payment (companies may be required to make direct payments of tax if they are transacting with persons not required by law to make withholdings or if they have been previously authorized by the tax authorities). The tax return must be filed within the first 10 business days of the month following the month in which the tax was generated.

**Dividends.** Dividends are taxed under the category of "Income from Capital." A 5% withholding tax is imposed on all dividend distributions made, regardless of the beneficiary's country of residence.

**Interest.** In general, a 10% final withholding tax is imposed on interest paid to nonresidents. However, withholding tax is not imposed on the following types of interest payments:

- Interest payments made by local banks to banks and financial institutions domiciled abroad (that is, entities licensed and regulated in their country of origin)
- Interest payments made by local taxpayers to multilateral institutions abroad
- Interest payments made by local taxpayers to banks and financial institutions domiciled abroad that are authorized to operate in the country by the Guatemalan Law on Banks and Financial Groups

**Foreign tax relief.** Guatemala does not grant relief for foreign taxes paid.

### C. Determination of trading income

**General.** Under the Regime on Profits from Business Activities, expenses incurred to generate taxable income, including local taxes, other than income tax and value-added tax (VAT), are deductible. The tax authorities are empowered to deny deductions if they determine that any of the following circumstances exist:

- The expenses are not considered necessary to produce taxable income.
- The expenses correspond to a different fiscal year.
- The expenses are not supported by the appropriate documentation.

The expenses must be registered in the taxpayer's accounting records.

Documents issued abroad that support the deduction of expenses may be subject to a 3% stamp tax.

The deductibility of expenses is also conditioned on the reporting and payment of withholding taxes and on the satisfaction of specific documentation requirements, which apply in certain circumstances. This documentation includes, among others, the following items:

- Valid invoices authorized for local operations
- Invoices or receipts issued abroad
- Notary Public deeds
- Payrolls reported to the social security authorities
- Customs returns for the importation of goods including the tax receipts

In general, payments on transactions valued over GTQ30,000 (approximately USD4,091) must be made through a banking or financial institution, and the corresponding balance statement is required as part of the supporting documentation needed to consider the payment deductible. Operations not made through the banking system must be documented through a Notary Public deed.

For these purposes, the law provides that a single transaction may be considered to include the following:

- All payments made to a single source or provider during a calendar month
- An operation of GTQ30,000 (approximately USD4,091) or above that involves partial or split payments to the same provider or person

In both of the above cases, taxpayers should use the payment or documentation methods listed above. Otherwise, the expense may not be deductible for income tax purposes and may not be considered a tax credit for VAT purposes. This requirement is known in Spanish as "Bancarización."

The deduction for royalties, payments for financial or technical advice and professional service fees for services rendered from abroad to local taxpayers is limited to 5% of the taxpayer's gross income.

Interest is deductible for income tax purposes if all of the following conditions are satisfied:

- The loan proceeds that give rise to such interest must be used to generate taxable income.
- Payments must be documented and correspond to the same fiscal year.
- The taxpayer must comply with the obligation to withhold the corresponding tax, if applicable.
- The deductible amount may not exceed the value calculated by multiplying the interest rate set by the Guatemalan Monetary Board by a total of three times the “average net asset” amount reported by the taxpayer in the annual tax return. “Average net asset” is defined as the sum of the total net worth of the previous year and the total net worth of the current year (values declared in the annual income tax returns), divided by two.
- Loans issued abroad must be obtained from banks or financial institutions that are registered and monitored by the state entity in charge of bank supervision in the country of origin. They must also be authorized for financial intermediation in the country in which the loan is granted.
- The interest rate on foreign-currency loans may not exceed the maximum simple annual rate set by the Monetary Board, minus the value of the quetzal exchange rate variation in relation to the currency in which the loan is expressed, during the period corresponding to the annual income tax return.

**Inventories.** Inventories are valued at cost. The acquisition cost may be computed using various valuation methods provided in the income tax law. No deviation from these methods is allowed unless previously authorized by the tax authorities.

Cattle may be priced at cost or sales price.

No provisions for deterioration or obsolescence are allowed. The destruction of inventory is considered a deductible expense if it is certified by an inspector from the tax authorities or by a Notary Public.

**Provisions.** Provisions for bad debts of up to 3% of credit-sales balances are deductible (excluding bad debts guaranteed by pledge or mortgage). Reserves for severance compensation of up to 8.33% of payroll costs are also deductible.

**Tax depreciation.** Straight-line depreciation is allowed, subject to the following annual maximum rates.

<b>Asset</b>	<b>Rate (%)</b>
Buildings and leasehold improvements	5
Plantations	15
Furniture, fixtures, ships and railroads	20
Machinery and equipment, vehicles and containers	20
Computer equipment	33.33
Tools, porcelain, glassware and certain animals	25
Other items that are not specified	10

Goodwill can be amortized over a minimum period of 10 years. Other intangible assets may be amortized over a minimum period of five years.

Oil and other natural resources are subject to depletion in accordance with the level of production and the remaining reserves.

**Relief for losses.** Under the Regime on Profits from Business Activities and the Optional Simplified Regime on Revenue from

Business Activities, net operating losses cannot offset taxable income in prior or future years.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax	12%
Levies on petroleum distribution; rate varies by type of fuel	USD0.18 to USD0.64 per gallon
Land tax; imposed annually on value of land; maximum rate, applicable to value in excess of GTQ70,000 (approximately USD9,545)	0.9%
Revaluation tax; imposed on the increase in value resulting from a revaluation of immovable property and other fixed assets by an authorized third-party adjuster	10%
Import duties	0% to 20%
Social security tax; imposed on wages; paid by Employer	12.67%
Employee	4.83%
Solidarity Tax (ISO); imposed on legal entities subject to the Regime on Profits from Business Activities; tax rate applied to the higher of 1/4 of net assets or 1/4 of gross income; newly organized entities are not subject to ISO during their first four quarters of operations; entities that have a gross margin of lower than 4% of its gross income or incur losses for two consecutive years are not subject to the tax	1%

#### E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Guatemala is the quetzal (GTQ). As of 23 November 2017, the average exchange rate was GTQ7.33309 = USD1. Guatemala does not impose foreign-exchange controls. The exchange system is regulated through the banks.

**Debt-to-equity rules.** Guatemala does not impose any debt-to-equity requirements.

**Anti-avoidance legislation.** The tax law contains general measures to prevent tax fraud and similar conduct.

**Transfer pricing.** Effective from 1 January 2013, official transfer-pricing rules apply to transactions with related parties resident abroad. However, Decree 19-2013 of the Guatemalan Congress suspended the application of the transfer-pricing rules as of 23 December 2013. These rules re-entered into force as of 1 January 2015.

#### F. Tax treaties

Guatemala signed a double tax treaty with Mexico in March 2015, which is not yet in effect. The treaty will enter into effect after both countries complete their respective legislative approval processes.



## Guernsey, Channel Islands

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### A. At a glance

Corporate Income Tax Rate (%)	0 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0 (a)
Withholding Tax (%)	
Dividends	0 (b)
Interest	0
Royalties	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0 (c)
Carryforward	Unlimited

- (a) This is the standard corporate income tax rate. For details regarding other rates, see Section B.
- (b) Dividend withholding tax is not imposed on dividends paid to foreign shareholders. See Section B. Dividends paid to Guernsey resident individual shareholders may be subject to withholding tax.
- (c) A carryback for up to two years is available for terminal losses if trade is permanently discontinued.

### B. Taxes on corporate income and gains

**Corporate income tax.** A Guernsey resident company is subject to income tax on its worldwide income. A company not resident in Guernsey is subject to Guernsey income tax on its Guernsey-source income (other than disregarded company income, such as bank interest), unless a double tax treaty applies. A company is resident in Guernsey if its ultimate shareholder control is in

Guernsey (tracing through any intermediary structures) or if it is incorporated in Guernsey. Control for Guernsey tax purposes is determined by reference to beneficial ownership rather than central management and control.

**Rates of corporate income tax.** The standard rate of corporate income tax is 0%.

A 10% rate applies to profits derived from banking business, insurance management, insurance intermediaries, domestic insurance business, regulated fiduciary business, fund administration business, custody services provided by banks and, effective from 1 January 2018, regulated investment management provided to individual clients.

A 20% rate applies to profits from Guernsey property, regulated utility business, retail business carried on in Guernsey that has a taxable profit of more than GBP500,000 in a year, and the importation and/or supply of hydrocarbon oil or gas.

**Exempt companies.** An exempt company regime is available for certain collective-investment schemes. An exempt company is treated as nonresident in Guernsey for tax purposes. It is taxable in Guernsey only on Guernsey-source income, excluding bank interest. Collective-investment schemes (typically unit trusts, investment trusts or bodies involving other forms of public participation) form a substantial sector of the finance industry in Guernsey. Other companies associated with such schemes may also qualify for exemption. Companies pay a fixed annual fee of GBP1,200 to register for exempt status, regardless of their income.

**Capital gains.** Capital gains are not taxable in Guernsey.

**Administration.** The Guernsey tax year corresponds to the calendar year. Tax payments on account are normally due in two equal installments on 30 June and 31 December of the tax year, with a balancing payment or repayment due after filing and assessment.

An annual tax return is generally required for all Guernsey resident companies and some foreign companies with Guernsey-source income. The annual tax return must be filed electronically by 30 November of the following year. Automatic late filing penalties may be imposed.

If taxable distributions or loans to Guernsey resident individuals are made during the year, a final Distribution Reporter tax return is required to be filed by 15 January following the tax year. Taxes on such events must be withheld at source and paid quarterly by the 15th of the month following the relevant quarter.

Companies must file annual validation forms with the Guernsey Registry, and pay the relevant filing fee. Fees are based on the type and activity of the company and range from GBP100 to GBP1,000.

**Dividends.** No tax is withheld from dividends paid to foreign shareholders of Guernsey companies.

If dividends are paid to Guernsey resident individual shareholders, the company may be required to withhold tax of up to 20%

of the distribution. The amount of tax withheld may be reduced if the company has already suffered tax on the profits distributed. Companies maintain tax pools to track undistributed income (income that has not suffered tax at 20% or more) and tax already suffered. Distributions are required to be matched against undistributed income first.

Companies may also be required to withhold tax at a rate of 20% if a loan is advanced to a Guernsey resident beneficial member, but some exemptions apply.

**Foreign tax relief.** Guernsey grants specific double taxation relief for income from its treaty countries and grants unilateral relief for income from non-treaty countries up to an effective maximum rate of 15%.

### C. Determination of trading income

**General.** The assessment is based on accounting profits, subject to certain adjustments. To be deductible against revenue, expenses must be incurred wholly and exclusively for the purposes of the trade, and must not be capital in nature.

Nonresident companies are exempt from tax on disregarded company income, including Guernsey-source bank interest.

**Tax depreciation.** Depreciation is not an allowable deduction, but annual allowances are available on the cost of certain plant and machinery. Annual allowances are generally calculated at a rate of 20% on a reducing-balance or straight-line basis (subject to specific variations).

**Groups of companies.** Under Guernsey law, a trading loss incurred by a member of a 90%-owned group of companies may be offset against profits earned in the same tax year by another member of the group. All members of the group must be incorporated and resident in Guernsey or have a fixed place of business in Guernsey. Restrictions apply if members of the group are taxed at different rates.

### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Social security contributions; payable on the salaries and wages of employees resident in Guernsey; paid by (2018 rates)	
Employer (maximum contribution of GBP785.93 per month)	6.6
Employee (maximum contribution of GBP785.93 per month)	6.6
Tax on real property; based on the unit value of the property located in Guernsey; rates vary according to the type of property	Various
Document duty on sales of Guernsey property; based on the value of the transaction (Legislation extending the duty to include the sale of shares in corporate vehicles holding Guernsey real property has been introduced.)	2 to 4

## E. Miscellaneous matters

**Anti-avoidance legislation.** Guernsey's tax law includes a general anti-avoidance rule. The Director of Income Tax has broad powers to adjust a taxpayer's tax liability and assess income tax that, in the Director's opinion, has been deliberately avoided by a transaction entered into by the taxpayer.

**Exchange controls.** Guernsey does not impose any foreign-exchange controls.

**Debt-to-equity ratios.** Guernsey does not prescribe any debt-to-equity ratios, but the general anti-avoidance rule can be applied in some situations.

**Types of companies.** The Guernsey company law allows the incorporation of companies limited by shares, guarantee or shares and guarantee. A company limited by shares and guarantee may have both shareholders and guarantee members.

**Protected cell companies.** Protected cell companies (PCCs) consist of several cells and core capital. Each cell is liable only to its own creditors. A creditor of a particular cell has recourse to the assets of that cell and the core capital only. PCCs may be used for captive insurance companies, collective-investment schemes or other approved enterprises.

**Incorporated cell companies.** Incorporated cell companies are similar to PCCs in terms of their cellular nature. However, each cell is regarded as an incorporated entity in its own right and, consequently, is subject to tax a separate entity.

**Migration of companies.** Guernsey law allows an overseas company to migrate into Guernsey and be registered as a Guernsey company. In addition, a Guernsey company may be removed from the Companies Register with the intention of becoming incorporated in another jurisdiction. In both cases, the law of the other jurisdiction must provide for the migration, the company must be solvent and certain other conditions must be met.

**Country-by-Country Reporting.** Guernsey has committed to adopt the minimum standards required under the Base Erosion and Profit Shifting (BEPS) program of the Organisation for Economic Co-operation and Development (OECD). Under Action 13, certain reporting obligations are required with respect to Country-by-Country Reporting (CbCR). The first periods for CbCR in Guernsey are accounting periods beginning on or after 1 January 2016. Ultimate Parent Entities and Surrogate Parent Entities have notification and filing requirements in Guernsey. Constituent Entities also have notification requirements.

## F. Tax treaties

Guernsey has entered into comprehensive tax treaties with the following jurisdictions.

Cyprus	Luxembourg	Qatar
Hong Kong SAR	Malta	Seychelles
Isle of Man	Mauritius	Singapore
Jersey	Monaco	United Kingdom
Liechtenstein		

Guernsey has completed negotiations for comprehensive double tax treaties with Bahrain and Gibraltar and is engaged in tax treaty negotiations with the United Arab Emirates. In addition, discussions are ongoing regarding the possibility of a double tax treaty with Estonia.

Negotiations on a revised double tax treaty with the United Kingdom are in progress.

Guernsey also has partial (limited) treaties with the following jurisdictions.

Australia	Greenland	New Zealand
Denmark	Iceland	Norway
Faroe Islands	Ireland	Poland
Finland	Japan	Sweden

In addition, Guernsey has signed tax information exchange agreements with 60 jurisdictions.

# Guinea

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## A. At a glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (b)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends and Directors' Fees	10
Interest	10
Royalties from Patents, Know-how, etc.	15 (c)
Capital Gains on Shares	10
Payments for Services	15 (d)
Rent	15 (e)
Technical Services	15
Management Services	15
Financial Services	5 to 13 (f)
Insurance Services	5 to 20 (g)
Gambling Gains	15 (h)
Branch Remittance Tax	10 (i)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) The minimum tax is 3% of turnover unless exempt (see Section B).
- (b) The tax may be deferred if proceeds are reinvested (see Section B).
- (c) This tax applies to payments to nonresidents.
- (d) This tax applies to payments by residents to nonresidents for services, including professional services, performed in Guinea.
- (e) This tax applies only to rent paid to individuals.
- (f) This tax applies to banks only.
- (g) This tax applies to insurance companies only.
- (h) This tax applies to lottery tickets sold by gambling companies.
- (i) See Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Guinean companies are taxed on the territoriality principle. As a result, Guinean companies carrying on a trade or business outside Guinea are not taxed in Guinea on the related profits. Foreign companies with activities in Guinea are subject to Guinean corporate tax on Guinean-source profits only.

**Tax rates.** The regular corporate income tax rate is 35%. Since the issuance of the amended Mining Code in April 2013, the rate for the mining sector is 30% (applicable to mining companies only; not applicable to subcontractors). The annual minimum tax payable is 3% of annual turnover. However, under the 2017 Financial Law, for companies registered for value-added tax, the annual minimum tax payable cannot be less than GNF45 million or more than GNF60 million, and for other companies, it cannot be less than GNF15 million or more than GNF45 million.

Profits realized in Guinea by branches of foreign companies are deemed to be distributed and therefore are subject to a branch withholding tax of 10% on after-tax income.

Corporations may apply for various categories of priority status and corresponding tax exemptions. The priority status varies, depending on the nature of the project and the level of investment.

**Capital gains.** Capital gains are taxed at the regular corporate rate. The tax, however, may be deferred if the proceeds are used to acquire new fixed assets in Guinea in the following three financial years.

Capital gains on transfers of shares are taxed at a rate of 10%.

**Administration.** The fiscal year is from 1 January to 31 December. Tax returns must be filed by 30 April of the year following the fiscal year.

Companies must pay the relevant annual minimum tax before 15 January of the year following the fiscal year. Two advance payments of corporate tax, each equal to 33 $\frac{1}{3}$ % of the corporate tax for the previous year, are due on 15 June and 15 September of the fiscal year. Any balance due must be paid by 30 April of the following year.

**Dividends.** Dividends are subject to a 10% withholding tax, which may be credited by the recipient against corporate income tax.

**Foreign tax relief.** Foreign tax credits are not allowed. Income subject to foreign tax that is not exempt from Guinean tax under the territoriality principle is taxable net of the foreign tax.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the Organization for the Harmonization of Business Law in Africa (Organisation pour l'Harmonisation en Afrique du Droit des Affaires, or OHADA) Uniform Act on Accounting Law (SYSCOHADA).

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Head office overhead in excess of 10% of turnover derived by a Guinean branch
- Interest paid on loans from shareholders to the extent the rate exceeds the current rate of the Central Bank and all of the interest on shareholder loans if the capital of the company is not fully paid
- Corporate income tax and withholding tax on real estate
- Certain specific charges

**Inventories.** Inventory is normally valued at the lower of cost or market value.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at maximum rates specified by the tax law.

**Relief for tax losses.** Losses may be carried forward for three years. Losses may not be carried back.

**Groups of companies.** Fiscal integration of Guinean companies equivalent to a consolidated filing position is not available.

### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on sales of goods and services and on imports	
Standard rate	18
Business activity tax ( <i>patente</i> ), calculated based on the nature of the business activity and the rental value of the place of business	Various
Registration duties, on transfers of real property or businesses	2 to 15
Payroll taxes; paid by employers on salaries	6
Training tax; paid by employers on salaries	1.5/3
Social security contributions, on an employee's annual gross salary, up to GNF1,500,000	
Employer	18
Employee	5



**E. Foreign-exchange controls**

Exchange-control regulations exist in Guinea for foreign financial transactions.

**F. Tax treaties**

Guinea has entered into double tax treaties with France, Morocco and the United Arab Emirates.

# Guyana

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## A. At a glance

Corporate Income Tax Rate (%)	27.5 (a)
Short-Term Capital Gains Tax Rate (%)	27.5 (b)
Capital Gains Tax Rate (%)	20 (b)
Branch Tax Rate (%)	27.5 (a)
Withholding Tax (%) (c)	
Dividends	20 (d)
Interest	20 (d)
Royalties from Patents, Know-how, etc.	20 (d)
Technical Fees	20 (d)
Branch Remittance Tax	20 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforwards	
Corporation Tax	Unlimited (f)
Capital Gains Tax	24

- (a) The 27.5% rate applies to non-commercial companies. Commercial companies are taxed at a rate of 40% of income, or 2% of turnover, whichever is lower, subject to the approval of the Commissioner-General of the Guyana Revenue Authority. Telephone companies are taxed at a rate of 45%. See Section B.
- (b) See Section B.
- (c) These withholding taxes apply to payments to nonresidents only.
- (d) These withholding taxes apply to payments to companies and individuals.
- (e) This tax applies to deemed remittances of profits to the overseas head office.
- (f) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies resident in Guyana are subject to tax on their worldwide income from all sources. Relief with respect to taxation suffered on foreign-source income in an overseas jurisdiction may be available under a double tax treaty. Non-resident companies engaged in business in Guyana are subject to tax on income directly or indirectly accruing in or derived from Guyana.

**Rates of tax.** For the 2018 year of income, the basic rate of corporation tax for non-commercial companies is 27.5%. However, other tax rates apply to income derived from specified business activities, as described below.

Income derived by a commercial company is taxed at 40%. A commercial company is a company that derives at least 75% of its gross income from trading in goods not manufactured by the company. It includes a commission agency, a telecommunication company and an entity engaged in banking and insurance business (except long-term insurance business). Telephone companies are taxed at a rate of 45%.

An advance corporation tax at a rate of 10% must be deducted by the payer from gross fees paid to a nonresident company with respect to goods and services provided if the nonresident company is engaged in a trade or business in Guyana. The advance corporation tax is creditable against the nonresident company's ultimate corporation tax liability.

Payments in excess of GYD500,000 to resident independent contractors who are individuals are subject to withholding tax at a rate of 2% on each payment if the payments are for the supply of services, goods, equipment, materials or personnel in the furtherance of services.

Commercial companies, other than insurance companies, and commercial activities of a company carrying on both commercial and non-commercial activities are subject to a minimum tax at a rate of 2% of turnover if the corporation tax calculated as payable for the income year is less than 2% of the turnover of the commercial company. If, in any year, the corporation tax payable is calculated to be higher than 2% of turnover, the tax payable is limited to the corporation tax assessed. Consequently, the tax payable by a commercial company or with respect to the commercial activities of a company undertaking both commercial and non-commercial activities is the lower of 2% of turnover or corporation tax at a rate of 40%.

**Capital gains.** Capital gains tax is payable at a rate of 20% on the net chargeable gain of a person accruing or arising in Guyana or elsewhere, regardless of whether it is received in Guyana, on the change of ownership of property, subject to certain exceptions. In general, if capital allowances were taken with respect to an asset being disposed, the capital gain is the amount by which the value of the consideration received exceeds the cost of or acquisition value of the asset, less any capital allowances taken with respect to the property. In certain sectors, a disposal may give rise to a

balancing adjustment, which may be subject to corporation tax and may affect the amount of applicable capital gains tax.

Capital losses may be carried forward for 24 years.

If an exemption from property tax is granted, a concomitant exemption is granted for capital gains tax.

Short-term capital gains from the disposal of assets within 12 months of their acquisition and from the disposal of assets 25 years after their acquisition are exempt from capital gains tax. However, short-term capital gains are subject to corporation tax.

**Administration.** The tax year is the calendar year. Tax is calculated on the profits for the accounting period that ends during the tax year. For each quarter, a company is required to pay a corporation tax or minimum tax installment, whichever is lesser. The quarterly payments must be made by 15 March, 15 June, 15 September and 15 December in each tax year. Quarterly payments of corporation tax are determined based on the taxable income for the preceding accounting period. Minimum tax installments are based on the actual gross sales or receipts of the company for the relevant quarter. The minimum tax calculation excludes income or receipts that are exempt for corporation tax purposes, such as dividends received from Guyana resident companies.

Annual tax returns must be filed by 30 April in the year following the tax year, and any balance of tax due is payable at that time. In general, audited financial statements must be filed with annual tax returns. However, in certain instances as predetermined by the Commissioner General of the Guyana Revenue Authority, draft management accounts may be accepted for filing purposes. In those circumstances, the audited financial statements must be filed on or before 31 December of the year in which the tax returns are due. In addition, the Guyana Revenue Authority is expected to launch the provision of e-services (e-registrations and e-filings) for certain taxpayers by 30 April 2018.

Failure to file a tax return attracts a penalty of 10% of the amount of tax assessed, while failure to file a nil tax return or a tax return that discloses a loss attracts a penalty of GYD50,000. If the balance of tax due is not paid by the 30 April deadline, a penalty is payable equal to 2% of the unpaid tax for each month, or part thereof, that tax remains outstanding. Interest is also payable at a rate of 18% per year.

**Dividends.** Dividends received from nonresident companies are subject to tax. Dividends received by resident companies from other resident companies are exempt from tax.

Dividends paid to nonresident companies and individuals are generally subject to a withholding tax of 20%.

**Double tax relief.** Bilateral agreements have been entered into between the government of Guyana and the governments of certain other countries to provide relief from double taxation (see Section F). Relief from double taxation is achieved by one of the following two methods:

- Exemption or a reduced rate on certain classes of income in one of the two countries concerned.

- Credit if the income is fully or partially taxed in the two countries. The tax in the country in which the income arises is allowed as a credit against the tax on the same income in the country where the recipient is resident. The credit is the lower of the Guyana tax or the foreign tax on the same income.

### C. Determination of taxable income

**General.** The assessment is based on financial statements prepared according to international accounting standards, subject to certain adjustments.

To be deductible, expenses must be incurred wholly and exclusively in the production of income. Deductions for head-office expenses paid by a Guyana branch to a nonresident head office or to a nonresident associate or subsidiary company, or by a Guyana resident company to a nonresident parent or associate company, may not exceed 1% of the sales or gross income of the payer.

**Inventories.** Inventory may be valued at cost or market value, whichever is lower. A method of stock valuation, once properly adopted, is binding until permission to change is obtained from the Guyana Revenue Authority.

**Bad debts.** Trading debts that have become bad and that are proven to be so to the satisfaction of the Guyana Revenue Authority may be deducted in determining taxable income. In addition, doubtful debts are deductible to the extent that they have become bad during the year. If these debts are subsequently collected, they are considered to be income subject to tax in the year of recovery.

**Tax depreciation (capital allowances).** Depreciation is calculated on the depreciated value of fixed assets at the beginning of each accounting year.

Capital expenditure incurred on plant, machinery or equipment or any building housing machinery owned by the taxpayer or incurred with respect to machinery and equipment that the taxpayer has the full burden of wear and tear qualify for capital allowances under the declining-balance method or straight-line method. However, if the latter method is used, a maximum of 90% of the cost of the asset may be depreciated.

The following are the applicable rates for assets acquired on or after 1 January 1992.

Asset	Rate (%)
Aircraft	33.3
Boats	10
Buildings (housing machinery)	5 (on cost)
Furniture and fittings	10
Motor vehicles	20
Office equipment	
Electronic	50
Other	15
Plant and machinery	20

Separate capital allowances are available with respect to the petroleum and mining sectors. Capital allowances may be claimed

on petroleum capital expenditure in the petroleum sector at a rate of 20% per year on a straight-line basis. In addition, in the diamond and gold mining sector, capital allowances may be claimed on exploration and development expenditure at a rate of 20% per year on a straight-line basis. Other sectors are also granted specific initial and annual allowances.

**Relief for tax losses.** Losses carried forward can be written off to the extent of half the taxable income for the tax year. The unrelied balance can be carried forward indefinitely. No loss carry-back is allowed.

In the petroleum sector, corporation tax losses may be written off to the full extent of the taxable income for the tax year. Similarly, the restriction on the ability to set off the full extent of losses against taxable income does not apply to commercial companies liable to pay minimum tax.

**Groups of companies.** No provisions for group relief exist.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); applies to most products supplied and services rendered in Guyana; imports of goods are also subject to VAT; certain imports of services are also subject to VAT under the VAT reverse-charge mechanism; companies and other businesses are required to register for VAT if their turnover exceeds a stipulated threshold as specified in the Value-Added Tax Act (currently GYD15,000,000 [approximately USD75,000] a year)	
Standard rate	14
Certain items, including specified exports	0
Property tax; payable on the net property of a company in excess of GYD500,000; the tax is payable on the amount by which the aggregate value of all movable and immovable property of a person exceeds the aggregate value of all debts owed	
On the first GYD10 million of net property	Nil
For every dollar of the next GYD15 million of net property	0.50
For every dollar of the remainder of net property	0.75

#### E. Miscellaneous matters

**Foreign-exchange controls.** The Guyana currency is the Guyana dollar (GYD).

Guyana has a floating exchange-rate regime. Profits may be repatriated without the approval of the Central Bank of Guyana. However, certain restrictions are imposed with respect to the settlement of local transactions in foreign currency and the borrowing of funds in a foreign currency. Permission is also required to establish a foreign-currency account.

**Debt-to-equity rules.** In general, no thin-capitalization rules are imposed in Guyana. However, if a local company pays or accrues interest on securities issued to a nonresident company and if the local company is a subsidiary of the nonresident company or a fellow subsidiary with respect to the nonresident company, the interest is treated as a distribution and may not be claimed as a deduction against the income of the local company.

## F. Treaty withholding tax rates

The following table lists the withholding tax rates under Guyana's tax treaties. If the treaty rates are higher than the rates prescribed in the domestic law, the lower domestic rates apply.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Canada	15	25	10
Caribbean Community and Common Market (a)			
Antigua and Barbuda	0	15	15
Barbados	0	15	15
Belize	0	15	15
Dominica	0	15	15
Grenada	0	15	15
Jamaica	0	15	15
St. Kitts and Nevis	0	15	15
St. Lucia	0	15	15
St. Vincent and the Grenadines	0	15	15
Trinidad and Tobago	0	15	15
United Kingdom	10/15 (b)	15	10
Non-treaty jurisdictions	20	20	20

- (a) The listed countries have ratified the Caribbean Community and Common Market (CARICOM) double tax treaty.
- (b) The lower rate applies if the recipient and beneficial owner of the dividends is a company that owns 10% or more of the voting power of the distributing company.

# Honduras

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**A. At a glance**

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (b)	
Dividends	10
Interest	10
Royalties	25
Leasing of Movable and Immovable Property	25
Communications	10
Public Entertainment Shows	25
Air, Sea and Land Transport	10
Mining Royalties	25
Salaries and Other Payments for Services	25
Fees and Commissions	25
Reinsurance	10
Videos and Films	25 (c)
Other	10
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (d)

- (a) An alternate minimum income tax and asset tax are also imposed (see Section B). A Social Contribution Tax is imposed at a rate of 5% on companies with net income exceeding HNL1 million (approximately USD42,102). Domiciled entities that have reported operating losses in two consecutive or alternate tax periods that are still open for examination are also subject to advance income tax payments (AIT) that are computed at a rate of 1% of gross income equal to or greater than HNL100 million (approximately USD4,210,207). The AIT may be credited against the annual corporate income tax, asset tax or the Social Contribution Tax.
- (b) Withholding taxes are imposed on payments to nonresident companies and individuals.
- (c) This withholding tax applies to payments for films and video tapes for movies, television, video clubs and cable television.
- (d) Only companies engaged in agriculture, manufacturing, mining and tourism may carry forward net operating losses.

## B. Taxes on corporate income and gains

**Corporate income tax.** Honduran-resident companies (that is, those incorporated in Honduras) are no longer taxed on their worldwide income. Effective from 1 January 2017, only their Honduran-source income is subject to Honduran tax. Nonresident companies are subject to income tax only on income derived from Honduran sources.

**Corporate income tax rates.** Companies are subject to corporate income tax at a rate of 25% on their net income.

A Social Contribution Tax of 5% applies to companies with net income exceeding HNL1 million (approximately USD42,102).

A 1% income tax installment applies to taxpayers that meet the following conditions:

- During open tax periods, they have reported operating losses in two consecutive or alternate tax periods.
- In the prior tax period, they derived gross income equal to or greater than HNL100 million (approximately USD4,210,207).

The installment equals 1% of the gross income reported.

The income tax installment is a tax credit that may be applied against income tax, asset tax or the Social Contribution Tax on the filing of the year-end tax return.

The following taxpayers are not subject to the income tax installment:

- Individuals or entities in the preoperative phase, up to a maximum of five years.
- Companies and individuals that incur losses resulting from an act of God or force majeure. This loss needs to be certified by an audit firm registered with the respective accounting association, notwithstanding a subsequent examination by the tax authorities.
- Companies and individuals authorized by the tax authorities to carry forward losses in accordance to Section 20 of the Honduran Income Tax Law (HN ITL).
- Companies and individuals that calculated and paid tax in the prior tax period and are subject to income tax installments in accordance to Section 34 of the HN ITL.

- Companies and individuals that prove through a tax audit report, carried out by an audit firm registered with the respective accounting association, that the tax loss is real, subject to verification from the tax authorities.
- Companies and individuals established under Section 7 of the HN ITL and tax-exempt by law or Special Legislative Decrees.

Companies operating under the following special regimes are exempt from income tax, sales tax, customs duties and certain municipal taxes:

- Free Trade Zone
- Industrial Processing Zone (Zona Industrial de Procesamiento, or ZIP)
- Temporary Import Regime (Régimen de Importación Temporal, or RIT)
- Agroindustrial Export Zone (Zona Agro-Industrial de Exportación, or ZADE)
- Free Tourist Zone (Zona Libre Turística, or ZOLT)

**Alternative minimum income tax.** An alternative minimum income tax applies to resident individuals or corporations with annual gross income in a fiscal year equal to or greater than HNL10 million (approximately USD421,021). The alternative minimum income tax is calculated by applying a rate of 1.5% to gross income. Legal entities must apply the ordinary rate of 25% to net income and apply the alternative minimum tax rate of 1.5% to gross income. The income tax payable is the higher amount resulting from these two calculations.

The minimum income tax rate is reduced to 0.75% of gross income for individuals or legal entities producing or selling the following products or services:

- Cement production and distribution
- Public utility services provided by state-owned companies
- Products and medicines for human use (at the importation and production levels)
- Bakery-related products

**Asset tax.** An asset tax is assessed based on net assets (as defined in the law) reported in the company's balance sheet. The asset tax rate is 1%. Income tax may be credited against asset tax. If the income tax equals or exceeds the asset tax for the tax year, no asset tax is due. If the income tax is less than the asset tax, the difference is payable as asset tax. In such circumstances, the asset tax represents a minimum tax for the year.

**Financial transaction tax.** A financial transaction tax applies to local and foreign currency operations carried on in either national or foreign currency within the institutions of the national banking system, including the following:

- National Bank for Agricultural Development (Banco Nacional de Desarrollo Agrícola, or BANADESA)
- Financial entities
- Representation offices that are supervised by the National Commission on Banking and Insurance (Comisión Nacional de Bancos y Seguros, or CNBS)

The financial transaction tax applies to the following transactions:

- Debits (withdrawals) from at-sight deposits and checking accounts, carried out by the institutions referred to in the preceding paragraph (the financial institutions).
- Debits (withdrawals) of deposits from saving accounts, carried out by the financial institutions.
- Loan operations granted by the financial institutions that need to be absorbed by the lender. The contribution under the financial transaction tax applies only to disbursements and not to payments received by the financial institution. The CNBS must ensure that this special contribution is not transferred to the borrower.
- Issuance of cashier's checks, certified checks, traveler's checks and other similar existing financial instruments by financial institutions, or financial instruments to be created in the future, if they are issued without using the accounts mentioned in the first two bullets above.
- Payments or transfers in favor of third parties of money recovered or collected in the name of such parties that are carried out by the financial institutions without using the accounts mentioned in the first two bullets above.
- Transfers or money remittances abroad or locally, carried out through the financial institutions, without using the accounts mentioned in the first two bullets above.
- Credit card annual membership renewals, for the principal cardholder only.

The following are the amounts of the contributions required under the financial transaction tax for the first, second, fourth, fifth and sixth categories of transactions listed above:

- First, second, fifth and sixth categories listed above: HNL2 (approximately USD0.08) per thousand or fraction of a thousand
- Fourth category: HNL1.50 (approximately USD0.06) per thousand or fraction of a thousand

The contributions for the transactions in the seventh (last) category above are provided in the following table.

<b>Credit line</b>		<b>Contribution HNL</b>
<b>Exceeding HNL</b>	<b>Not exceeding HNL</b>	
40,000	50,000	500
50,000	100,000	600
100,000	200,000	700
200,000	500,000	800
500,000	1,000,000	900
1,000,000	—	1,000

The law does not establish the contribution for the third category.

**Capital gains.** Capital gains are subject to tax at a rate of 10%.

A gain generated from any type of transfer of assets or rights by a person whose ordinary trade does not involve commercializing such assets or rights is considered a capital gain.

However, if the asset being transferred is part of the ordinary course of business of the transferor (for example, the transferor ordinarily or habitually engages in the trade or business of selling shares), the gains are categorized as ordinary income subject to corporate income tax at a rate of 25%.

Capital losses are deductible only if derived from the sale of depreciable assets or from the sale of non-depreciable assets sold in the ordinary course of a trade or business.

The capital gain must be reported and the corresponding tax paid for each transaction within 10 working days following the date on which the payment is received by the seller. An annual return must also be filed by 30 April of each year.

For the transfer of immovable property or rights and securities carried out with a nonresident, the buyer must withhold 4% of the transfer value. The capital gains tax is deemed to constitute a credit to such tax for the seller. The tax withheld must be reported in a filing and paid by the buyer within 10 calendar days following the date of the transaction.

**Administration.** The regular statutory tax year runs from 1 January through 31 December. However, taxpayers may elect a different tax year by requesting an authorization from the tax authorities. Companies with a regular statutory tax year must file an annual income tax return and pay any corresponding tax due within 120 days after the end of the tax year. For companies with a different tax year, the filing and payment deadline is 90 days after the end of their tax year. Mandatory advance tax payments are payable each quarter based on the income tax liability for the preceding tax year.

**Dividends.** A 10% withholding tax is imposed on dividends.

**Foreign tax relief.** Honduras does not grant any relief for foreign taxes paid.

### C. Determination of taxable income

**General.** Net taxable income is computed in accordance with generally accepted accounting and commercial principles, subject to certain adjustments required by the Honduran income tax law.

**Inventories.** Inventories are valued using the first-in, first-out (FIFO), last-in, first-out (LIFO) or weighted-average cost methods.

**Provisions.** Provisions for contingent liabilities, such as severance pay, are not deductible for tax purposes. However, payments of such liabilities are deductible expenses.

**Tax depreciation.** Depreciation may be computed using the straight-line method. Companies may obtain authorization from the tax authorities to use other depreciation methods. However, after a company selects a depreciation method, the method must be applied consistently thereafter. The following are the applicable straight-line method rates for some common assets.

<b>Asset</b>	<b>Rate (%)</b>
Buildings	2.5 to 10
Plant and machinery	10
Vehicles	10 to 33
Furniture and office equipment	10
Tools	25

**Relief for losses.** Companies engaged in agriculture, manufacturing, mining and tourism may carry forward net operating losses for three years. However, certain restrictions apply. Net operating losses may not be carried back.

**Groups of companies.** Honduran law does not allow the filing of consolidated income tax returns or provide any other tax relief to consolidated groups of companies.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Sales tax	15
Customs duties	1 to 20
Payroll taxes; paid by employers; average rate	8.5
Municipal taxes	
Property tax; imposed on companies owning real estate	Various
Industry trade and service municipal tax; imposed monthly on income derived from the operations of companies; rates vary according to the annual production volume, income or sales	
Up to HNL500,000	0.030
From HNL500,000 to HNL10,000,000	0.040
From HNL10,000,000 to HNL20,000,000	0.030
From HNL20,000,000 to HNL30,000,000	0.020
Over HNL30,000,000	0.015

#### **E. Foreign-exchange controls**

The Honduran currency is the lempira (HNL). As of 20 November 2017, the exchange rate for the lempira was HNL23.7518 = USD1.

No restrictions are imposed on foreign-trade operations or foreign currency transactions.

#### **F. Tax treaties**

Honduras has not entered into any income tax treaties with other countries.

# Hong Kong Special Administrative Region (SAR) of China

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**A. At a glance**

Corporate Income Tax Rate (%)	16.5 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	16.5 (a)
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties from Patents, Know-how, etc.	
Paid to Corporations	4.95/16.5 (b)
Paid to Individuals	4.5/15 (b)
Branch Remittance Tax	0

## Net Operating Losses (Years)

Carryback	0
Carryforwards	Unlimited

- (a) See Section B for the proposed two-tier tax system.
- (b) This is a final tax applicable to persons not carrying on business in Hong Kong. The general withholding tax rate is 4.95% for payments to corporations. For payments to individuals (including unincorporated businesses), the general withholding tax rate is 4.5%. However, if a recipient of payments is an associate of the payer and if the intellectual property rights were previously owned by a Hong Kong taxpayer, a withholding tax rate of 16.5% applies to payments to corporations and, for payments to individuals (including unincorporated businesses), a 15% rate applies.

## B. Taxes on corporate income and gains

**Profits tax.** Companies carrying on a trade, profession or business in Hong Kong are subject to profits tax on profits arising in or derived from Hong Kong. However, certain royalties received from a Hong Kong payer by a foreign entity that does not otherwise carry on a trade, profession or business in Hong Kong are liable to a withholding tax in Hong Kong (see Section A).

The basis of taxation in Hong Kong is territorial. The determination of the source of profits or income can be extremely complicated and often involves uncertainty. It requires case-by-case consideration. To obtain certainty concerning this and other tax issues, taxpayers may apply to the Inland Revenue for advance rulings on the tax implications of a transaction, subject to payment of certain fees and compliance with other procedures.

**Rates of profits tax.** The corporate rate of profits tax is 16.5%.

In the 2017 Policy Address, the Chief Executive of the Hong Kong SAR government proposed to implement a two-tier profits tax system. Under the proposal, the profits tax rate for the first HKD2 million of profits of enterprises will be lowered to 8.25% (that is, 50% of the normal profits tax rate). Profits above that amount will continue to be subject to the standard tax rate of 16.5%. However, each group of enterprises may only nominate one enterprise to benefit from the lower tax rate. The Hong Kong SAR government aims to implement the proposal in 2018.

**Tax incentives.** The following tax incentives and enhanced deductions are available in Hong Kong:

- Interest income and trading profits derived by corporations from qualifying debt instruments with a maturity period of less than seven years are taxed at a rate of 8.25% (that is, 50% of the normal profits tax rate), while interest income and trading profits derived from instruments with a maturity period of seven years or longer are exempt from tax.
- Income derived from the business of reinsurance of offshore risks by professional reinsurers that have made an irrevocable election is taxed at a rate of 8.25%.
- Income derived from the business of insurance of offshore risks by authorized captive insurers that have made an irrevocable election is taxed at a rate of 8.25%.
- Profits derived by authorized and certain bona fide widely held mutual funds, collective-investment schemes and unit trusts are exempt from tax.

- Profits derived from qualifying corporate treasury activities by qualifying corporate treasury centers that have made an irrevocable election are taxed at a rate of 8.25%.
- Profits of qualifying aircraft lessors and qualifying aircraft leasing managers that have made an irrevocable election are taxed at the concessionary tax rate of 8.25%. In addition, instead of tax depreciation allowances, the deemed taxable amount with respect to income derived from the leasing of aircraft to an aircraft operator by a qualifying aircraft lessor equals 20% of the tax base of the lessor concerned (that is, their gross rentals less deductible expenses, but excluding tax depreciation allowances).

In the 2017 Policy Address, the Chief Executive of the Hong Kong SAR government proposed to provide additional tax deductions for expenditure incurred by enterprises on research and development (R&D). The first HKD2 million eligible R&D expenditure will receive a 300% tax deduction, with 200% for the remainder. The Hong Kong SAR government aims to implement the proposal in 2018.

**Tax exemption for nonresident funds.** Nonresident persons, including corporations, partnerships and trustees of trust estates, are exempt from tax in Hong Kong if their activities in Hong Kong are restricted to certain specified transactions and to transactions incidental to such transactions. An entity is regarded as a nonresident if its place of central management and control is located outside Hong Kong. Specified transactions are broadly defined to cover most types of transactions typically carried out by investment funds, such as transactions involving securities (for unlisted securities, the exemption is subject to certain specified conditions), future and currency contracts, commodities and the making of deposits other than by money-lending businesses.

Anti-avoidance measures provide that under certain circumstances, a resident investor in an exempt nonresident fund is deemed to derive a portion of the exempt income of the fund and is subject to tax in Hong Kong on such income, regardless of whether the fund makes an actual distribution.

**Proposed tax exemptions for resident open-ended fund companies.**

Under a bill being scrutinized by the Legislative Council of Hong Kong, subject to certain safe-harbor rules and anti-avoidance provisions, an open-ended fund company (OFC) would be exempt from tax in Hong Kong with respect to its assessable profits derived from qualifying transactions and incidental transactions if it satisfies the following conditions:

- It is a resident person with its central management and control exercised in Hong Kong.
- It is non-closely held (as defined).
- It only carries out transactions in permissible asset classes through or arranged by specified persons.

Anti-avoidance measures contained in the bill provide that under certain circumstances, a resident investor in an exempt OFC fund is deemed to derive a portion of the exempt income of the OFC and is subject to tax in Hong Kong on such income, regardless of whether the OFC makes an actual distribution.

**Capital gains.** Capital gains are not taxed, and capital losses are not deductible for profits tax purposes.

**Administration.** A fiscal year runs from 1 April to 31 March. If an accounting period does not coincide with a fiscal year, the profit for the accounting period is deemed to be the profit for the fiscal year in which the period ends. Special rules govern commencements and cessations of businesses and deal with accounting periods of shorter or longer duration than 12 months.

Companies generally make two payments of profits tax during a fiscal year. The first payment consists of 75% of the provisional tax for the current year plus 100% of the final payment for the preceding year. The second payment equals 25% of the provisional tax for the current year. The timing of payments is determined by assessment notices rather than by set dates, generally during November to April of the fiscal year.

**Dividends.** Hong Kong does not impose withholding tax on dividends paid to domestic or foreign shareholders. In addition, dividends received from foreign companies are not taxable in Hong Kong.

**Foreign tax relief.** In certain circumstances, a deduction is allowed for foreign taxes paid. A foreign tax credit is available under the full comprehensive double tax treaties entered into between Hong Kong and other jurisdictions. However, the amount of the credit may not exceed the amount of tax payable under the Hong Kong tax laws with respect to the relevant item of income. For details concerning Hong Kong's double tax treaties, see Section E.

### **C. Determination of assessable profits**

**General.** The assessment is based on accounts prepared on generally accepted accounting principles, subject to certain statutory tax adjustments.

In general, interest income earned on deposits with financial institutions is exempt from profits tax. However, this exemption does not apply if the recipient of the interest is a financial institution or if the deposits are used as security for borrowings and the interest expense with respect to the borrowings is claimed as a tax deduction.

Expenses must be incurred in the production of chargeable profits. Certain specified expenses are not allowed, including domestic and private expenses, capital expenditures, the cost of improvements, sums recoverable under insurance and tax payments. The deductibility of interest is subject to restrictions (see Section D).

**Inventories.** Stock is normally valued at the lower of cost and net realizable value. Cost must be determined using the first-in, first-out (FIFO) method or an average cost, standard cost or adjusted selling price basis. The last-in, first-out (LIFO) method is not acceptable. However, this may not apply to shares and securities held for trading purposes.

#### **Capital allowances**

*Industrial buildings.* An initial allowance of 20% is granted on new industrial buildings in the year in which the expenditure is

incurred, and annual depreciation allowances are 4% of qualifying capital expenditure beginning in the year the building is first put into use. No initial allowance is granted on the purchase of used buildings, but annual depreciation allowances may be available. Subject to certain exceptions, buildings used for the purposes of a qualifying trade are industrial buildings.

*Commercial buildings.* An annual allowance (4% of qualifying capital expenditure each year) is available on commercial buildings. Buildings that do not qualify as industrial buildings are commercial buildings. Refurbishment costs for premises, other than those used as domestic dwellings, may be deducted in equal amounts over a five-year period.

*Prescribed plant and machinery.* Subject to satisfying certain conditions, companies may immediately write off 100% of expenditure on manufacturing plant and machinery and on computer software and hardware.

*Environmental protection facilities.* Subject to satisfying certain conditions, capital expenditure incurred on eligible environmental protection machinery and environmentally friendly vehicles qualifies for a 100% write-off in the year in which the expenditure is incurred. Expenditure incurred on the construction of an eligible environmental protection installation forming part of a building or structure is deductible in equal amounts over a period of five years.

*Other plant and machinery, and office equipment.* An initial allowance of 60% is granted for non-manufacturing plant and machinery, and office equipment in the year of purchase. An annual allowance of 10%, 20% or 30% under the declining-balance method is available on the balance of the expenditure beginning in the year the asset is first used in the business. Consequently, the total allowances (initial and annual) in the first year can be 64%, 68% or 72%.

*Motor vehicles.* An initial allowance of 60% is granted for motor vehicles in the year of purchase. An annual allowance of 30% under the pooling system (declining-balance method) is allowed on the balance of the expenditure beginning in the year the asset is first used in the business.

*Intellectual property rights.* Subject to certain anti-avoidance provisions, capital expenditure incurred on the purchase of patents, industrial know-how, registered trademarks, copyrights and registered designs qualifies for tax amortization over a time period ranging from one to five years.

*Recapture.* Depreciation allowances are generally subject to recapture if the proceeds from the sale of a depreciable asset exceed its tax-depreciated value. The recapture rule also applies to prescribed plant and machinery (manufacturing plant and machinery and computer hardware and software) and environmental protection machinery and installations that were previously written off in full. Consequently, in the year of disposal, the sales proceeds from prescribed assets generally are included in chargeable profits, up to the original costs of the assets. Allowances for commercial and industrial buildings may be recaptured, up to their original costs. Assets depreciable under the pooling system (declining-balance

method) are allocated to one of three pools according to their depreciation rates, which are 10%, 20% or 30%. Proceeds from the sale of an asset in a pool (up to the cost of the asset) are deducted from the pool balance. If a negative balance results within the pool, a balancing charge is added to taxable profits.

**Relief for business losses.** Losses incurred in a year can be carried forward indefinitely and set off against the profits of the company in subsequent years. No carryback is possible. Certain rules prevent trafficking in loss companies. In addition, specific rules govern the offset of normal business losses against concessionary trading receipts (that is, those taxed at concessionary rates instead of the full normal rates) and vice versa.

**Groups of companies.** Consolidated filing is not permitted. Hong Kong does not provide group relief for tax losses.

#### **D. Miscellaneous matters**

**Mergers and reorganizations.** When considering an acquisition in Hong Kong, a company must first decide whether to acquire the shares or the assets of the target company. Unlike some other jurisdictions, the Hong Kong tax code does not allow a step-up in tax basis of the underlying assets if shares are acquired. The target company retains the same tax basis for its assets, regardless of the price paid for the shares.

Effective from 3 March 2014, the new Companies Ordinance (Cap 622) introduced measures to facilitate an amalgamation of two or more wholly owned companies within a group without the need to seek approval from the court. Currently, the Hong Kong tax code does not contain specific provisions relating to a court-free amalgamation. The Hong Kong Inland Revenue Department (IRD) is considering the enactment of specific legislation to address the issues relating to court-free amalgamations. Pending the enactment of such legislation, the IRD has announced that if it is satisfied that a court-free amalgamation that does not involve a sale of assets is not carried out for the purpose of obtaining tax benefits, the amalgamated company (that is, the surviving entity) will generally be treated as if it is the continuation of, and the same person as, the amalgamating company (that is, the company that ceased to exist as a separate legal entity upon amalgamation). Under such an approach, except for trading stocks, no tax charges will arise in the amalgamating company, and the amalgamated company will be entitled to deductions for any unrelieved tax costs inherent in the items being taken over. In addition, subject to satisfying certain conditions, tax losses brought forward from the amalgamating company can be used to offset profits of the amalgamated company.

**Anti-avoidance legislation.** Transactions that are artificial, fictitious or predominantly tax-driven may be disregarded under general anti-avoidance tax measures. In addition, specific measures deny the carryforward of tax losses if the dominant reason for a change in shareholding of a corporation is the intention to use the tax losses. Other specific anti-avoidance measures include those designed to counteract certain leverage and cross-border leasing, non-arm's-length transactions between a Hong Kong resident company and its foreign affiliates and the use of personal service companies to disguise employer-employee relationships.

**Transfer pricing.** The Hong Kong SAR government has proposed to introduce a transfer-pricing regime into the existing tax code of the Hong Kong SAR. The proposed regime will adopt the arm's-length principle and the three-tier documentation approach of the Organisation for Economic Co-operation and Development (OECD) for related-party transactions. In terms of documentation, if relevant exemption conditions are not satisfied, a taxpayer would need to prepare a master file, a local file and a Country-by-Country Report (CbCR) for domestic and cross-border-related-party transactions (the exemption threshold for the CbCR would be group turnover not exceeding HKD6.8 billion). The proposed regime would possibly be effective starting from the 2018-19 year of assessment.

**Foreign-exchange controls.** Hong Kong does not impose foreign-exchange controls.

**Islamic bonds.** A special legislative framework provides comparable tax treatment in terms of stamp duty, profits tax and property tax for some common types of Islamic bonds (*sukuk*), vis-à-vis conventional bonds. However, no special tax incentives are conferred on Islamic bonds.

**Interest expense.** In an attempt to combat avoidance, restrictions are placed on the deductibility of interest expense. In general, subject to certain specific anti-avoidance rules, interest on monies borrowed is deductible for tax purposes if it is incurred in the production of chargeable profits in Hong Kong and if one of the following additional conditions is satisfied:

- The recipient is taxable in Hong Kong on the interest.
- The interest is paid to a recognized financial institution in Hong Kong or overseas.
- The interest is paid with respect to debt instruments that are listed or marketed in Hong Kong or in a recognized overseas market.
- The interest is paid with respect to money that is borrowed from an unrelated person and that is wholly used to finance capital expenditures on plant and machinery qualifying for capital allowances or the purchase of trading stock.
- The interest is paid by a corporation in the ordinary course of its intra-group financing business to its overseas associated corporations, and such overseas corporations are subject to tax overseas with respect to the interest received at a rate of not less than the applicable reference rate (that is, 16.5% or 8.25% as the case may be).

In addition, subject to certain provisions, distributions made with respect to regulatory capital securities (covering both Additional Tier 1 instruments and Tier 2 instruments; these instruments are securities issued by financial institutions to fulfill the capital adequacy requirements under the relevant banking regulations) issued by financial institutions in compliance with the relevant banking capital adequacy requirements are treated as interest expenses and are tax deductible.

**Reversion of sovereignty to China.** Since 1 July 1997, Hong Kong has been a Special Administrative Region (SAR) of China under Article 31 of the constitution of China. However, as an SAR,

Hong Kong has a tax system that is based on common law and distinct from the system used in Mainland China.

In addition, on its own, Hong Kong, using the name “Hong Kong, China,” may maintain and develop relations, and may conclude and implement agreements, with foreign states and regions and relevant international organizations in such fields as economics, trade, finance, shipping, communications, tourism, culture and sports.

### E. Tax treaties

Both the Hong Kong and Mainland China tax authorities take the view that Mainland China’s tax treaties with other jurisdictions do not cover Hong Kong.

For the avoidance of double taxation on shipping income, Hong Kong has entered into agreements with Denmark, Germany, Norway, Singapore, Sri Lanka and the United States. These agreements generally provide for tax exemption in one territory for profits and capital gains derived by an enterprise of the other territory in the first-mentioned territory with respect to the operation of ships in international traffic. However, under the agreement between Hong Kong and Sri Lanka, 50% of the profits derived from the operation of ships in international traffic may be taxed in the source jurisdiction. Apart from these agreements, reciprocal exemption provisions with the tax authorities of Chile, Korea (South) and New Zealand have also been confirmed.

Hong Kong has signed double tax agreements relating to airline profits with several jurisdictions, including Bangladesh, Croatia, Denmark, Estonia, Ethiopia, Fiji, Finland, Germany, Iceland, Israel, Jordan, Kenya, Laos, the Macau SAR, Maldives, Mauritius, Norway, Seychelles, Singapore, Sri Lanka and Sweden. Under these agreements, international transport income of Hong Kong airlines is exempt from tax in these signatory jurisdictions. However, international transport income of Hong Kong airlines that is exempt from tax overseas under these agreements or under relevant full comprehensive double tax treaties is taxed in Hong Kong.

Hong Kong has also entered into full comprehensive double tax treaties modeled on the conventional tax treaty adopted by the OECD, with the jurisdictions listed in the table below. The table shows the withholding tax rates for dividends, interest and royalties paid from Hong Kong to residents of the treaty jurisdictions. The rates shown in the table are the lower of the treaty rates and the applicable rates under Hong Kong domestic law.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Austria	0	0	3
Belarus (b)	0	0	3/4.95 (d)
Belgium	0	0	4.5/4.95 (a)
Brunei Darussalam	0	0	4.5/4.95 (a)
Canada	0	0	4.5/4.95 (a)
China (Mainland)	0	0	4.5/4.95 (a)
Czech Republic	0	0	4.5/4.95 (a)
France	0	0	4.5/4.95 (a)
Guernsey	0	0	4



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Hungary	0	0	4.5/4.95 (a)
Indonesia	0	0	4.5/4.95 (a)
Ireland	0	0	3
Italy	0	0	4.5/4.95 (a)
Japan	0	0	4.5/4.95 (a)
Jersey	0	0	4
Korea (South)	0	0	4.5/4.95 (a)
Kuwait	0	0	4.5/4.95 (a)
Latvia (b)	0	0	0/3 (c)
Liechtenstein	0	0	3
Luxembourg	0	0	3
Malaysia	0	0	4.5/4.95 (a)
Malta	0	0	3
Mexico	0	0	4.5/4.95 (a)
Netherlands	0	0	3
New Zealand	0	0	4.5/4.95 (a)
Pakistan	0	0	4.5/4.95 (a)
Portugal	0	0	4.5/4.95 (a)
Qatar	0	0	4.5/4.95 (a)
Romania	0	0	3
Russian Federation	0	0	3
Saudi Arabia	0	0	4.5/4.95 (a)
South Africa	0	0	4.5/4.95 (a)
Spain	0	0	4.5/4.95 (a)
Switzerland	0	0	3
Thailand	0	0	4.5/4.95 (a)
United Arab Emirates	0	0	4.5/4.95 (a)
United Kingdom	0	0	3
Vietnam	0	0	4.5/4.95 (a)
Non-treaty jurisdictions	0	0	4.5/4.95 (a)

- (a) The withholding rates in Hong Kong applicable to individuals (including unincorporated businesses) and corporations are 4.5% and 4.95%, respectively. These rates are lower than those specified in the relevant tax treaties, and consequently, the Hong Kong domestic rates apply.
- (b) The tax treaty is still pending ratification. The reduced rates for royalties will not apply until the ratification procedures are completed.
- (c) The 0% rate applies if the beneficial owner of the royalties is a company (other than a partnership). In all other cases, the 3% rate applies.
- (d) The 3% rate applies to payments for the use of, or the right to use, aircraft. The 4.95% rate applies in all other cases.

# Hungary

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The same rate applies to the taxable income of permanent establishments of nonresident companies. In general, the various permanent establishments of a nonresident company are taxed as a single entity. However, the taxable income of permanent establishments that are registered as distinct branches with the Court of Registration must be calculated separately, and losses incurred by one branch may not offset the profits of another. Such registrations are an option for foreign taxpayers in some cases and mandatory in other cases, depending on the country of incorporation of the foreign entity, its planned activities and other circumstances.

**Alternative minimum tax.** The alternative minimum tax (AMT) is calculated by applying the general rate of 9% to the AMT tax base. In general, the AMT tax base is 2% of total revenues, excluding any revenue attributable to foreign permanent establishments. The AMT tax base must be increased by an amount equal to 50% of additional loans contracted by the company from its shareholders or members during the tax year.

If a company's AMT is higher than the corporate income tax otherwise calculated or the pretax profit, the taxpayer may choose to pay either of the following:

- AMT.
- Corporate income tax otherwise payable. In this case, the company must fill out a one-page form that provides information regarding certain types of expenses and, in principle, is more likely to be selected for a tax audit.

### **Tax incentives**

*Reduced rate on certain types of income.* Companies may reduce their corporate tax base by 50% of royalty income, which includes, in certain cases, income from the disposal of intangible property. In effect, only half of the royalty income is taxable. In light of the recent developments regarding the Base Erosion and Profit Shifting (BEPS) Project of the Organisation for Economic Co-operation and Development (OECD), the definition of royalties eligible for these incentives was narrowed, and the conditions for applying these allowances were tightened as of 1 July 2016.

The total reduction mentioned above may not exceed 50% of the pretax profit of the company. The deduction may be claimed on the tax return. Unlike the development tax allowance (see *Development tax allowance*), no special reporting or preapproval obligations are imposed.

*Research and development double deduction.* In addition to being recognized expenses for corporate income tax purposes, the direct costs of basic research, applied research and research and development (R&D) incurred within the scope of a company's activities reduces the corporate income tax base. As a result, a double deduction is allowed for these expenses for corporate income tax purposes. It is not required that the research itself take place in Hungary, and the double deduction may include R&D purchased from related or unrelated foreign enterprises and, in some cases, from Hungarian enterprises.

*R&D triple deduction.* Certain R&D activities conducted in cooperation with the Hungarian Academy of Arts and Sciences and its research institutions, public research centers or private research

centers directly or indirectly owned by the state can result in a deduction of three times the R&D cost. However, this deduction is capped at HUF50 million (approximately USD192,000).

*Development tax allowance.* Companies may benefit from a development tax allowance (tax credit), conforming with European Community (EC) law, for up to 12 tax years if they satisfy all of the following conditions:

- They make an investment of at least HUF3 billion (approximately USD11,540,000) or an investment of HUF1 billion (approximately USD3,850,000) in an underdeveloped region.
- They meet either of the following conditions:
  - The average number of employees increases by at least 50 (or 25 in underdeveloped regions).
  - Compared to the tax year preceding the commencement of the investment, the increase in the annual wage cost is at least 300 times (150 times in underdeveloped regions) the minimum wage (for 2018, the minimum monthly wage is HUF138,000 [approximately USD530]).
- The investment comprises one of the following:
  - The acquisition of a new asset
  - The enlargement of existing assets
  - The fundamental modification of the final product or the previous production method as a result of the investment

In addition, the scope of development tax allowances is expanded. Large companies are now eligible for development tax allowances with respect to asset investments of at least HUF6 billion (approximately USD23 million) or job-creating investments of at least HUF1 billion (approximately USD3,850,000), aimed at product diversification or new procedural innovations in certain Central Hungarian municipalities. The application of the tax allowance is subject to a government resolution based on the authorization of the European Commission.

Taxpayers may claim a development tax allowance with respect to investments of at least HUF100 million (approximately USD385,000) in free entrepreneurial zones.

Small and medium-sized enterprises may become eligible for development tax allowances with respect to investments implemented in any region in the amount of at least HUF500 million (approximately USD1,920,000).

A development tax allowance can also be claimed for investments of at least HUF100 million (approximately USD385,000) in the fields of food product hygiene, environmental protection, basic or applied research or film production, if certain other requirements are met. Investments of any amount in any field that result in a certain level of job creation may also qualify for a tax allowance.

In general, companies must submit a notification regarding the allowance to the Ministry of National Economy before the start date of the investment and self-assess the tax allowance. However, companies must obtain permission from the Ministry of National Economy if their investment-related costs and expenses exceed EUR100 million (approximately USD118 million). Taxpayers must report the completion date of their investments

within 90 days after the date on which the investment becomes operational.

The tax allowance may reduce the company's corporate income tax liability by up to 80%, resulting in an effective tax rate of 1.8% (instead of 9%). Depending on the location of the project, the allowance may cover between 20% and 50% of the eligible investment costs. In general, the allowance may be used within a 12-year period after the investment is put into operation, but it must be used by the 16th year after the declaration for the allowance was filed. In general, the 12-year period begins in the year following the year in which the investment is put into operation. However, the investor may request that the 12-year period begin in the year in which the investment is put into operation.

*Tax allowance for investments made for energy-efficiency purposes.* If taxpayers make investments to reduce their final energy consumption, they can utilize a tax allowance up to 30% of the eligible extra costs (up to a maximum of the present HUF value of EUR15 million) directly relating to or attributable to the assets responsible for the energy saving. The tax allowance can be applied in the tax year following the year in which the investment was put into operation, and in the following five tax years. To be able to apply the tax allowance, the taxpayer must hold a certificate issued by the relevant authority proving that the investment qualifies as an investment for energy-efficiency purposes. Qualifying assets must be operated for at least five years. The tax allowance for investments serving energy-efficiency purposes and the development tax credit cannot both be applied to the same investment.

*Tax allowance for investments in registered start-up companies.* Taxpayers that invest in start-up companies may decrease their pretax profit by three times the acquisition value of the participation (including the increase in the acquisition value as a result of a capital increase after acquisition) in the tax year the participation is obtained and in the following three years, in equal amounts. The pretax profit can be decreased by a maximum of HUF20 million in each tax year. If, as a result of a capital increase in the start-up, the acquisition value increases in the period in which the allowance can be applied, the tax base can be decreased with respect to the increase, provided that the participation acquired in the start-up company previously entitled the taxpayer to apply a tax-base allowance. However, this does not extend the length of the initial application period.

*Tax-base allowances to promote labor mobility.* Under the tax-base allowances to promote labor mobility, the pretax profit can be decreased by the following:

- The amount of mobility housing support provided in the current tax year
- The amount recorded as the acquisition value or the increment of the acquisition value of workers' hostels in the tax year in which the investment or renovation is finished
- The amount recorded as the rental fees for properties used as workers' hostels, or incurred with respect to the maintenance and operation of workers' hostels in the current tax year

- The amount of the net asset value or the increase in the net asset value of the property with a long-lasting structure built to provide housing for the taxpayer's employees in the tax year in which the investment or the development is completed

*Film tax credit.* Tax relief is provided to Hungarian companies sponsoring film production carried out in Hungary. The contributions are effectively refunded by the state because the sponsors can deduct the contributions from the corporate income tax payable, but the amount deducted may not exceed 20% of eligible expenses of the film production. In addition, these contributions, up to the above limit, are also deductible for corporate income tax purposes. The tax relief may be carried forward for a period of three years. It is available only if the sponsor does not receive any rights with respect to the sponsored film.

To qualify for tax incentives, films are subject to a comprehensive cultural test, which grants points for various aspects of the production, including the members of the crew, the actors and the theme of the film being European. In general, only films receiving more than a certain number of points qualify.

To use the film tax credit, the taxpayer must pay 6.75% supplementary support to the beneficiary in the tax year in which the basic support is provided. The supplementary support is not deductible for corporate income tax purposes.

*Sports tax credit.* Tax relief is provided to Hungarian companies supporting sports organizations in the following popular team sports:

- Football (that is, soccer)
- Handball
- Basketball
- Water polo
- Ice hockey
- Volleyball

Under the sports tax credit scheme, national sports associations, professional sports organizations, amateur sports organizations, nonprofit foundations and civil sports organizations may be supported. Donations granted to these sports organizations are fully creditable against the corporate tax liability of the donor, capped at 70% of the donor's total corporate tax liability, if the taxpayer does not have government liabilities in arrears. Unused tax credits may be carried forward for a period of six years. In addition, amounts donated are also deductible for corporate income tax purposes. Supplementary sport development aid must be paid by the donors within the framework of sponsorship or aid contracts equal to at least 6.75% of the amount indicated in the support certificate. This expense is not deductible for corporate income tax purposes. The supplementary development aid must be transferred to the respective national sport associations or the respective sports organizations or foundations.

*Culture tax credit.* Tax relief is provided to Hungarian corporate taxpayers supporting cultural organizations (for example, theaters). The support can be for an amount of up to 80% of the organization's revenues from ticket sales, capped at HUF1.5 billion (approximately USD5,770,000). The mechanism of the tax relief is the same as for the sports tax credit (see *Sports tax credit*).

*New film, culture and sports tax credit.* Effective from 2015, film productions, sports organizations and cultural organizations may be supported by Hungarian corporate taxpayers in a new manner, as an alternative to the “old” model that will also remain in existence. Under the new rules, the taxpayer may designate a portion of its tax liability as support for a selected, qualifying organization. On receiving the tax payment from the taxpayer, the tax authority remits the designated amount to the beneficiary. Taxpayers can designate up to 50% of their monthly or quarterly tax advance payments and up to 80% of their “top-up payments” or year-end tax payments. The total amount of the support is capped at the same amounts as under the “old” rules. As a benefit, the tax authority credits 7.5% of the amounts designated from advance tax payments and “top-up payments” and 2.5% of the amounts designated from the year-end tax payment to the taxpayer’s tax account.

**Capital gains.** With the exception of capital gains on “reported shares,” “reported intangibles” and certain other intellectual property (see below), capital gains derived by Hungarian companies are included in taxable income and taxed at the standard corporate income tax rate.

Capital gains derived by nonresident companies from disposals of Hungarian shares (except for shares in Hungarian real estate companies, see below) are not subject to tax, unless the shares are held through a permanent establishment of the seller in Hungary.

*Reported shares.* If a taxpayer has held registered shares of an entity for at least one year and reported the acquisition of the shares within 75 days after the date of the acquisition to the Hungarian tax authorities, the shares are “reported shares.” If a shareholding has already been reported to the tax authorities, further reporting is necessary only if the proportion of the shareholding increases.

Capital gains (including foreign-exchange gains) derived from the sale of the reported shares or from the contribution of the reported shares in kind to the capital of another company are exempt from corporate income tax. Capital losses (including foreign-exchange losses) incurred on such investments are not deductible for tax purposes.

*Reported intangibles.* Similar to the rules of reported shares, the acquisition and creation of royalty-generating intangible assets (intellectual property and pecuniary rights) by Hungarian taxpayers can be reported to the Hungarian tax authorities within 60 days after the date of acquisition or creation. If the reported intangible asset is sold or disposed of after a holding period of at least one year, the gain on the sale is non-taxable. However, any losses related to such reported intangible asset (that is, impairment) are not deductible for corporate income tax purposes.

If an unreported intangible asset is sold, the gain on the sale is exempt from tax if this gain is used to purchase further royalty-generating intangibles within five years. A taxpayer may not enjoy the benefits arising from the reporting of a repurchased intangible if this asset was previously sold as an unreported intangible that benefited from this capital gains tax exemption.



*Hungarian real estate holding companies.* Gains derived by a nonresident from the alienation of shares in a Hungarian real estate holding company are taxed at a rate of 9%, unless a tax treaty exempts such gains from taxation. A Hungarian company is deemed to be a Hungarian real estate holding company if either of the following circumstances exists:

- More than 75% of its book value is derived from real property located in Hungary.
- More than 75% of the total book value of the group, comprised of the company and its related companies that are engaged in business in Hungary (whether as resident entities or through permanent establishments), is derived from real property located in Hungary.

The capital gains are not taxable if the Hungarian company is listed on a recognized stock exchange.

**Administration.** In general, the calendar year is the tax year. However, companies may choose a different tax year if such year best fits their business cycle or is required to meet the management information needs of the parent company. Companies selecting a tax year other than the calendar year must notify the tax authorities within 15 days after making the decision on the selection.

Companies must file their corporate income tax returns by the last day of the fifth month following the end of the tax year. If their annual tax liability is greater than the total advance tax payments paid during the year, they are required to pay the balance on filing the return.

Extensions to file tax returns may not be obtained in advance of the due date. However, a company may obtain an extension after the due date if it files, with the completed late return, a letter requesting an extension to the date the return is filed. At their discretion, the tax authorities may accept the late return as being filed on time if the letter explains the reasons for the delay and establishes that the tax return is being filed within 15 days after the reason for the delay expires, and if the company pays any balance of tax due shown on the return.

If an extension for filing is granted, no late filing or payment penalties are imposed, and no interest is charged on the late payment. If an extension for filing is not granted, a penalty of up to HUF500,000 (approximately USD1,900) can be imposed. In addition, interest is charged on the late payment of tax at a rate equal to twice the National Bank of Hungary prime interest rate (on 30 November 2017, the prime interest rate was 0.9%). Interest is charged beginning on the date the payment is due, and it may be charged for up to three years.

In their corporate income tax returns, taxpayers also declare the tax advances that they will pay for the 12-month period beginning in the second month after the filing deadline. The total of these advances equals the amount of tax payable for the year covered in the corporate income tax return. For calendar-year taxpayers, which have a filing deadline of 31 May, advances are payable over a 12-month period beginning in July of the year following the year covered in the corporate income tax return and ending in June of the subsequent year. For companies with a corporate income tax liability exceeding HUF5 million

(approximately USD19,200) in the preceding year, advance payments are divided into 12 equal monthly installments. Other companies make quarterly advance payments. As a result of the decrease of the corporate income tax rate in 2017, the amount of advance tax payable in 2017 and 2018 must be calculated based on special transitional rules. In addition to paying the monthly or quarterly advances, by the 20th day of the last month of their tax year, companies must make a “top-up payment” if their net sales revenues exceeded HUF 100 million (approximately USD385,000) in the preceding tax year. The amount of the payment is the difference between the installments paid during the tax year and the anticipated tax liability for the tax year.

### **Dividends**

*Dividends paid by Hungarian companies.* Withholding tax is not imposed on dividends paid to foreign companies.

Withholding tax at a rate of 15% is imposed on dividends paid directly to resident and nonresident individuals. Tax treaties may override Hungarian domestic law with respect to the withholding tax on dividends.

*Dividends received by Hungarian companies.* In general, dividends received by Hungarian companies are exempt from corporate income tax. The only exception applies to dividends paid by controlled foreign corporations (CFCs; see Section E).

### **Interest, royalties and service fees**

*Interest, royalties and service fees paid by Hungarian companies.* Withholding tax is not imposed on interest, royalties and service fees or any other payments made to local or foreign companies.

Hungary imposes a withholding tax at a rate of 15% on interest paid directly to individuals (this rule does not apply to interest paid to individuals resident in certain countries if the payment falls under a reporting obligation under the European Union [EU] Savings Directive).

*Interest and royalties received by Hungarian companies.* A tax incentive may apply to royalties received by Hungarian companies (see *Tax incentives*). Interest received by a Hungarian company is taxable according to the general rules.

**Foreign tax credit.** Foreign taxes paid on foreign-source income may be credited against Hungarian tax. Foreign dividend withholding tax may be credited for Hungarian tax purposes if the dividend or the undistributed profit is subject to tax in Hungary.

## **C. Determination of trading income**

**General.** Taxable income is based on financial statements prepared in accordance with Hungarian accounting standards. These standards are set forth in the law on accounting, which is largely modeled on EU directives.

Effective from 1 January 2017, the following companies can elect to use International Financial Reporting Standards (IFRS) for purposes of preparing their stand-alone Hungarian financial statements:

- Entities subject to compulsory statutory audit

- Companies whose direct or indirect parent prepares a consolidated report under IFRS
- Insurance companies
- Banks and other entities subject to similar prudential rules
- Entities providing financial services under the supervision of the Hungarian National Bank
- Hungarian branches of non-Hungarian entities

Effective from 1 January 2017, the use of IFRS is mandatory in the following circumstances:

- The entity's stock is listed on any of the stock exchanges in the European Economic Area (EEA), excluding banks and other entities subject to similar prudential rules and insurance companies).
- It is mandatory under Regulation 1606/2002 of the European Parliament and of the EU Council.

The application of IFRS is mandatory for banks and other entities subject to similar prudential rules (regardless of whether their stock is listed on any of the stock exchanges in the EEA) and insurance companies with securities listed on any of the stock exchanges in the EEA from the tax year beginning in 2018.

Taxable income is determined by adjusting the pretax profit shown in the annual financial statements by items described in the Act on Corporate Income Tax. If IFRS are applied, the starting point for the determination of the corporate income tax base is the IFRS result, but different adjustments apply. The purpose of making adjustments to the IFRS result is to arrive at a tax base that is largely similar to the tax base of companies reporting under Hungarian accounting standards.

Some items are not subject to tax as income, such as dividends received (but see the controlled foreign corporation rules in Section E).

Some items, such as transfers without consideration, are not deductible for tax purposes.

**Tax depreciation.** In general, depreciation is deductible in accordance with the Annexes to the Act on Corporate Income Tax. Lower rates may be used if they are at least equal to the amount of the depreciation used for accounting purposes. The annexes specify, among others, the following straight-line tax depreciation rates.

<b>Asset</b>	<b>Rate (%)</b>
Buildings used in hotel or catering businesses	3
Commercial and industrial buildings	2 to 6
Leased buildings	5
Motor vehicles	20
Plant and machinery	
General rate	14.5
Automation equipment, equipment for environmental protection, medical equipment and other specified items	33
Computers	50
Intellectual property and film production equipment	50

**Relief for losses.** Pre-2015 losses can be applied in any tax year until 2025. Losses incurred in 2015 and subsequent years may be carried forward for five years only. The losses can be applied against only 50% of the tax base for a particular year. Certain special rules apply to losses incurred before 2009.

Change-of-control restrictions have been introduced with respect to the availability of previously incurred tax losses after corporate transformations, mergers and acquisitions.

**Groups of companies.** The Hungarian tax law does not allow the filing of consolidated tax returns by groups of companies.

## D. Other significant taxes

The following table summarizes other significant taxes and provides the 2018 rates for these taxes.

Nature of tax	Rate (%)
Value-added (sales) tax, on goods, services and imports	
Standard rate	27
Preferential rates	5/18
Bank tax; imposed on various entities in the financial market; the tax base and tax rate varies by financial activity	Various
Levy on energy suppliers (“Robin Hood tax”)	31
Social security contributions, on gross salaries; in general, expatriates do not participate; paid by	
Employer	19.5
Employee (the contribution represents the sum of the 8.5% health-care contribution and the 10% pension fund contribution)	18.5
Excise duty, on various goods, including gasoline, alcohol, tobacco, beer, wine and champagne	Various
Local business tax; imposed on turnover or gross margin	2
(A decision of the European Court of Justice held that this tax was compatible with EU law.)	

## E. Miscellaneous matters

**Foreign-exchange controls.** The Hungarian currency is the forint (HUF). Hungary does not impose any foreign-exchange controls; the forint is freely convertible.

Companies doing business in Hungary must open a bank account at a Hungarian bank to make payments to and from the Hungarian authorities. They may also open accounts elsewhere to engage in other transactions.

Payments in Hungarian or foreign currency may be freely made to parties outside Hungary.

**Transfer pricing.** For contracts between related companies, the tax base of the companies must be adjusted by the difference between the market price and the contract price if the application of the market price would have resulted in higher income for the companies.

Taxpayers may also reduce the tax base in certain circumstances if, as a result of not applying market prices, their income is higher than it would have been if market prices had been applied. Effective from 2018, the tax base reduction can be only applied on the declaration of the related party stating that it will take (or has taken) into account the same amount when calculating its corporate income tax (or other equivalent tax) base. The tax base reduction does not apply if the transaction involves companies deemed to be CFCs (see *Controlled foreign corporations*).

The market price must be determined by one of the following methods:

- Comparable uncontrolled price method
- Resale price method
- Cost-plus method
- Transactional net margin method
- Profit split method
- Any other appropriate method

These methods reflect the July 2010 update of the OECD guidelines. A decree issued by the Ministry of National Economy describes the requirements for the documentation of related-party transactions. Transfer-pricing documentation must be prepared for all related-party agreements that are in effect, regardless of the date on which the agreement was concluded.

The transfer-pricing rules also apply to in-kind capital contributions (including on foundation) and the withdrawal of assets in kind (in the case of capital reduction and possibly in the case of winding-up) by the majority shareholder. The transfer-pricing rules also apply to in-kind dividend payments. Advance pricing agreements (APAs) are available.

Hungary has ratified and is applying the Arbitration Convention.

**Controlled foreign corporations.** As of 18 January 2017, the definition of CFCs in the Act on Corporate Income Tax and Dividend Tax is changed in accordance with the EU Council Directive that sets out the rules against tax-avoidance practices closely relating to the operation of the internal market. A CFC is defined as a nonresident company (branch) that meets one of the following conditions:

- At least 50% of the registered capital or the voting rights in the nonresident company is directly or indirectly owned by a Hungarian resident private individual or company, provided that the foreign company has to pay less than half of the amount of corporate income tax that would be payable if the tax and the tax base were calculated on the basis of the Hungarian tax rules. The 50% threshold must be evaluated on a consolidated basis. Consequently, the ratio of participation and voting rights held by all Hungarian and non-Hungarian related parties must be considered on an aggregate basis.
- A Hungarian resident individual or company has the right to receive at least 50% of the after-tax profit of the foreign company, provided that the foreign company has to pay less than half of the amount of corporate income tax that would be payable if the tax and the tax base were calculated on the basis of

the Hungarian tax rules. The 50% threshold must be evaluated on a consolidated basis. Consequently, the rights to receive part of the after-tax profit held by all Hungarian and non-Hungarian related parties should be considered on an aggregate basis.

- A foreign branch of a Hungarian resident company is a CFC if the foreign branch has to pay less than half of the amount of corporate income tax that would be payable if the tax and tax base of the branch were calculated on the basis of the Hungarian tax rules.

A nonresident company (branch) is not a CFC if it has sufficient personnel, assets and locations through which it performs genuine business activity. If at least 50% of the total revenue of the nonresident company (branch) is generated from manufacturing, processing, agricultural, commercial, investing or service-providing activities through its own employees and assets, the nonresident company (branch) is considered to be performing a genuine business activity by law. Eligible investing activity covers the permanent investments made in the following:

- Participations
- The purchase, holding and sale of debt securities
- Investing activity of funds, companies and other entities that are subject to regulations concerning securities and investment services in the country of their residence or that are controlled by the financial supervisory authority of the country of residence or have the license of such supervisory authority

If the nonresident company (branch) has related parties in the country of its establishment, the 50% revenue threshold must be evaluated on a consolidated basis; that is, the revenues of these related parties should also be considered.

Also, the foreign company does not qualify as a CFC if an entity that has been listed on a recognized stock exchange for at least five years or a related party holds at least 25% of the shares of the foreign company on every day of the tax year.

If a Hungarian company holds at least 25% of the shares of a CFC, the company must increase its tax base by an amount equal to its proportionate share in the undistributed after-tax profit of the CFC. However, the corporate income tax paid abroad can be credited against the Hungarian corporate income tax liability. As a result, the overall non-Hungarian and Hungarian tax burden is capped at the 9% Hungarian corporate income tax rate. This adjustment to the tax base does not apply if an individual deemed to be a Hungarian tax resident holds shares in the Hungarian company.

Dividends received from CFCs do not qualify for the participation exemption regime and, accordingly, are treated as taxable income to the Hungarian shareholders (except for dividends that were already taxed as undistributed after-tax profits in previous years). Nevertheless, the corporate income tax paid abroad can be credited against the Hungarian corporate income tax liability. As result, the overall non-Hungarian and Hungarian tax burden is capped at the 9% Hungarian corporate income tax rate. Capital losses on investments in CFCs are not deductible for tax purposes.

**Debt-to-equity rules.** A Hungarian company's taxable income is increased by the interest payable on the amount of net debt in excess of three times the amount of the company's average net equity during the tax year.

Liabilities can be calculated on a net basis; that is, only the proportion of liabilities that exceeds the amount of certain receivables needs to be taken into consideration in the thin-capitalization calculation.

The thin-capitalization rules are extended to non-interest-bearing liabilities if a transfer-pricing adjustment has been applied to them. Consequently, when calculating thin capitalization, both interest accounted for in the books and deemed interest imputed as a result of transfer-pricing adjustments must be taken into account.

**Foreign investment.** No restrictions are imposed on the percentage of ownership that foreigners may acquire in Hungarian companies. Some restrictions exist with respect to the ownership of farmland.

## F. Treaty withholding tax rates

Hungary does not impose withholding taxes on payments to foreign entities. However, it does impose withholding tax on the payment of dividends and interest to foreign individuals (for details, see Section B).

Hungary has tax treaties in effect with the following jurisdictions.

Albania	Indonesia	Portugal
Armenia	Iran	Qatar
Australia	Ireland	Romania
Austria	Israel	Russian Federation
Azerbaijan	Italy	San Marino
Bahrain	Japan	Saudi Arabia
Belarus	Kazakhstan	Serbia (b)
Belgium	Korea (South)	Singapore
Bosnia and Herzegovina (a)	Kosovo	Slovak Republic
Brazil	Kuwait	Slovenia
Bulgaria	Latvia	South Africa
Canada	Liechtenstein	Spain
China (mainland)	Lithuania	Sweden
Croatia	Luxembourg (d)	Switzerland
Cyprus	Macedonia	Taiwan
Czech Republic	Malaysia	Thailand
Denmark	Malta	Tunisia
Egypt	Mexico	Turkey
Estonia	Moldova	Turkmenistan
Finland	Mongolia	Ukraine
France	Montenegro (b)	United Arab Emirates
Georgia	Morocco	United Kingdom
Germany	Netherlands	United States (c)
Greece	Norway	Uruguay
Hong Kong SAR	Pakistan	Uzbekistan
Iceland	Philippines	Vietnam
India	Poland	

(a) The 1985 treaty between Hungary and the former Socialist Federal Republic of Yugoslavia is applied with respect to Bosnia and Herzegovina.

- (b) The 2001 treaty between Hungary and the former Federal Republic of Yugoslavia is applied with respect to Serbia. In practice, Hungary and Montenegro also apply this treaty, but no formal announcement has been made to confirm this practice.
- (c) This treaty was renegotiated in 2010, but the new treaty is not yet in force.
- (d) This treaty was renegotiated. The new treaty is effective from 27 January 2017.

Hungary is negotiating double tax treaties with Algeria, Andorra, Argentina, Chile, Colombia, Ethiopia, Iraq, Kyrgyzstan, Oman, Panama and Sri Lanka.

On 7 June 2017, Hungary signed with more than 65 other countries the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI). The MLI ensures that rules designed to prevent cross-border tax evasion will be incorporated into bilateral tax treaties. It will also enable hundreds of tax treaties to be updated with OECD BEPS measures without the need for drawn-out bilateral negotiations. The Hungarian government has opted out from all provisions of the MLI that allow an opt-out.



# Iceland

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## A. At a glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (b)
Branch Tax Rate (%)	20 (a)
Withholding Tax (%)	
Dividends	
Residents	20 (c)
Nonresidents	20 (d)
Interest	
Residents	20
Nonresidents	12 (e)
Royalties from Patents, Know-how, etc.	20 (f)
Payments under Leases and Rent	20 (f)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

- (a) A 37.6% rate applies to partnerships.
- (b) Capital gains are taxed as ordinary income. Capital gains may be offset by extraordinary depreciation (for details, see Section B).
- (c) Dividends received by domestic companies are considered ordinary income. However, dividends received from domestic companies are fully deductible. Dividends received from foreign companies are also fully deductible, provided that the foreign companies are taxed in a similar manner to Icelandic companies.
- (d) A 20% withholding tax is imposed on dividends paid to nonresident entities. A 22% withholding tax is imposed on dividends paid to nonresident individuals. Nonresidents can obtain a refund of the withholding tax or apply for an exemption from the withholding tax based on an applicable double tax treaty. If no double tax treaty applies, nonresidents must suffer the withholding. However, residents of European Union (EU), European Economic Area (EEA) or European Free Trade Association (EFTA) states or the Faroe Islands are eligible for a full deduction for dividends received from domestic companies in the same manner as domestic entities. Companies may claim this deduction by filing a tax return. They are accordingly reimbursed for withheld taxes in the general assessment in the following year.

- (e) A 12% withholding tax is imposed on interest paid to nonresident entities and nonresident individuals unless, on application, the Director of Internal Revenue grants an exemption from withholding tax based on an applicable double tax treaty. Alternatively, the withholding tax may either be refunded or not withheld. Interest on bonds issued in the name of financial undertakings or energy companies is not subject to withholding tax. The bonds must be registered at a central securities depository established in an Organisation for Economic Co-operation and Development (OECD), EEA or EFTA state or the Faroe Islands. Interest paid by Seðlabanki Íslands (the Icelandic central bank) in its own name or on behalf of the Icelandic treasury is also not subject to withholding tax.
- (f) Royalties, payments under leases and rent payments that are paid to nonresident companies, partnerships and individuals are subject to withholding tax at a rate of 22%. A 20% rate applies to resident companies. A 37.6% rate applies to resident partnerships. These payments are not subject to withholding when paid to residents.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are taxed on their worldwide income. Resident corporations are those incorporated, registered, domiciled or effectively managed in Iceland. Nonresident companies are taxed only on their income earned in Iceland.

**Rate of corporate tax.** The rate of corporate income tax is 20%. The rate for taxable partnerships is 37.6%.

**Capital gains.** Capital gains result from profits derived from sales of assets. These gains are included in ordinary income and taxed at the normal income tax rates.

Capital gains may be offset by extraordinary depreciation on other fixed assets or on fixed assets acquired within two years of the sale. If the fixed assets are not acquired within two years of the sale, the gain is included in income, and a 10% penalty is imposed.

**Profits from stock sales.** Profits derived by domestic companies from stock sales are considered ordinary income. However, profits derived from stock sales in domestic companies are fully deductible. Profits derived by domestic companies from stock sales in foreign companies are also fully deductible, provided that the foreign companies are taxed in a similar manner to Icelandic companies and that their tax ratio is not lower than the general tax ratio in any member state of the OECD, any member state of the EEA, any founding state of the EFTA or the Faroe Islands.

**Administration.** The tax year is generally the calendar year.

Due dates for filing income tax returns vary, depending on the type of entity. The filing date for limited companies and partnerships, which is 31 May, is usually extended. Monthly advance tax payments are due on the first day of each month except for January and October. Each advance payment equals 8.5% of the previous year's tax. The tax due is determined when the annual assessment is issued. Companies generally must pay the unpaid balance in two equal monthly payments in November and December.

*Advance rulings.* Both resident and nonresident companies may request advance rulings on most corporate income tax consequences of future transactions. Rulings are issued only on matters of substantial importance.

**Dividends.** Dividends earned by domestic companies are considered ordinary income. Dividends are subject to withholding tax except for dividends paid to companies of the same tax-consolidated group. However, dividends received from domestic companies are fully deductible from dividend income in the annual assessment process and, as a result, effectively no taxable income is declared, and any withholding tax that was imposed is refunded or used to reduce other taxes resulting from the assessment. Dividends received from foreign companies are also fully deductible, provided that the foreign companies are taxed in a similar manner to Icelandic companies and that their tax ratio is not lower than the general tax ratio in any member state of the OECD, any member state of the EEA, any founding state of the EFTA or the Faroe Islands.

Withholding tax is imposed on dividends paid to nonresidents. The rate is 20% for companies and 22% for individuals. Tax treaties may reduce or eliminate the dividend withholding tax. Nonresidents from EU, EEA or EFTA states or the Faroe Islands are eligible for a full deduction from dividends received from domestic companies in the same manner as domestic entities. Companies may claim this deduction by filing a tax return. They are accordingly reimbursed for withheld taxes in the general assessment in the following year.

No withholding tax is imposed on distributions by taxable partnerships.

**Foreign tax relief.** Relief for double taxation may be obtained unilaterally under Icelandic domestic law or under a tax treaty. Unilateral relief may be granted through a tax credit against Icelandic income tax at the discretion of the Director of Internal Revenue.

### C. Determination of trading income

**General.** The computation of taxable income is based on net income in the financial statements prepared according to generally accepted accounting principles. For tax purposes, several adjustments are made, primarily concerning depreciation and write-offs of inventory.

In general, expenses incurred to generate and maintain business income are deductible.

**Inventories.** Inventories are valued at the lower of cost or market value. Cost must be determined using the first-in, first-out (FIFO) method. Five percent of the value of inventory at the end of the year is deductible.

**Tax depreciation.** Depreciation must be calculated using either the declining-balance method or the straight-line method. The straight-line method applies to buildings, expendable natural resources and the right of ownership of valuable intellectual properties, including copyright, publishing rights, patent rights and brand rights. The declining-balance method applies to ships, aircraft, vehicles and machinery. Fixed assets cannot be depreciated below 10% of cost. The following are some of the applicable depreciation rates.

<b>Assets</b>	<b>Rate (%)</b>
Buildings	
Office and retail	1 to 3
Industrial plants	3 to 6
Drilling holes and transmission lines	7.5 to 10
Ships, aircraft, cars carrying fewer than nine persons (except taxis)	10 to 20
Automobiles and other transport vehicles	20 to 35
Industrial machinery and equipment	10 to 30
Office equipment	20 to 35
Machinery and equipment for building and construction	20 to 35
Other movable property	20 to 35

The amortization period for goodwill ranges from 5 to 10 years. The amortization period for copyrights, patents, trademarks, designs, models, know-how or similar rights ranges from five to seven years.

**Relief for losses.** Losses may be carried forward for 10 years. Losses may not be carried back.

**Groups of companies.** Resident companies may use group consolidation if one company owns at least 90% of the shares in another company or if at least 90% of the shares in a company are owned by companies that are members of the same tax-consolidated group.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax, on most goods sold in Iceland and most services rendered in Iceland	
Higher rate	24
Lower rate for hotels, books and publications, food products, heating of houses and road tolls	11
Social security contributions, paid by the employer on gross payroll	6.85
Commodity tax; on certain goods, including vehicles and fuel	Various

#### **E. Foreign-exchange controls**

Iceland abolished the foreign-exchange controls in 2017.

Nonresidents may directly invest in most industries in Iceland, but they must notify Seðlabanki Íslands (the central bank) of such investments. The fishing industry is the principal industry in which investments by nonresidents are limited. Nonresidents may not own a majority in such companies.

**F. Treaty withholding tax rates**

	Dividends		Interest %	Royalties %
	A (a) %	B %		
Albania	5 (c)	15	10	10
Austria	5	15	0	5
Barbados	5	15	10	5
Belgium	5	15	10	0
Canada	5	15	0/10	0/10 (b)
China (mainland)	5 (c)	10	10	10
Croatia	5 (c)	10	10	10
Cyprus	5	10	0	5
Czech Republic	5 (c)	15	0	10
Denmark (d)	0	15	0	0
Estonia	5 (c)	15	10	5/10 (e)
Faroe Islands (d)	0	15	0	0
Finland (d)	0	15	0	0
France	5	15	0	0
Georgia	5 (c)	10	5	5
Germany	5 (c)	15	0	0
Greece	5 (c)	15	8	10
Greenland	5 (c)	15	0	15
Hungary	5 (c)	10	0	10
India	10	10	10	10
Ireland	5 (c)	15	0	0/10 (h)
Italy	5	15	0	10
Korea (South)	5	15	10	0/10
Latvia	5 (c)	15	10	5/10 (e)
Liechtenstein	0	15	0	0/5 (i)
Lithuania	5 (c)	15	10	5/10 (e)
Luxembourg	5 (c)	15	0	0
Mexico	5	15	10	10
Netherlands	0	15	0	0
Norway (d)	0	15	0	0
Poland	5 (c)	15	10	10
Portugal	10 (c)	15	10	10
Romania	5 (c)	10	3	5
Russian Federation	5 (j)	15	0	0
Slovak Republic	5 (c)	10	0	10
Slovenia	5	15	5	5
Spain	5 (c)	15	5	5
Sweden (d)	0	15	0	0
Switzerland	0	15	0	0/5 (i)
Ukraine	5 (c)	15	10	10
United Kingdom	5	15	0	0/5 (i)
United States	5	15	0	0/5 (b)
Vietnam	10 (c)	15	10	10
Non-treaty jurisdictions	20	22	12 (f)	22 (g)

A Qualifying companies.

B Individuals and other companies.

(a) Unless indicated otherwise, the rate applies to corporate shareholders with ownership of at least 10%.

(b) The lower rate applies to copyrights (except for films and similar items), computer software, patents and know-how. The higher rate applies to other royalties.

(c) The rate applies to corporate shareholders with ownership of at least 25%.

(d) These are the rates under the Nordic Convention.

(e) The lower rate applies to equipment leasing.

- (f) A 12% withholding tax is imposed on interest paid to nonresident entities and nonresident individuals unless, on application, the Director of Internal Revenue grants an exemption from withholding tax. Alternatively, the withholding tax may be refunded.
- (g) Royalties paid to nonresidents are subject to withholding tax at a rate of 22%. The net royalties (gross royalties less expenses) are normally included in ordinary income and taxed at the general corporate income tax rate unless a tax treaty provides a reduced rate.
- (h) The lower rate applies to royalties paid for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experiences if they are paid to a resident of the other contracting state that is the beneficial owner of the royalties.
- (i) The higher rate applies to the following:
  - Any information concerning industrial, commercial or scientific experience provided in connection with a rental or franchise agreement
  - A trademark associated with an agreement referred to in the first bullet
  - The copyright of a motion picture film or work on film or videotape or other means of reproduction for use in connection with television
- (j) The rate applies if the Russian company owns directly at least 25% of the capital in the Icelandic company and the foreign capital invested exceeds USD100,000.

Tax information and exchange agreements are in force with Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Belize, Bermuda, Botswana, British Virgin Islands, Brunei Darussalam, Cayman Islands, Cook Islands, Dominican Republic, Gibraltar, Grenada, Guernsey, the Hong Kong Special Administrative Region (SAR), Isle of Man, Jersey, Liberia, Liechtenstein, Macau, Marshall Islands, Mauritius, Monaco, Montserrat, the Netherlands Antilles (applicable to the successor jurisdictions of the Netherlands Antilles), Niue, Panama, St. Lucia, Samoa, San Marino, Seychelles, Turks and Caicos Islands, and Uruguay.

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**A. At a glance**

Domestic Company Income Tax Rate (%)	30 (a)(b)
Capital Gains Tax Rate (%)	20 (a)(c)
Branch Tax Rate (%)	40 (a)(d)
Withholding Tax (%)	
Dividends	0
Interest	
Paid to Domestic Companies	10 (e)(f)
Paid to Foreign Companies	20 (a)(e)(f)(g)(h)
Royalties from Patents, Know-how, etc.	10 (a)(e)(h)(i)
Technical Services Fees	10 (a)(e)(h)(i)
Branch Remittance Tax	0

## Net Operating Losses (Years)

Carryback	0
Carryforward	8 (j)

- (a) The rates are subject to an additional levy consisting of a surcharge and a cess. They are increased by the following surcharges on such taxes:
- Domestic companies with net income exceeding INR100 million: 12%
  - Foreign companies with net income exceeding INR100 million: 5%
  - Domestic companies with net income exceeding INR10 million: 7%
  - Foreign companies with net income exceeding INR10 million: 2%
- No surcharge is payable if the net income does not exceed INR10 million. The tax payable (inclusive of the surcharge, as applicable) is further increased by a cess levied at 3% of the tax payable. The withholding tax rates are increased by a surcharge for payments exceeding INR10 million made to foreign companies and a cess (see above).
- (b) A reduced tax rate of 25% applies for the 2017-18 fiscal year to companies that had gross turnover not exceeding INR500 million in the 2015-16 fiscal year. In addition, domestic companies set up and registered after 1 March 2016 and engaged in the manufacturing or production of articles or things and research with respect to such articles or things can opt for a concessional tax rate of 25%, subject to the fulfilment of specified conditions.
- (c) See *Capital gains* in Section B.
- (d) For exceptions to this basic rate, see Section B.
- (e) A Permanent Account Number (PAN) is a unique identity number assigned to a taxpayer in India on registration with the India tax authorities. If an income recipient fails to furnish its PAN, tax must be withheld at the higher of the rate specified in the relevant provision of the Income Tax Act and 20%.
- (f) Interest paid by business trusts is subject to a withholding tax at a rate of 10% for payments to residents and 5% for payments to nonresidents (including foreign companies) plus applicable surcharge and cess (See Section E).
- (g) This rate applies to interest on monies borrowed, or debts incurred, in foreign currency. Withholding tax at a rate of 5% (plus a surcharge of 2% or 5%, as applicable, and a 3% cess) is imposed on interest payments to nonresidents (including foreign companies) with respect to the following:
- Infrastructure debt funds
  - Borrowings made by an Indian company in foreign currency by way of loans between 1 July 2012 and 1 July 2020, infrastructure bonds issued between 1 July 2012 and 1 October 2014 or long-term bonds issued between 1 October 2014 and 1 July 2020, subject to prescribed conditions (for long-term bonds, the lower withholding rate would not be affected if the recipient does not furnish a PAN; see footnote [e] above)
  - Rupee-denominated bonds of an Indian company or a government security issued to a foreign institutional investor or a qualified foreign investor, with respect to interest payable between 1 June 2013 and 1 July 2020
  - Monies borrowed by an Indian company from a source outside India through the issuance of rupee-denominated bonds before 1 July 2020
- Other interest is taxed at a rate of 40% (plus the surcharge of 2% or 5%, as applicable, and the 3% cess).
- (h) If a recipient of income is located in a Notified Jurisdictional Area (NJA), tax must be withheld at the higher of the rate specified in the relevant provision of the Income Tax Act and 30% (for further details, see Section E).
- (i) The 10% rate (plus the 2% or 5% surcharge, as applicable, and the 3% cess) applies to royalties and technical services fees paid to foreign companies by Indian enterprises. However, depending on the applicable tax treaty, if the royalties or technical services fees paid under the agreement are effectively connected to a permanent establishment or fixed place of the nonresident recipient in India, the payments are taxed on a net income basis at a rate of 40% (plus the 2% or 5% surcharge, as applicable, and the 3% cess).
- (j) Unabsorbed depreciation may be carried forward indefinitely to offset taxable profits in subsequent years.

## B. Taxes on corporate income and gains

**Corporate income tax.** A domestic company is defined for tax purposes as a company incorporated in India. The definition also includes a company incorporated outside India (foreign company) if the company has made certain arrangements for declaration and payment of a dividend in India. The tax rates in India are specified with reference to a domestic company. As a result, it is

possible for a foreign company to be taxed at rates applicable to a domestic company if it has made the necessary arrangements for the declaration and payment of a dividend in India.

A company resident in India is subject to tax on its worldwide income, unless the income is specifically exempt. A company not resident in India is subject to Indian tax on Indian-source income and on income received in India. Depending on the circumstances, certain income may be deemed to be Indian-source income. Companies incorporated in India are resident in India for tax purposes, as are companies incorporated outside India, if their place of effective management in that year is in India. As a result, if the place of effective management of a foreign company is in India, it is subject to tax in India on its worldwide income. If such a foreign company also qualifies as a domestic company (see above), the tax rates applicable to a domestic company apply. The government recently issued guidelines for the determination of the place of effective management of a foreign company.

**Rates of corporate tax.** Domestic companies are subject to tax at a basic rate of 30% (25% for domestic companies that had gross turnover not exceeding INR500 million in the 2015-16 fiscal year). New companies set up and registered on or after 1 March 2016 that are engaged in the manufacturing or production of articles or things and research with respect to such articles or things can opt for a concessional tax rate of 25%, subject to the fulfilment of specified conditions. In addition, a 7% or 12% surcharge (for details regarding the surcharge, see footnote [a] in Section A) and a 3% cess are imposed on the income tax of such companies. Long-term capital gains are taxed at special rates (see *Capital gains*).

For foreign companies, the net income is taxed at 40% plus the 2% or 5% surcharge, as applicable, and the 3% cess. A rate of 10% plus the 2% or 5% surcharge and the 3% cess applies to royalties and technical services fees paid to foreign companies if the royalty or technical services fees agreement is approved by the central government or if it is in accordance with the Industrial Policy. A rate of 20% (plus the 2% or 5% surcharge and the 3% cess) applies to gross interest from foreign-currency loans or from units of a mutual fund. A lower rate of 5% (plus the 2% or 5% surcharge and the 3% cess) applies to gross interest from foreign-currency borrowings raised by Indian companies or business trusts by way of loans between 1 July 2012 and 1 July 2020, long-term infrastructure bonds issued between 1 July 2012 and 1 October 2014 or long-term bonds issued between 1 October 2014 and 1 July 2020, subject to prescribed conditions. A lower rate of 5% (plus the 2% or 5% surcharge and the 3% cess) also applies to interest payable between 1 June 2013 and 1 July 2020 on rupee-denominated bonds issued by Indian companies and government securities, subject to prescribed conditions. A lower rate of 5% (plus the 2% or 5% surcharge and the 3% cess) applies to interest received from units of business trusts in India (see Section E). A lower rate of 5% (plus the 2% or 5% surcharge and the 3% cess) applies to monies borrowed by Indian companies from a source outside India through the issuance of rupee-denominated bonds before 1 July 2020.

If a nonresident with a permanent establishment or fixed place of business in India enters into a royalty or technical services fees

agreement and if the royalties or fees paid under the agreement are effectively connected to such permanent establishment or fixed place, depending on the applicable tax treaty, the payments are taxed on a net income basis at a rate of 40% plus the 2% or 5% surcharge and the 3% cess.

**Income from carbon credits.** Effective for the 2017-18 fiscal year, income from transfer of carbon credits is taxed at a rate of 10% (plus applicable surcharge and cess) on a gross basis without allowing any expenditure or allowance against such income.

**Income from crude oil.** The income tax law provides for a tax exemption to foreign companies earning income from the storage of oil in a facility in India and from the sale of crude oil to any person resident in India, under an agreement entered into or approved by the central government. This exemption extends to income accruing or arising to a foreign company from the sale of leftover stock of crude oil from a facility in India after the expiration of agreement or the arrangement with the central government.

**Tax incentives.** Subject to prescribed conditions, the following tax exemptions and deductions are available to companies with respect to business carried on in India:

- A 10-year tax holiday equal to 100% of the taxable profits is available to undertakings or enterprises engaged in the following:
  - Developing or operating and maintaining or developing, operating and maintaining infrastructure facilities (roads, toll roads, bridges, rail systems, highway projects including housing or other activities that are integral parts of the highway projects, water supply projects, water treatment systems, irrigation projects, sanitation and sewerage systems, solid waste management systems, ports, airports, inland waterways, inland ports or navigational channels in the sea), if development or operation and maintenance of the infrastructure facility begins before 1 April 2017
  - Generation or generation and distribution of power if the company begins to generate power at any time during the period of 1 April 1993 through 31 March 2017
  - Starting transmission or distribution by laying a network of new transmission or distribution lines at any time during the period of 1 April 1999 through 31 March 2017
  - Undertaking substantial renovation and modernization (at least 50% increase in book value of plant and machinery) of an existing network of transmission or distribution lines during the period of 1 April 2004 through 31 March 2017

The company may choose any 10 consecutive years within the first 15 years (10 out of 20 years in certain circumstances) for the period of the tax holiday. Such tax holiday is not available to an undertaking or enterprise that is transferred in an amalgamation or demerger.

- A 10-year tax holiday equal to 100% of profits and gains derived by an undertaking or enterprise that begins the development of a Special Economic Zone (SEZ) notified (through an official publication by the government of India) before 1 April 2017, subject to certain conditions.

- A 10-year tax holiday equal to 100% of taxable profits for the first 5 years and 30% of taxable profits for the next 5 years from the business of processing, preserving and packaging of fruits or vegetables or from the integrated business of handling, storing and transporting food grains. A similar tax holiday is available with respect to profits from the business of processing, preserving and packaging of meat and meat products, poultry or marine or dairy products.
- One hundred percent of the profits derived from the business of developing and building a housing project if approval from the competent authority is obtained during the period of 1 June 2016 through 31 March 2019, subject to fulfilment of other conditions. The size of the plot and residential unit must be within specified limits to qualify for the tax holiday.
- A three-year tax holiday with respect to profits derived from a business that involves innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property, for domestic companies incorporated between 1 April 2016 to 31 March 2019, subject to other conditions.
- A 15-year tax holiday with respect to profits derived from export activities by units that begin to manufacture or produce articles or things or provide services in SEZs. For the first 5 years of the tax holiday, a tax deduction equal to 100% of the profits derived from the export of articles, things or services provided is available. For the following 5 years, a tax deduction equal to 50% of the profits is available. For the next 5 years, the availability of the deduction is contingent on the allocation of the profits to a specified reserve and the use of such amounts in the prescribed manner. The deduction is capped at 50% of the profits allocated to the reserve.
- A 10-year tax deduction equal to 100% of profits derived from an undertaking that begins the manufacturing or production of specified goods or carries on specified business in northeastern states before 1 April 2017. This deduction is also available if an undertaking manufacturing the specified goods undertakes a substantial expansion that involves an increase in investment in plant and machinery by at least 25% of the book value of plant and machinery (computed before depreciation).
- A 5-year tax holiday equal to 100% of the profits from the business of collecting and processing or treating of biodegradable waste for either of the following purposes:
  - Generating power or producing biofertilizers, biopesticides or other biological agents
  - Producing biogas or making pellets or briquettes for fuel or organic manure
- Accelerated deduction of capital expenditure (other than expenditure on the acquisition of land, goodwill or financial instruments) incurred, wholly and exclusively for certain specified businesses in the year of the incurrence of such expense. Expense incurred before the commencement of business is allowed as a deduction on the commencement of the specified business. The following are the specified businesses:
  - Setting up and operating a cold chain facility or setting up and operating a warehousing facility for storage of agricultural produce

- Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution including storage facilities that are an integral part of such network
- Building and operating in India a new hotel with a two-star or above category, as classified by the central government
- Building and operating in India a new hospital with at least 100 beds for patients
- Developing and building a housing project under a scheme for slum redevelopment or rehabilitation framed by the government
- Developing and building a housing project under a scheme for affordable housing framed by the central or state government in accordance with the prescribed guidelines
- Producing fertilizers in a new plant or newly installed capacity in an existing plant
- Setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act
- Setting up and operating a warehousing facility for storage of sugar
- Beekeeping and production of honey and beeswax
- Laying and operating a slurry pipeline for the transportation of iron ore
- Setting up and operating a semiconductor wafer fabrication manufacturing unit notified by the Central Board of Direct Taxes (CBDT; the administrative authority for direct taxes) in accordance with prescribed guidelines

The deduction mentioned above is increased to 1.5 times the amount of capital expenditure (other than expenditure on the acquisition of land, goodwill or financial instruments) incurred by the following businesses:

- Setting up and operating a cold chain facility
- Setting up and operating a warehousing facility for the storage of agricultural produce
- Building and operating a hospital with a least 100 beds for patients
- Developing and building a housing project under a scheme for slum redevelopment or rehabilitation framed by the government
- Production of fertilizer in India
- Weighted deduction at a rate of 150% on expenditure on agriculture extension projects and on specified sums expended on skill development projects.

**Minimum alternative tax.** The minimum alternative tax (MAT) applies to a company if the tax payable by the company on its total income, as computed under the Income Tax Act, is less than 18.5% of its book profit. It is levied at a rate of 18.5% of book profit, plus applicable surcharge and cess (the surcharge, as applicable, is imposed at a rate of 7% or 12% for domestic companies and 2% or 5% for foreign companies, and the cess is imposed at a rate of 3%). The concessional rate of 9% applies in place of the 18.5% rate in the case of a unit located in the International Financial Service Center that derives its income solely in convertible foreign exchange. MAT is levied on companies only and does not apply to firms or other persons, which are separately subject



to an alternative minimum tax of 18.5% (plus applicable surcharge and cess). MAT does not apply to a foreign company in the following cases:

- In the case of a foreign company that is resident of a country with which India has entered into a treaty, if such foreign company does not have a permanent establishment in India under the terms of the relevant treaty
- In the case of a foreign company that is resident of a country with which India has not entered into a treaty, if such foreign company does not have a place of business in India under the corporate tax laws of India

In computing book profit for MAT purposes, certain positive and negative adjustments must be made to the net profit shown in the books of account per the applicable accounting standards.

The net profit as per the profit-and-loss account is increased by the following key items:

- Amount of income tax (including dividend distribution tax, any interest charged under the Income Tax Act, surcharge and cess) paid or payable and the provision for such tax
- Amount carried to any reserves
- Amount allocated to provisions for liabilities other than ascertained liabilities
- Amount allocated to provision for losses of subsidiary companies
- Amount of dividend paid or proposed
- Amount of expenditure related to exempt income
- Amount of depreciation
- Amount of deferred tax and the provision for such tax, if debited to the profit-and-loss account
- Amounts set aside as a provision for diminution in the value of any asset
- Amount in revaluation reserve relating to a revalued asset on retirement of the asset
- Expenditure related to a share of the income of an association of persons that is not taxable
- Expenditure of a foreign company related to capital gains on specified securities, interest, royalties or fees for technical services, in certain specified circumstances
- Notional loss on the transfer of shares of a special-purpose vehicle to a business trust in exchange for units allotted by the trust, notional loss resulting from any change in the carrying amounts of such units or loss on the transfer of such units
- Expenditure related to royalty income with respect to patents covered by the Patent Box Regime (see Section E)
- Gain on the transfer of shares of a special-purpose vehicle to a business trust in exchange for units

The net profit is decreased by the following key items:

- Amount withdrawn from any reserves or provisions if such amount is credited in the profit-and-loss account
- Amount of losses carried forward (excluding depreciation) or unabsorbed depreciation, whichever is less, according to the books of account
- Profits of “sick” industrial companies, which are companies that have accumulated losses equal to or exceeding their net worth at the end of a financial year and are declared to be sick by the Board for Industrial and Financial Reconstruction

- Income that is exempt from tax
- Amount of depreciation debited to the profit-and-loss account excluding depreciation on account of revaluation of assets
- Amount of deferred tax, if any such amount is credited to the profit-and-loss account
- Amount withdrawn from revaluation reserve and credited to the profit-and-loss account, to the extent that it does not exceed depreciation of the revalued assets
- Share in the income of an association of persons that is not taxable
- Capital gains on certain specified securities, interest, royalties or fees for technical services of a foreign company in specified circumstances
- Notional gain on the transfer of shares of a special-purpose vehicle to a business trust in exchange for units allotted by the trust, notional gain resulting from any change in the carrying amount of such units or gain on the transfer of such units
- Royalty income with respect to patents covered by Patent Box Regime (see Section E)
- Loss on the transfer of shares of a special-purpose vehicle to a business trust in exchange for units

MAT paid by companies can be carried forward and set off against income tax payable in subsequent years under the normal provisions of the Income Tax Act for a period of 15 years. The maximum amount that can be set off against regular income tax is equal to the difference between the tax payable on the total income as computed under the Income Tax Act and the tax that would have been payable under the MAT provisions for that year.

MAT does not apply to income from life insurance businesses.

A report in a prescribed form that certifies the amount of book profits must be obtained from a chartered accountant.

### **Capital gains**

*General.* The Income Tax Act prescribes special tax rates for the taxation of capital gains. Gains derived from “transfers” of “capital assets” are subject to tax as capital gains and are deemed to be income in the year of the transfer.

“Transfer” and “capital asset” are broadly defined in the Income Tax Act. In addition, shares or interests in foreign entities are deemed to be capital assets located in India if they derive, directly or indirectly, their value substantially from assets located in India. Gains derived from the transfer of such deemed capital assets are deemed to be income in the year of transfer. This provision does not apply to investments held by nonresidents in Foreign Institutional Investors (FIIs) in certain circumstances.

The tax rate at which capital gains are taxable in India depends on whether the capital asset transferred is a short-term capital asset or a long-term capital asset. A short-term capital asset is defined as a capital asset that is held for less than 36 months immediately before the date of its transfer. However, if the capital asset is an equity or preference share in a company or a security (for example, a debenture, bond, government security or derivative) listed on a recognized stock exchange in India, a unit of an equity-oriented mutual fund or a specified zero-coupon bond, a 12-month period replaces the 36-month period. In addition, in the case of shares of

a company (other than shares listed on recognized stock exchange in India) and immovable property (land or building or both), a 24-month period replaces the 36-month period. A capital asset that is not a short-term capital asset is a long-term capital asset.

*Capital gains on specified transactions on which Securities Transaction Tax has been paid.* Long-term capital gains derived from the transfer of equity shares, units of an equity-oriented fund or units of a business trust on a recognized stock exchange in India are exempt from tax if Securities Transaction Tax (STT) has been paid on the transaction. For further details regarding STT, see Section D. However, the exemption is not available for the transfer of equity shares of a listed company after 31 March 2017 if the acquisition of such shares was on or after 1 October 2004 and if it was not chargeable to STT. The central government is empowered to specify certain acquisitions to which this withdrawal of exemption does not apply.

Short-term capital gains derived from the transfer of equity shares in a company, units of an equity-oriented fund or units of a business trust on a recognized stock exchange in India are taxable at a reduced rate of 15% plus the surcharge, as applicable, and the cess, if STT has been paid on the transaction.

The tax regime described above applies to all types of taxpayers, including FIIs.

Sales of unlisted equity shares that are included in an initial public offer are also subject to STT and are eligible for the aforementioned reduced rates with respect to long-term or short-term capital gains.

*Capital gains on transactions on which STT has not been paid.* For sales of shares and units of mutual funds that have not been subject to STT and for capital gains derived from the transfer of a capital asset that is not a specified security, the following are the capital gains tax rates (excluding the applicable surcharge and cess).

Type of taxpayer	Short-term capital gains rate (%) (a)	Long-term capital gains rate (%) (a)
Domestic companies	30	20 (b)
FIIs	30	10
Nonresidents other than FIIs	40	20 (b)(c)

- (a) The above rates are subject to a surcharge and cess. The surcharge is levied at a rate of 7% for domestic companies and at a rate of 2% for foreign companies if the net income of the company exceeds INR10 million. The surcharge rate is increased to 12% for domestic companies and 5% for foreign companies if net income exceeds INR100 million. The rate of the cess is 3%.
- (b) A concessional rate of 10% (plus surcharge and cess) applies in certain cases, such as the transfer of listed securities, listed units of mutual funds or zero-coupon bonds, subject to certain conditions.
- (c) Gains derived from the transfer of unlisted securities are taxable at a rate of 10%, without the benefit of protection from foreign currency fluctuation and indexation for inflation on the computation of such gains (see discussion below).

*Computational provisions.* For assets that were acquired on or before 1 April 2001, the market value on that date may be substituted for actual cost in calculating gains. The acquisition cost is indexed for inflation. However, no inflation adjustment is allowed

for bonds and debentures. For the purpose of calculating capital gains, the acquisition cost of bonus shares is deemed to be zero. Nonresident companies compute capital gains on shares and debentures in the currency used to purchase such assets, and consequently they are protected from taxation on fluctuations in the value of the Indian rupee. As a result, the benefit of indexation is not available to nonresident companies with respect to the computation of capital gains on shares. If the consideration is not ascertainable or determinable for a transfer, the fair market value of the asset transferred is deemed to be the full value of consideration.

If unlisted shares are transferred at a value that is less than fair market value, as prescribed, such fair market value is treated as notional consideration for the transfer of unlisted shares.

*Slump sales, demergers and amalgamations.* Special rules apply to “slump sales,” “demergers” and “amalgamations” (for a description of amalgamations, see Section C).

A “slump sale” is the transfer of an undertaking for a lump-sum consideration without assigning values to the individual assets and liabilities. The profits derived from such sales are taxed as long-term capital gains if the transferred undertaking has been held for more than 36 months.

Capital gains on a slump sale equal the difference between lump-sum consideration and the net worth of the undertaking. For purposes of computing capital gains, the net worth of the undertaking equals the difference between the value of the total assets (the sum of the tax-depreciated value of assets that are depreciable for income tax purposes and the book value of other assets) of the undertaking or division and the book value of liabilities of such undertaking or division.

With respect to companies, a “demerger” is the transfer of an undertaking by one company (demerged company) to another company (resulting company) pursuant to a scheme of arrangement under Sections 230 to 232 of the Companies Act, 2013, provided that certain conditions are satisfied. Subject to certain conditions, the transfer of capital assets in a demerger is not considered to be a transfer subject to capital gains tax if the resulting company is an Indian company.

In a demerger, the shareholders of the demerged company are issued shares in the resulting company in proportion to their existing shareholdings in the demerged company based on a pre-determined share-issue ratio. This issuance of shares by the resulting company to the shareholders of the demerged company is exempt from capital gains tax.

In the case of a demerger of a foreign company, the provisions of Sections 230 to 232 of the Companies Act, 2013 do not apply. In such case, a transfer of shares in an Indian company, or shares in a foreign company that derives its value substantially from assets located in India, by the demerged foreign company to the resulting foreign company is exempt from capital gains tax if the following conditions are satisfied:

- Shareholders holding at least 75% in value of the shares in the demerged foreign company continue to remain shareholders of the resulting foreign company.

- Such transfer does not attract capital gains tax in the country of incorporation of the demerged foreign company.

Like demergers, if certain conditions are satisfied, transfers of capital assets in amalgamations are not considered to be transfers subject to capital gains tax, provided the amalgamated company is an Indian company.

In an amalgamation, shareholders of the amalgamating company are usually issued shares in the amalgamated company in exchange for their existing shareholding in the amalgamating company based on a predetermined share-exchange ratio. Such exchange of shares is exempt from capital gains tax if the following conditions are satisfied:

- The transfer is made in consideration of the allotment of shares in the amalgamated company (unless the shareholder itself is the amalgamated company).
- The amalgamated company is an Indian company.

A transfer of shares in an Indian company or shares in a foreign company that derives its value substantially from assets located in India, in an amalgamation of two foreign companies, is exempt from capital gains tax if the following conditions are satisfied:

- At least 25% of the shareholders of the amalgamating foreign company continue to remain shareholders of the amalgamated foreign company.
- Such transfer does not attract capital gains tax in the country of incorporation of the amalgamating foreign companies.

No capital gains tax applies for the conversion of preference shares to equity. Furthermore, the transfer of rupee-denominated bonds of an Indian company issued outside India from one non-resident to another nonresident does not result in capital gains tax in India.

*Depreciable assets.* To compute capital gains on sales of assets on which depreciation has been allowed, the sales proceeds of the assets are deducted from the declining-balance value of the classes of assets (including additions during the year) of which the assets form a part. If the sales proceeds exceed the declining-balance value, the excess is treated as short-term capital gain. Otherwise, no capital gain results from sales of such assets even if the sales proceeds for a particular asset are greater than the cost of the asset.

*Non-depreciable assets.* For non-depreciable assets, such as land, gains are computed in accordance with the rules described below.

If the asset is held for 36 months or more, the capital gain is considered a long-term capital gain, which equals the net sale consideration less the indexed cost of acquisition. The gain on an asset held for less than 36 months is considered a short-term capital gain, which equals the sale consideration less the acquisition cost. For listed shares, listed securities, equity-oriented units of mutual funds and zero-coupon bonds, a 12-month period replaces the 36-month period. Further, in the cases of shares of a company (other than shares listed on recognized stock exchange in India) and land and buildings or both, a 24-month period replaces the 36-month period.

The transfer of a capital asset by a parent company to its wholly owned Indian subsidiary or the transfer of a capital asset by a wholly owned subsidiary to its Indian parent company is exempt from capital gains tax, subject to the fulfillment of certain conditions.

**Administration.** The Indian fiscal year runs from 1 April to 31 March. All companies must file tax returns by 30 September or 30 November (for companies undertaking international transactions; see the discussion of transfer pricing in Section E). Tax is payable in advance on 15 June, 15 September, 15 December and 15 March. Any balance of tax due must be paid on or before the date of filing the return. The carryforward of losses for a fiscal year is not allowed if a return is filed late.

A nonresident with a liaison office in India is required to submit a statement in the prescribed form within 60 days after the end of the fiscal year.

*Income computation and disclosure standards.* The government of India has notified 10 income computation and disclosure standards (ICDS), which are effective for the 2016-17 fiscal year and future years. The ICDS provides a set of rules for computing taxable income under the headings, “profits and gains of business or profession” and “income from other sources” of the Income Tax Act. This applies to all taxpayers following the mercantile system of accounting.

ICDS do not affect the maintenance of books of accounts. Consequently, they do not affect the MAT computation.

**Withholding taxes.** Payments to resident companies are subject to the following withholding taxes:

Type of payment	Rate (%) (a)
Dividends	0
Interest	10 (b)
Commissions from sales of lottery tickets	5
Other specified commissions	5
Payments to contractors	2
Rent	2/10 (c)
Income from lotteries and horse races	30
Professional and technical service fees	10
Royalties	10
Payments of compensation to residents for the compulsory acquisition of certain immovable property	10
Payment of consideration for transfer of immovable property	1

(a) If an income recipient fails to furnish its PAN, tax must be withheld at the higher of the rate specified in the relevant provision of the Income Tax Act and 20%.

(b) See footnote (f) in Section A.

(c) The withholding tax rate for rental payments is 10%. For equipment rental, the rate is 2%.

Payments to nonresident companies are subject to the following withholding taxes.

Type of payment	Rate (%) (a)(b)(c)
Dividends	0
Interest on foreign-currency loans	20 (d)
Royalties and technical services fees	10 (e)
Rent	40
Income from lotteries and horse races	30
Long-term capital gains other than exempt gains	20
Other income	40

- (a) The 2% or 5% surcharge (applicable to payments made to foreign companies exceeding INR10 million or INR100 million, respectively) and the 3% cess are imposed on the above withholding taxes.
- (b) If the income recipient fails to furnish a PAN to the payer, tax must be withheld at the higher of the following rates:
- Rate specified in the relevant provision of the Income Tax Act
  - Tax treaty rate
  - 20%
- (c) If the recipient of income is located in an NJA, tax must be withheld at the higher of the rate specified in the relevant provision of the Income Tax Act and 30% (see Section E).
- (d) See footnotes (f) and (g) in Section A.
- (e) See footnote (i) in Section A.

**Dividends.** Dividends paid by domestic companies are exempt from tax in the hands of the recipients. However, domestic companies must pay a dividend distribution tax (DDT) at a rate of 20.36% (basic rate of 15% on the gross amount of dividend payable plus the 12% surcharge and the 3% cess) on dividends declared, distributed or paid by them. A company that is a unit located in International Financial Service Center is not liable to pay DDT for any dividends declared after 1 April 2017. The DDT paid is a nondeductible expense.

The amount of dividends (on which DDT is leviable) that are paid by a domestic company can be reduced by the amount of dividends received from its subsidiary on which the subsidiary has paid DDT, subject to the satisfaction of prescribed conditions.

Gross dividends received by a domestic company from a specified foreign company (in which it has shareholding 26% or more) are taxable at a concessional rate of 15% (plus applicable surcharge and cess).

Dividends received by an Indian company from a foreign company in which the Indian company has a shareholding of more than 50% can be set off against subsequent dividends paid by the Indian company to its shareholders on which DDT is payable, subject to conditions.

**Buyback tax.** The buyback of unlisted shares by an Indian company is subject to buyback tax at a rate of 20% plus surcharge of 12% and cess of 3%, resulting in effective tax rate of 23.07%. The tax is computed on the difference between the price at which shares are bought back and the consideration received by the company for issuance of shares. The amounts received are exempt in the hands of the shareholders.

**Foreign tax relief.** Foreign tax relief for the avoidance of double taxation is governed by tax treaties with several countries. If no such agreements exist, resident companies may claim a foreign tax credit for the foreign tax paid under domestic law provisions.

The amount of the credit is the lower of the Indian tax payable on the income that is taxed twice and the foreign tax paid as per the applicable tax treaty. Treaty benefits and relief are available only if a nonresident taxpayer obtains a tax-residency certificate indicating that it is resident in a country outside India. This certificate must be issued by the government of that country. In addition to obtaining the certificate, taxpayers must maintain certain prescribed documents and information. The Indian government recently issued rules for the administration and computation of the tax credit in India. The rules also include provisions for compliance and reporting that must be undertaken to claim the tax credit in India.

### C. Determination of trading income

**General.** Business-related expenses are deductible; capital expenditures (other than on scientific research in certain cases) and personal expenses may not be deducted.

Certain expenses on which taxes are required to be withheld are not allowable as deductions until the required taxes have been withheld and paid to the government. In the case of amounts paid to residents, such disallowance is limited to 30% of the expenses. The deductibility of head-office expenses for nonresident companies is limited.

Expenses that are paid to a person in cash (that is, otherwise than through a banking channel) are disallowed if they exceed the value of INR10,000 in a day.

Income derived from operations with respect to mineral oil, and certain other income derived by nonresidents (for example, from shipping business, operation of aircraft and turnkey power projects) are taxed on a deemed-profit basis. Income derived from operations with respect to mineral oil, and certain other income derived by nonresidents are taxed on a deemed-profit basis. Under an optional tonnage tax scheme, shipping profits derived by Indian shipping companies are taxed on a deemed basis.

**Inventories.** In determining trading income, inventories may, at the taxpayer's option, be valued either at cost or the lower of cost or replacement value. The last-in, first-out (LIFO) method is not accepted. Refer also to ICDS for the valuation of inventories for the computation of income of certain taxpayers.

**Provisions.** Provisions for taxes (other than income tax, dividend distribution tax and wealth tax, which are not deductible expenses) and duties, bonuses, leave salary and interest on loans from financial institutions and scheduled banks are not deductible on an accrual basis unless payments are made before the due date of filing of the income tax return. If such payments are not made before the due date of filing of the income tax return, a deduction is allowed only in the year of actual payment. General provisions for doubtful trading debts are not deductible until the bad debt is written off in the accounts, but some relief is available for banks and financial institutions with respect to nonperforming assets. Interest payable on loans, borrowings or advances that is converted into loans, borrowings or advances may not be claimed as a deduction for tax purposes.



**Depreciation allowances.** Depreciation is calculated using the declining-balance method and is allowed on classes of assets. Depreciation rates vary according to the class of assets. The following are the general rates.

Asset	Rate (%)
Plant and machinery	15*
Motor buses, motor lorries and motor taxis used in a rental business	30
Motor cars other than those used in the business of running them on hire	15
Buildings	10
Furniture and fittings	10

\* Subject to the fulfillment of prescribed conditions, accelerated depreciation equal to 20% of the actual cost is allowed in the first year with respect to plant and machinery (other than ships or aircraft) acquired or installed after 31 March 2005. Accelerated depreciation is allowed at the rate of 35% to an undertaking or manufacturing enterprise set up in notified areas (in the states of Andhra Pradesh, Bihar, Telangana or West Bengal) on or after 1 April 2015 but before 1 April 2020. Additions to plant and machinery that are used for less than 180 days in the year in which they are acquired and placed in service qualify for accelerated depreciation in that year at one-half of the above rates. The balance of accelerated depreciation is allowed in the subsequent year.

Depreciation is also allowed on intangibles, such as know-how, patents, copyrights, trademarks, licenses, franchises or other similar commercial rights. These items are depreciated using the declining-balance method at a rate of 25%.

Special rates apply to certain assets, such as 60% and 40% (effective from the 2017-18 fiscal year) for computers and computer software, 80% and 40% (effective from the 2017-18 fiscal year) for energy-saving devices and 100% and 40% (effective from the 2017-18 fiscal year) for air or water pollution-control equipment. Additions to assets that are used for less than 180 days in the year in which they are acquired and placed in service qualify for depreciation in that year at one-half of the normal rates. On the sale or scrapping of an asset within a class of assets, the declining-balance value of the class of assets is reduced by the sales proceeds (for details concerning the capital gains taxation of such a sale, see Section B).

Companies engaged in power generation or in power generation and distribution may elect to use the straight-line method of depreciation at specified rates.

If payment for the acquisition of asset is made in cash and it exceeds INR10,000 in aggregate in a day, such payment is not considered in determining the actual cost of asset and depreciation on the asset is not available, effective from the 2017-18 fiscal year.

**Investment allowances.** An additional deduction of 15% of the cost of new plant and machinery (other than ships, aircraft, computers, computer software and vehicles) is allowed to companies engaged in the business of manufacturing or production of articles or things that acquire and install new plant and machinery between 1 April 2014 and 31 March 2017 if their aggregate expenditure on such new plant and machinery exceeds INR250 million.

In addition to the above, a further additional deduction of 15% is available to an undertaking set up between 1 April 2015 and 31 March 2020 that is engaged in the business of manufacturing or production of articles or things in notified backward areas in the states of Andhra Pradesh, Bihar, Telangana or West Bengal and that acquires and installs new plant and machinery (other than ships, aircraft, computers, computer software and vehicles) between 1 April 2015 and 31 March 2020.

**Relief for losses.** Business losses, excluding losses resulting from unabsorbed depreciation of business assets (see below), may be carried forward to be set off against taxable income derived from business in the following eight years, provided the income tax return for the year of loss is filed on time.

For closely held corporations, a 51% continuity of ownership test must also be satisfied. This restriction does not apply to start-up companies. Start-up companies, defined in the income tax law as those in which the public does not hold a substantial interest, are eligible to carry forward and set off losses of the first seven years beginning from the year of incorporation, as long as the shareholders who held shares carrying voting power in the year of the loss continue to hold those shares in the setoff year.

Unabsorbed depreciation may be carried forward indefinitely to be set off against taxable income of subsequent years.

Losses under the heading “Capital Gains” (that is, resulting from transfers of capital assets) may not be set off against other income, but may be carried forward for eight years to be set off against capital gains. Long-term capital losses may be set off against long-term capital gains only.

Losses from “House Property” are eligible for setoff from other types of income to the extent of INR200,000 for all types of properties including self-occupied, let out or deemed to be let out. The balance of the unabsorbed loss can be carried forward for eight years.

*Amalgamations and demergers.* Special rules apply to “amalgamations” and “demergers” (for a description of a “demerger,” see Section B). With respect to companies, an “amalgamation” is the merger of one or more companies with another company or the merger of two or more companies to form one company (the company or companies that merge are referred to as the “amalgamating company or companies” and the company with which they merge, or which is formed as a result of the merger, is known as the “amalgamated company”) that meet certain specified conditions.

An amalgamated company may claim the benefit of the carryforward of business losses and unabsorbed depreciation of the amalgamating companies if the following conditions are satisfied:

- Shareholders holding at least 75% of the shares of the amalgamating company become shareholders of the amalgamated company.
- The amalgamating company owns an industrial undertaking, a ship or a hotel.
- The amalgamating company has been engaged in business for at least three years and incurred the accumulated business loss or unabsorbed depreciation during such period.

- As of the date of amalgamation, the amalgamating company has continuously held at least 75% of the book value of the fixed assets that it held two years before the date of the amalgamation.
- At least 75% of the book value of fixed assets acquired from the amalgamating company is held continuously by the amalgamated company for a period of five years.
- The amalgamated company continues the business of the amalgamating company for at least five years from the date of amalgamation.
- An amalgamated company that acquires an industrial undertaking of the amalgamating company through an amalgamation must achieve a level of production that is at least 50% of the “installed capacity” of the undertaking before the end of four years from the date of amalgamation and continue to maintain this minimum level of production until the end of the fifth year from the date of amalgamation. For this purpose, “installed capacity” is the capacity of production existing on the date of amalgamation.
- Additional specified conditions apply to ensure that the amalgamation is for genuine business purposes.

In the event of non-compliance with any of the above conditions, any business losses carried forward and unabsorbed depreciation that has been set off by the amalgamated company against its taxable income is treated as income for the year in which the failure to fulfill any of the above conditions occurs.

**Groups of companies.** The income tax law does not provide for the consolidation of income or common assessment of groups of companies. Each company, including a wholly owned subsidiary, is assessed separately.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Equalisation Levy; deducted from payments made to nonresidents that do not have a permanent establishment in India for the rendering of specified services to residents of India; specified services include online advertisements, provision for digital advertising space, or any other facilities or services for the purpose of online advertisements	6
Securities Transaction Tax (STT); payable on transactions in equity shares, derivatives, units of an equity-oriented mutual funds and units of business trusts on a recognized stock exchange; the tax is imposed on the value of the transaction and varies according to the type of transaction	
Delivery-based transactions in equity shares or in units of equity-oriented funds	
Buyer	
Shares	0.1
Units	Nil
Seller	
Shares	0.1

Nature of tax	Rate (%)
Units	0.001
Sale of units of equity-oriented funds to mutual funds; tax paid by seller	0.001
Non-delivery-based transactions in equity shares or in units of an equity-oriented fund; tax paid by seller	0.025
Sale of derivatives	
Sale of option (seller); rate applied to option premium	0.05
Sale of option when option is exercised (buyer); rate applied to settlement price	0.125
Sale of futures (seller)	0.01
Sale of unlisted equity shares under offer for sale to public	0.2
Sale of units of a business trust (delivery-based)	
Tax paid by buyer	0.1
Tax paid by seller	0.1
Sale of units of a business trust (non-delivery-based); tax paid by seller	0.025
Commodities transaction tax; tax paid by seller on taxable value on sales of commodities derivatives	0.01
Goods and Services Tax (GST); on the supply of goods and services; levied by the central government or state government	Various
Customs duty and GST; on goods imported into India; levied by the central government	Various
Stamp duties; levied by each state on specified documents and transactions, including property transfers	Various
Social security contributions; paid by the employer for medical insurance plans for certain categories of employees and for minimum retirement benefit plans	Various

## E. Miscellaneous matters

**Foreign-exchange controls.** All cross-border transactions with non-residents are subject to foreign-exchange controls contained in the Foreign Exchange Management Act. The rupee is fully convertible for trade and current account purposes. Except for certain specified restrictions, foreign currency may be freely purchased for trade and current account purposes. In general, such purchases must be made at the market rate. Capital account transactions are not permitted unless they are specifically allowed and the prescribed conditions are satisfied. Cross-border transactions that are specifically allowed include the following:

- All remittances abroad that require prior approval arrangements, such as joint venture and technical collaboration agreements.
- The remittance of interest, dividends, service fees and royalties.
- Repatriation of capital is also freely permitted for investment approved on a repatriable basis. However, for sales of Indian assets, the terms of sale require the approval of the exchange-control authorities, and certain other conditions must be satisfied.

On 7 November 2017, the Reserve Bank of India released guidelines on the simplification and consolidation of foreign-investment regulations applicable in India.

**Transfer pricing.** The Income Tax Act includes detailed transfer-pricing regulations. Although the guidelines are broadly in line with the principles set out by the Organisation for Economic Co-operation and Development (OECD), key differences exist.

Under these regulations, income and expenses, including interest payments, with respect to international transactions between two or more associated enterprises (including permanent establishments) must be determined using arm's-length prices. The transfer-pricing regulations also apply to, among other transactions, cost-sharing arrangements, certain capital-financing transactions, business restructurings or reorganizations and dealings in intangibles.

The transfer-pricing regulations contain definitions of various terms, including "associated enterprise," "arm's-length price," "enterprise," "international transaction" and "permanent establishment." It specifies methods for determining the arm's-length price. The following are the specified methods:

- Comparable uncontrolled price method
- Resale price method
- Cost-plus method
- Profit split method
- Transactional net margin method
- Any other method that takes into account the price that has been charged or paid or would have been charged or paid, in the same or a similar uncontrolled transaction, with or between non-associated enterprises, under similar circumstances, considering all the relevant facts

The CBDT has issued regulations for applying these methods to determine arm's-length prices. In addition, the CBDT has issued safe-harbor rules indicating the circumstances in which tax officers accept transfer prices declared by taxpayers. The safe harbor rules for determining transfer prices apply for five years beginning with the 2012-13 fiscal year.

On 7 June 2017, the government announced revised safe-harbor rules with an objective to reduce transfer-pricing litigation for eligible taxpayers. The new rules extend the applicability to an additional category of international transaction (low-value-adding intra-group services) and they also revise the applicable prices or margins that would be accepted as arm's length. The safe-harbor provisions are now extended to the 2018-19 fiscal year with certain modifications in thresholds for eligible international transactions. For the 2016-17 fiscal year, the taxpayer can opt for safe harbors under the old rules or the amended rules, whichever are more beneficial.

The transfer-pricing regulations require each person entering into an international transaction to maintain prescribed documents and information regarding a transaction. Each person entering into an international transaction must arrange for an accountant to prepare a report and furnish it to the Tax Officer by the due date for filing the corporate tax return, which is 30 November in such circumstances.

A tax officer may make an adjustment with respect to an international transaction, if the officer determines that certain conditions exist, including any of the following:

- The price is not at arm's length.
- The prescribed documents and information have not been maintained.
- The information or data on the basis of which the price was determined is not reliable.
- Information or documents requested by the Tax Officer have not been furnished.

Stringent penalties (up to 2% of the transaction value) are imposed for non-compliance with the procedural requirements and for understatement of profits.

Measures allowing Advance Pricing Agreements (APAs) are effective from July 2012. Under these measures, the tax administration may enter into an APA with any person undertaking an international transaction. APAs are binding on the taxpayer and the tax authorities (provided no change in law and facts) and are valid for a maximum period of five consecutive years. The APA scheme provides for a "rollback" mechanism, which is subject to prescribed conditions and procedures. Under the "rollback" mechanism, an APA covering a future period may also be applied to international transactions entered into by a taxpayer during the periods (not exceeding four years) preceding the first year for which the APA is applicable.

Transfer-pricing measures apply to certain transactions involving profit-linked tax-holiday units.

**Secondary adjustments.** The Income Tax Act provides for a secondary-adjustment regime to ensure that profit allocation between associated enterprises is consistent with the primary transfer-pricing adjustment. Under the secondary-adjustment regime if, as a result of the primary adjustment to the transfer price, the total income or reduction of loss of taxpayer is increased and the excess money that is available to the associated enterprise is not repatriated to India within a prescribed time, such excess money is deemed to be an advance made by the taxpayer to such associated enterprise, resulting in notional taxation of interest on such advance, effective from the 2017-2018 fiscal year. The provision does not apply if the primary adjustment is less than INR10 million and if it is made for the 2015-16 fiscal year or earlier years.

**Country-by-Country Reporting, Master File and Local File.** The Income Tax Act provides a specific regime with respect to Country-by-Country Reporting (CbCR), the Master File and the Local File in line with OECD's final report on Base Erosion Profit Shifting (BEPS) Action 13. The reporting provisions apply for the 2016-17 fiscal year if consolidated revenue of an international group in the prior year (that is, the 2015-16 fiscal year) exceeds the prescribed limit. The parent entity of the international group must file the CbCR if such parent entity is a resident of India. In other cases, every constituent entity of such group that is a resident of India must file the CbCR. The government has recently issued rules for the implementation of the above requirements that contain a few administrative changes and clarifications. The rules prescribe a monetary threshold, based on cumulative conditions of consolidated revenue and the value of international transactions, for maintenance of the Master File. The due date for the filing of the Master File in the first year (that is, the 2016-17

fiscal year) is extended to 31 March 2018. For subsequent years, the Master File and the CbCR need to be filed on or before the due date for filing of the income tax return in India.

**Debt-to-equity rules.** India does not currently impose mandatory capitalization rules. However, banks and financial corporations must comply with capital adequacy norms. In addition, foreign-exchange regulations prescribe that the debt-to-equity ratio should not exceed 4:1 in the case of borrowings beyond a certain limit from certain nonresident lenders.

**Limitation on interest deduction.** In line with the recommendations of OECD's BEPS Action 4, the Income Tax Act provides a specific provision to limit interest deduction exceeding INR10 million. A deduction claimed by an Indian company or a permanent establishment of a foreign company in India with respect to interest expenditure regarding any debt issued by a nonresident that is an associated enterprise of the taxpayer is subject to disallowance. Disallowance is restricted to the lower of total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortization (EBIDTA) or interest paid or payable to the associated enterprise. Interest disallowed can be carried forward to the following eight fiscal years to be set off against taxable income of any business or profession in a subsequent year. A deduction in a subsequent year is also subject to the limitation of 30% of EBITDA. Such limitation does not apply to the banking and insurance sector.

**General Anti-avoidance Rules.** The Income Tax Act includes General Anti-avoidance Rules (GAAR), which will be effective from 1 April 2017. The GAAR are broad rules that are designed to deal with aggressive tax planning. Wide discretion is provided to the tax authorities to invalidate an arrangement, including the disregarding of the application of tax treaties, if an arrangement is treated as an "impermissible avoidance arrangement." The central government has issued clarifications for the implementation of the GAAR.

**Notified Jurisdictional Area.** The Income Tax Act contains a "tool box" to deal with transactions with entities located in noncooperative countries or jurisdictions that do not exchange information with India. The government of India is empowered to notify such jurisdiction as a Notified Jurisdiction Area (NJA). The government discourages transactions by taxpayers in India with persons located in an NJA by providing onerous tax consequences with respect to such transactions. The consequences include applicability of transfer-pricing regulations, additional disclosure and compliance requirements, disallowance of deductions in some circumstances and higher withholding tax rates on transactions with a person located in an NJA. Previously Cyprus was notified as an NJA, effective from 1 November 2013. Such notification was withdrawn with retrospective effect, under an amendment to the India-Cyprus double tax treaty. No other jurisdiction is notified as an NJA.

**Business trusts.** The Income Tax Act contains a specific taxation regime for the taxability of income from business trusts (real estate investment trusts and infrastructure investment trusts). This is a new category of investment vehicles for acquiring control or interests in Indian special-purpose vehicles for investments in the

real estate or infrastructure sector. Units of business trusts can be listed on recognized stock exchange and can be subscribed by residents and nonresident investors (including foreign companies). Business trusts can also avail themselves of external commercial borrowings from nonresident investors (including foreign companies). Business trusts are granted pass-through status for purposes of taxation. Distributions of dividend income from business trusts are exempt in the hands of investors. For further details, see footnote (f) in Section A and *Rates of corporate tax* and *Capital gains* in Section B.

**Patent Box Regime.** The Income Tax Act contains the Patent Box regime, which is a specific taxation regime for the taxability of royalty income earned by a patentee resident in India with respect to a patent developed and registered in India. Such royalty income is taxable at the rate of 10% on the gross amount without any allowance or deduction for any expenditure. For these purposes, royalty income includes consideration for any of the following:

- Transfer of all or any rights with respect to a patent
- Imparting of any information concerning the working of, or the use of, a patent
- The use of any patent
- Rendering of any services in connection with any of these activities

**Foreign portfolio investors.** The Income Tax Act provides a safe-harbor regime for onshore management of offshore funds, thereby neutralizing the impact of the constitution of business connection, permanent establishment or tax residence for offshore funds in India. Under this regime, on the fulfillment of certain conditions, these funds can qualify as an eligible investment funds (EIFs) or eligible fund managers. Investment funds set up by a Category I or Category II foreign portfolio investor registered with the Securities and Exchange Board of India are not required to satisfy the investor diversification conditions to qualify as an EIF. Benefits under the safe-harbor regime are available only if the investment fund is established in a country on a specified list.

**Discouraging cash transactions.** The income tax law prohibits receipt in cash of an amount exceeding INR200,000 on or after 1 April 2017, in a day, with respect to a single transaction spread over many days or with respect to an event.

## F. Treaty withholding tax rates

Under the Income Tax Act, Indian companies are required to pay DDT (see Section B) at an effective tax rate of nearly 20.36% (base rate of 15% on gross amount plus a surcharge of 12% and an education cess of 3%) on dividends declared, distributed or paid by it. Such dividends are exempt from tax in the hands of the recipients. Accordingly, the relevant treaty rates for dividends are not captured in the table below.

Tax rates specified under the Income Tax Act are increased by a surcharge and cess. See footnote (a) and (c) below for tax rates under the Income Tax Act on outbound payments of interest and royalties, respectively. In general, if the relevant treaty specifies the same or lower rate for withholding, these treaty rates, which are more beneficial for the nonresident recipient, may be applied.



In addition, these tax rates need not be increased by the surcharge and cess. To claim treaty benefits, the nonresident recipient must obtain a Tax Residency Certificate indicating that it is a resident of that country or specified territory. This certificate is issued by the government of such country or territory. The nonresident recipient is also required to provide certain information and documents to substantiate its eligibility to claim treaty benefits.

The following table presents the treaty rates on outbound payments of interest and royalties to jurisdictions that have entered into tax treaties with India.

	<b>Dividends</b>	<b>Interest (a)(b)</b>	<b>Approved royalties (c)(d)</b>
	%	%	%
Albania	0	10	10
Armenia	0	10	10
Australia	0	15	15 (k)
Austria	0	10	10
Bangladesh	0	10	10
Belarus	0	10	15
Belgium	0	15	10 (e)(f)
Bhutan	0	10	10
Botswana	0	10	10
Brazil	0	15	15 (h)
Bulgaria	0	15	20
Canada	0	15	15 (k)
China (mainland)	0	10	10
Colombia	0	10	10
Croatia	0	10	10
Cyprus	0	10	10
Czech Republic	0	10	10
Czechoslovakia (g)	0	15	30
Denmark	0	15	20
Egypt	0	20	10
Estonia	0	10	10
Ethiopia	0	10	10
Fiji	0	10	10
Finland	0	10 (f)	10 (f)
France	0	10 (e)(f)	10 (e)(f)
Georgia	0	10	10
Germany	0	10	10
Greece	0	20	10
Hungary	0	10 (e)	10 (e)
Iceland	0	10	10
Indonesia	0	10	10
Ireland	0	10	10
Israel	0	10	10
Italy	0	15	20
Japan	0	10	10
Jordan	0	10	20
Kazakhstan	0	10 (e)	10 (e)
Kenya (j)	0	15	20
Korea (South)	0	10	10
Kuwait	0	10	10
Kyrgyzstan	0	10	15
Latvia	0	10	10
Libya	0	20	10

	<b>Dividends</b>	<b>Interest (a)(b)</b>	<b>Approved royalties (c)(d)</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Lithuania	0	10	10
Luxembourg	0	10	10
Macedonia	0	10	10
Malaysia	0	10	10
Malta	0	10	10
Mauritius (i)	0	7.5	15
Mexico	0	10	10
Mongolia	0	15	15
Montenegro	0	10	10
Morocco	0	10	10
Mozambique	0	10	10
Myanmar	0	10	10
Namibia	0	10	10
Nepal	0	10	15 (e)
Netherlands	0	10 (e)(f)	10 (e)(f)
New Zealand	0	10	10
Norway	0	10	10
Oman	0	10	15
Philippines	0	15	15
Poland	0	10	15
Portugal	0	10	10
Qatar	0	10	10
Romania	0	10	10
Russian Federation	0	10	10
Saudi Arabia	0	10	10
Serbia	0	10	10
Singapore	0	15	10
Slovenia	0	10	10
South Africa	0	10	10
Spain	0	15	20 (e)
Sri Lanka	0	10	10
Sudan	0	10	10
Sweden	0	10 (e)	10 (e)
Switzerland	0	10 (e)	10 (e)
Syria	0	10	10
Taiwan	0	10	10
Tajikistan	0	10	10
Tanzania	0	10	10
Thailand	0	10	10
Trinidad and Tobago	0	10	10
Turkey	0	15	15
Turkmenistan	0	10	10
Uganda	0	10	10
Ukraine	0	10	10
United Arab Emirates	0	12.5	10
United Kingdom	0	15	15 (k)
United States	0	15	15 (k)
Uruguay	0	10	10
Uzbekistan	0	10	10
Vietnam	0	10	10
Zambia	0	10	10
Non-treaty jurisdictions	0	20 (a)	10 (c)

- (a) A 20% rate applies if the relevant tax treaty provides for unlimited taxation rights for the source country on interest income. Under the Income Tax Act, the 20% rate applies with respect to interest on monies borrowed or debts incurred in foreign currency by an Indian concern or the government. If the recipient is a foreign company, this rate is increased by a surcharge of 2% (when the aggregate income exceeds INR10 million) or 5% (when the aggregate income exceeds INR100 million) and is further increased by an education cess of 3% (on income tax and surcharge). A special reduced rate of 5% applies under certain specified circumstances (see footnote [f] in Section A). In other cases, depending on whether the recipient is a corporate entity, a tax rate of 30% or 40% applies. These tax rates are increased the applicable surcharge and cess.
- (b) A reduced rate of 0% to 10% generally applies under a tax treaty if interest payments are made to local authorities, political subdivisions, the government, banks, financial institutions or similar organizations. A reduced rate may also apply if the lender holds a certain threshold of capital in the borrower. The text of the relevant tax treaty needs to be examined.
- (c) Under the Income Tax Act, a 10% rate applies if the relevant tax treaty provides for unlimited rights for the source country to tax royalties (the rate is increased by the surcharge and cess) and if the payment is made by the government of India or an Indian concern. In other cases, as mentioned in footnote (a) above, a tax rate of 30% or 40% applies. These rates are increased by the applicable surcharge and cess.
- (d) The rate provided under the relevant tax treaty applies to royalties not effectively connected with a permanent establishment in India. Also, in some of India's tax treaties, such as with Australia, Canada, Spain, the United Kingdom and the United States, a separate rate of 10% is specified for equipment royalties. Similarly, under India's tax treaty with Bulgaria, a 15% rate applies to copyright royalties other than cinematographic films or films and tapes used for radio or television broadcasting. In addition, many of India's tax treaties also provide for withholding tax rates for technical services fees. In most cases, the rates applicable to royalties also apply to the technical services fees. The text of the relevant tax treaty needs to be examined to determine the relevant scope and rate.
- (e) A more restrictive scope of the definition of royalties or interest and/or a reduced rate may be available under the most-favored-nation clause in the relevant tax treaty.
- (f) A reduced rate of 10% applies in the event of notifications issued by the government of India that give effect to the most-favored-nation clauses in these tax treaties.
- (g) This treaty applies to the Slovak Republic.
- (h) An increased rate of 25% applies to trademark royalties.
- (i) A protocol amending the tax treaty with Mauritius was signed on 10 May 2016 and is effective in India from 1 April 2017. The protocol provides for a withholding tax rate of 7.5% on interest and 15% on royalties.
- (j) A revised tax treaty with Kenya entered into force on 30 August 2017. The revised treaty is effective in India from 1 April 2018. After the revised treaty is effective, it will provide for a withholding tax rate of 10% for both interest and royalties.
- (k) In the first five years in which this treaty is in effect, a 15% rate applies to royalties if the payer is the government of the contracting state, a political subdivision or a public sector company and a 20% rate applies for other payers. For subsequent years, a 15% rate applies in all cases.

# Indonesia

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**A. At a glance**

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	– (b)
Withholding Tax (%)	
Dividends	10/15/20 (c)
Interest	15/20 (c)
Royalties from Patents, Know-how, etc.	15/20 (c)
Rent	
Land or Buildings	10 (d)
Other Payments for the Use of Assets	2 (e)
Fees for Services	
Payments to Residents	
Technical, Management and Consultant Services	2 (e)
Construction Contracting Services	2/3/4 (f)
Construction Planning and Supervision	4/6 (f)
Other Services	2 (e)
Payments to Nonresidents	20 (g)
Branch Profits Tax	20 (h)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 to 10 (i)

- (a) This rate also applies to Indonesian permanent establishments of foreign companies. See Section B.
- (b) See Section B for details concerning the taxation of capital gains.
- (c) A final withholding tax at a rate of 20% is imposed on payments to nonresidents. Tax treaties may reduce the tax rate. Certain dividends paid to residents are exempt from tax if prescribed conditions are satisfied. If the exemption does not apply, a 15% withholding tax applies on dividends paid to tax resident companies and a 10% final withholding tax applies to dividends paid to tax resident individuals. A 15% withholding tax is imposed on interest paid by non-financial institutions to residents. Interest paid by banks on bank deposits to residents is subject to a final withholding tax of 20%.
- (d) This is a final withholding tax imposed on gross rent from land or buildings.
- (e) This tax is considered a prepayment of income tax. It is imposed on the gross amount paid to residents. An increase of 100% of the normal withholding tax

rate is imposed on taxpayers subject to this withholding tax that do not possess a Tax Identification Number.

- (f) This tax is considered a final tax. The applicable tax rate depends on the type of service provided and the “qualification” of the construction companies. The “qualification” is issued by the authorities with respect to the business scale of a construction company (that is, small, medium or large).
- (g) This is a final tax imposed on the gross amount paid to nonresidents. The withholding tax rate on certain types of income may be reduced under double tax treaties.
- (h) This is a final tax imposed on the net after-tax profits of a permanent establishment. The rate may be reduced under double tax treaties. The tax applies regardless of whether the income is remitted. An exemption may apply if the profits are reinvested in Indonesia.
- (i) Losses incurred by taxpayers engaged in certain businesses or incurred in certain areas may be carried forward for up to 10 years (see Section B).

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies incorporated or domiciled in Indonesia are subject to income tax on worldwide income. Foreign tax may be claimed as a tax credit subject to a limitation rule (see *Foreign tax relief*). Branches of foreign companies are taxed only on those profits derived from activities carried on in Indonesia. However, income accruing from Indonesia to a foreign company having a permanent establishment in Indonesia is taxed as income of the permanent establishment if the business generating the income is of a similar nature to the business of the permanent establishment. This is known as the “force of attraction” principle.

**Rates of corporate tax.** Corporate tax is imposed at a flat rate of 25%. This rate applies to Indonesian companies and foreign companies operating in Indonesia through a permanent establishment. The tax rate is reduced by five percentage points for listed companies that have at least 40% of their paid up capital traded on the stock exchange. Small and medium-scale domestic companies (that is, companies having gross turnover of up to IDR50 billion) are entitled to a 50% reduction of the tax rate. The reduced rate applies to taxable income corresponding to gross turnover of up to IDR4.8 billion.

**Branch profit tax.** The net after-tax profits of a permanent establishment are subject to branch profit tax at a rate of 20%. This rate may be reduced under a double tax treaty. Branch profit tax applies regardless of whether the income is remitted to the head office. An exemption may apply if the profits are reinvested in Indonesia.

### Tax incentives

*Tax Allowance Incentive.* Tax incentives under the Tax Allowance Incentive are granted to certain qualifying resident companies investing in certain types of businesses or regions. The Tax Allowance Incentive consists of the following:

- Accelerated depreciation and amortization.
- Extended period of 10 years for the carryforward of a tax loss (normally 5 years), subject to certain conditions.
- Reduced tax rate of 10% (or lower rate under a double tax treaty) for dividends paid to nonresidents.
- Investment allowance in the form of reduction of net income by 30% of the amount invested in land and buildings, and plant and equipment. This allowance is claimed at a rate of 5% each year over a six-year period.

To qualify for the above tax incentives, the investment must be a new investment or an investment for the purpose of expanding a current business. Under a government regulation, 71 categories of business sectors and 74 other categories of industries in certain areas may qualify for the tax incentives. The designated areas and provinces are generally outside Java. They are primarily the north-eastern provinces and provinces located in Sulawesi.

Certain restrictions apply to the use and transfer of fixed assets that benefit from the incentives. These restrictions apply for the first six years of commercial production or for the prescribed useful life of the assets for tax purposes. The incentives are revoked with a penalty if these rules are violated. Implementation of the government regulation is evaluated within two years from the date on which the approval is granted. A monitoring team is established for this purpose.

*Tax Holiday Incentive.* Certain taxpayers engaged in a “pioneer industry” may seek a tax incentive commonly known as the Tax Holiday Incentive, which was introduced in 2011 and renewed in June 2016. The Tax Holiday Incentive offers a corporate income tax reduction from 10% up to maximum of 100% (effectively a tax exemption) for a period of 5 years to 20 years from the beginning of commercial production. An extended period of the tax incentive for up to 20 years may be granted by the Minister of Finance on consideration of the interest in maintaining competitiveness of the national industry and the strategic value of certain industries.

To qualify for the Tax Holiday Incentive, taxpayers must fulfill all of the following criteria:

- They must be a new taxpayer.
- They must be engaged in a “pioneer industry.”
- They must have new investment plans approved by the relevant authority in the minimum amount of IDR1 trillion (approximately USD75 million).
- They must satisfy the thin-capitalization ratio required by the Minister of Finance for income tax purposes.
- They must submit a statement confirming the ability to deposit at least 10% of the total investment plan in the Indonesian banking system without any withdrawal until realization of their investment.
- They must be in the form of an Indonesian legal entity established after 15 August 2011.

Currently, the following sectors qualify as “pioneer industries”:

- Upstream-metal industry
- Oil-refining industry and industrial or oil-refining infrastructure, including the use of the scheme of Partnership between the Government and Business Entities (Kerjasama Pemerintah dengan Badan Usaha, or KPBU)
- Oil and gas-based organic chemical producing industry
- Machinery industry that produces industrial machines
- Agricultural, forestry and fishery products-based processing industry
- Telecommunication, information and communication industries
- Marine transportation industry

- Economic infrastructures other than those using the scheme of Partnership between the Government and Business Entities (Kerjasama Pemerintah dengan Badan Usaha, or KPBU)

Taxpayers that have received tax incentives for investments in certain types of businesses or regions are not eligible for the Tax Holiday Incentive and vice versa.

A recommendation from the head of the Coordinating Board for Capital Investment is required for obtaining the Tax Holiday Incentive. The recommendation should be submitted before 15 August 2018.

**Special tax rates.** Special tax rates granted to certain companies are described below.

*Petroleum.* Tax rates applicable to petroleum companies are those applicable when the petroleum companies' contracts were signed and approved. In addition, foreign petroleum companies are subject to branch profit tax of 20% on their taxable income, except as otherwise provided in an applicable tax treaty.

*Mining.* Income tax applicable to general mining companies may depend on generation of the concessions granted (that is, when the concession is granted). Holders of earlier concessions are taxed at the rates ranging from 30% to 45% (the tax rates are the rates prevailing at the time the concession was granted). Holders of the more recent concessions are taxed in accordance with the prevailing tax laws (current rate is 25%). Although withholding tax on dividends paid overseas is generally imposed at a rate of 20%, some earlier concessions provide a reduced rate of 10%. These rates may be subject to reduction under certain tax treaties.

*Construction companies.* Construction companies are subject to corporate income tax with tax rates ranging from 2% to 6% of the contract value. The income tax applies to complete or partial construction activities. The applicable tax rate depends on the business qualification of the respective company and/or the type of services performed. The tax is considered a final tax. Consequently, no corporate income tax is due on the income at the end of a fiscal year. Foreign construction companies operating in Indonesia through a branch or a permanent establishment are subject to further branch profit tax of 20% on the taxable income (accounting profit adjusted for tax) after deduction of the final tax. The rate is subject to applicable tax treaties. Exemption from branch profit tax may apply in the circumstances described above (see *Branch profit tax*).

*Foreign drilling companies.* Foreign drilling companies are subject to corporate income tax at an effective rate of 3.75% of their gross drilling income, as well as to branch profit tax of 20% on their after-tax taxable income. The branch profit tax may be reduced under certain tax treaties. Branch profit tax may be avoided in the circumstances described above (see *Branch profit tax*).

*Nonresident international shipping companies and airlines.* Nonresident international shipping companies and airlines are subject to tax at a rate of 2.64% of gross turnover (inclusive of branch profit tax). As a result of the reduction of the corporate tax rate in



2010, the effective tax rate may change. However, this has not yet been confirmed through the issuance of a tax regulation.

*Small and medium-sized entities.* Individual and corporate taxpayers (except permanent establishments) with annual gross turnover of less than IDR4.8 billion are subject to income tax at a rate of 1% of monthly gross turnover. This income tax is final.

The following taxpayers are excluded from this final tax:

- Individual taxpayers performing trading and/or service activities who use assembled infrastructure and a public facility that is not intended for commercial use
- Corporate taxpayers that have not yet started commercial operations
- Corporate taxpayers that have gross revenue over IDR4.8 billion from commercial operations in a year.

For purposes of the above measure, business income does not include income from independent professional services, such as, among others, services provided by lawyers, accountants, medical doctors and notaries.

Taxpayers qualifying for a different final tax regime, such as construction services companies, are not eligible for this 1% final tax.

**Capital gains.** A 0.1% final withholding tax is imposed on proceeds of sales of publicly listed shares through the Indonesian stock exchange. An additional tax at a rate of 0.5% of the share value is levied on sales of founder shares associated with a public offering. Founder shareholders must pay the 0.5% tax within one month after the shares are listed. Founder shareholders that do not pay the tax by the due date are subject to income tax on the gains at the ordinary income tax rate.

Capital gains derived by residents are included in taxable income and are subject to tax at the normal income tax rate. Capital gains derived by nonresidents are subject to tax at a rate of 20%. The law provides that the 20% tax is imposed on an amount of deemed income. The Minister of Finance established the deemed income for sales of unlisted shares. The deemed income equals 25% of the gross sale proceeds, resulting in an effective tax rate of 5% of the gross sale proceeds. This rule applies to residents of non-treaty countries and to residents of treaty countries if the applicable treaty allows Indonesia to tax the income.

In addition to sales or transfers of shares, Indonesian tax applies a 20% tax rate to an estimated net income of 25% on sales or transfers of certain assets owned by non-Indonesian tax residents that do not have a permanent establishment in Indonesia. The assets are luxury jewelry, diamonds, gold, gemstones, luxury watches, antiques, paintings, cars, motorcycles, yachts and/or light aircraft. This results in an effective tax rate of 5%. The purchaser must withhold the tax. A tax exemption applies to transactions with a value of less than IDR10 million. The provisions of tax treaties override the above regulation.

The sale or transfer by nonresidents of shares in conduit companies or special purpose companies established or resident in tax-haven jurisdictions that have a special relationship with an Indonesian entity or an Indonesian permanent establishment of a

foreign entity is deemed to be a sale or transfer of shares of the Indonesian entity or the permanent establishment. The relevant regulation provides that the Indonesian income tax applicable to the transaction is 5% of the gross sale proceeds. The 5% rate is derived from the application of the 20% cross-border withholding tax under Article 26 of the Income Tax Law to a profit that is deemed to be 25% of the gross sale proceeds. A provision in an applicable tax treaty overrides the above rule if the seller of the shares is a tax resident in a country that has entered into a tax treaty with Indonesia.

Sellers or transferors of the right to use land or buildings are subject to tax at a rate of 2.5% of the higher of the transaction value and the government official value for the purpose of land and building tax. Purchasers or transferees must pay a transfer duty of 5%, which may be reduced to 2.5% for transfers in business mergers approved by the Director General of Taxation.

**Administration.** The annual corporate income tax return must be filed by the end of the fourth month following the end of the fiscal year. The deadline can be extended for two months. The balance of annual tax due must be settled before filing the annual tax return.

Corporate income tax must be paid in advance through monthly installments, which are due on the 15th day of the month following the relevant month. The tax installment equals 1/12 of tax payable for the preceding year (after exclusion of non-regular income) or tax payable based on the latest tax assessment received. Banks and securities companies calculate their monthly tax installments based on quarterly and semiannual financial reports, respectively.

**Dividends.** In general, dividends are taxable.

Dividends paid domestically to Indonesian resident corporate taxpayers are subject to withholding tax at a rate of 15%. This tax is an advance payment of the dividend recipient's tax liability. Tax exemption may apply if the dividends are paid from retained earnings and if the recipient's share ownership in the payer of the dividends represents 25% or more of the paid-in capital. Dividends exempted from tax are not subject to the 15% withholding tax. Dividends received by Indonesian resident individuals are subject to a final tax of 10%.

Dividends remitted to overseas shareholders are subject to a final 20% withholding tax, unless an applicable tax treaty provides a lower rate.

**Foreign tax relief.** A credit is allowed for tax paid or due overseas on income accruing to an Indonesian company, provided it does not exceed the allowable foreign tax credit. The allowable foreign tax credit is computed on a country-by-country basis.

### C. Determination of trading income

**General.** Income is broadly defined. It includes, but is not limited to, the following:

- Business profits
- Gains from sales or transfers of assets

- Interest, dividends, royalties and rental and other income with respect to the use of property
- Income resulting from reorganizations, regardless of the name or form
- Gains from sales or transfers of all or part of a mining concession, funding participation or capital contribution of a mining company
- Receipt of refund of tax that has been claimed as a tax deduction
- Income earned by *syariah*-based businesses (*syariah* refers to businesses conducted in accordance with Islamic law)
- Interest compensation
- Surplus of Bank Indonesia

Certain income is not taxable or is subject to a final tax regime. Interest earned by resident taxpayers on time deposits, certificates of deposit and savings accounts is subject to a 20% withholding tax, representing a final tax on such income. A final 20% (or lower rate provided in a tax treaty) withholding tax is imposed on interest earned by nonresidents.

Taxpayers are generally able to deduct from gross income all expenses to the extent that they are directly or indirectly incurred in earning taxable income. Nondeductible expenses include the following:

- Income tax and penalties
- Expenses incurred for the private needs of shareholders, associates or members
- Gifts
- Donations (except for donations for national disasters, grants in the framework of research and development activities in Indonesia, grants for the development of social infrastructure, grants in the form of education facilities [for example, books, computers, chairs, tables and other educational resources] and grants for the development of sport)
- Benefits-in-kind, which include a subsidy, aid, gift or award given to an employee or a related party
- Reserves and provisions for certain industries

Business losses incurred overseas are not deductible.

Foreign-exchange gains and losses are treated as taxable income and deductible expenses in accordance with the generally accepted accounting procedures in Indonesia that are consistently adopted.

**Inventories.** For tax purposes, inventories must be valued at cost using either the first-in, first-out (FIFO) or average-cost method. The last-in, first-out (LIFO) method is not allowed.

**Provisions.** Provisions are generally not deductible for tax purposes.

Certain taxpayers that may claim bad debt provisions as deductible expenses include banks and certain nonbank financial institutions, such as other corporate entities providing loan facilities, insurance companies, leasing companies that lease assets under finance leases, consumer financing companies, and factoring companies. The following companies may also claim tax deductions for reserves or provisions:

- Social insurance providers: reserves of social funds
- Forestry companies: reserves for reforestation

- Mining companies: reserves for reclamation of mining sites
- Industrial waste treatment companies: reserves for closure and maintenance of waste treatment plants

Taxpayers may claim tax deductions for bad debts if all of the following conditions are satisfied:

- The costs have been claimed as corporate losses in commercial financial reports.
- A list of the names of the debtors and totals of the bad debts is submitted to the Director General of Taxation.
- A legal suit for collection of the debt is filed with the public court or government institutions handling state receivables. Alternatively, taxpayers may publicize the bad debt in a general or specialized publication or obtain acknowledgment of the write-off of the bad debt from the relevant debtor.

The write-off of receivables from a related party is not deductible for tax purposes.

**Depreciation and amortization allowances.** Depreciation is calculated on the useful life of an asset by applying the straight-line method or declining-balance method. In general, depreciation is deducted beginning with the month the expenditure is incurred. However, for assets under construction, depreciation begins with the month in which the construction of the assets is completed. Buildings are depreciated using the straight-line method. The following table provides the useful lives and depreciation rates for depreciable assets.

Class of asset	Useful life Years	Depreciation method	
		Straight-line (%)	Declining-balance (%)
Buildings			
Permanent	20	5	—
Non-permanent	10	10	—
Other assets			
Class 1	4	25	50
Class 2	8	12.5	25
Class 3	16	6.25	12.5
Class 4	20	5	10

Intangible assets with more than one year of benefit, including leases of tangible property, are amortized according to their useful lives using the same percentages applicable to fixed assets. Special depreciation and amortization rules apply to assets used in certain businesses or in certain areas (see Section B).

**Revaluation of assets for tax purposes.** Subject to approval of the Directorate General of Taxation, increments resulting from revaluation of tangible fixed assets is subject to final income tax at the following rates:

- 3% for applications submitted from 15 October 2015 through 31 December 2015
- 4% for applications submitted from 1 January 2016 through 30 June 2016
- 6% for applications submitted from 1 July 2016 through 31 December 2016
- 10% for applications submitted in the 2017 fiscal year

The final tax is applied to any excess in value of the tangible fixed assets' revaluation or revaluation forecast over the tangible fixed assets' tax written-down value. This tax must be settled before the application is submitted. The value of tangible fixed assets being revalued should be the fair market value of the tangible fixed assets as determined by a licensed appraisal company. The Directorate General of Taxation may re-determine the fair market value of the relevant tangible fixed assets.

Revaluation of fixed assets can be conducted on all of the tangible fixed assets owned by the company or certain selected tangible fixed assets if the assets are physically located in Indonesia and are used to earn, collect and maintain taxable income. The tangible fixed assets revaluation can only be performed every five years, and any breach of this period results in the imposition of additional tax. A tangible fixed asset that has been revalued is depreciated based on a new revalued cost base and is treated as having the same useful life as a new asset.

Revalued tangible fixed assets in Classes 1 and 2 (see *Depreciation and amortization allowances*) that are transferred before the end of their useful lives, as well as revalued tangible fixed assets in Classes 3 and 4, and land and buildings that are transferred within 10 years of their revaluation approval, are subject to additional tax.

**Relief for losses.** Tax losses may not be carried back. They may generally be carried forward for five years. Tax losses incurred by certain businesses or incurred in certain areas may be carried forward for up to 10 years (see Section B).

**Groups of companies.** The losses of one company may not be used to reduce the profits of an affiliate.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on delivery of taxable goods, on imports of goods and on services (including services furnished by foreign taxpayers outside Indonesia if the services have a benefit in Indonesia), unless specifically exempt	
Standard rate	10
Export of goods or certain services	0
Sales tax on luxury goods, imposed in addition to the VAT on the delivery of luxury goods manufactured in or imported into Indonesia; rate depends on the nature of the goods	10 to 200
Transfer duty on land and buildings	5

#### E. Miscellaneous matters

**Foreign-exchange controls.** No exchange controls affect the repayment of loans and the remittance of dividends, interest and royalties. Underlying documents must be submitted to the remitting bank for the remittance of funds in foreign currency of more than the equivalent of USD100,000. Foreign loans must be reported to

Bank Indonesia to enhance the monitoring of the country's foreign exchange reserves.

**Debt-to-equity rules.** Under the tax law, the Minister of Finance may determine an acceptable debt-to-equity ratio. In September 2015, the Minister prescribed a maximum debt-to-equity ratio of 4:1, effective from the 2016 tax year. This rule applies only to Indonesian resident companies, which are companies that are established or incorporated in Indonesia or domiciled in Indonesia and that have their equity made up of shares. It does not apply to permanent establishments. Certain taxpayers are exempted from the rule.

Under the Minister of Finance Regulation regarding the debt-to-equity ratio, if a taxpayer breaches the ratio limit, the Directorate General of Taxation is entitled to adjust the taxpayer's borrowing costs based on the debt-to-equity ratio limit. For a taxpayer that has a nil or negative equity, all costs related to the borrowing are treated as nondeductible for corporate tax purposes. Foreign loans must be reported to the Directorate General of Taxation. Non-reporting of foreign loans result in the forfeiting of the deductibility of the interest.

Interest rates on related-party loans must be at arm's length.

**Transfer pricing.** The law provides that the following methods may be used to determine arm's-length pricing:

- Comparable uncontrolled price method
- Resale-price method
- Cost-plus method
- Profit-split method
- Transactional net margin method

The Indonesian tax authority requires that related-party transactions or dealings with affiliated companies be carried out in a "commercially justifiable way" and on an arm's-length basis. Taxpayers must maintain documentation establishing that related-party transactions are conducted at arm's length. The transfer-pricing study must be maintained for 10 years from the relevant tax year.

The Indonesian tax authority uses advance pricing agreements (APAs) to regulate transactions between related parties and to mitigate future transfer-pricing disputes with the Director General of Taxation. Broadly, an APA represents an advance agreement between a company and the Director General of Taxation regarding the determination of the acceptable pricing for a transaction between related parties. An APA provides the sales price for manufactured goods, the amount of royalties and other information. An APA may be entered into with the Director General of Taxation (unilateral) or between the Director General of Taxation and the foreign tax authority (bilateral).

## F. Treaty withholding tax rates

Indonesia has introduced tough anti-treaty abuse rules. The Indonesian tax authority may ignore the provisions of a tax treaty if these rules are not satisfied.

The Indonesian tax authority may seek agreement with a tax treaty country for exchange of information, mutual agreement procedure and assistance with tax collection.

The following table shows withholding tax rates under Indonesia's double tax treaties.

	Dividends (%)		Interest (b)	Royalties
	A	B	%	%
Algeria	15	15	0/15	15
Armenia	15	10	0/10	10
Australia	15	15	0/10	10/15 (c)
Austria	15	10	0/10	10
Bangladesh	15	10	10	10
Belgium	15	10	0/10	10
Brunei				
Darussalam	15	15	15	15
Bulgaria	15	15	0/10	10
Canada	15	10	0/10	10
China (mainland)	10	10	0/10	10
Croatia	10	10	0/10	10
Czech Republic	15	10	0/12.5	12.5
Denmark	20	10	0/10	15
Egypt	15	15	0/15	15
Finland	15	10	0/10	10/15 (c)
France	15	10	0/10/15	10/15 (c)
Germany	15	10	0/10	10/15 (a)(c)
Hong Kong				
SAR (d)	10	5	0/10	5
Hungary	15	15	0/15	15
India	15	10	0/10	15
Iran	7	7	0/10	12
Italy	15	10	0/10	10/15 (c)
Japan	15	10	0/10	10
Jordan	10	10	0/10	10
Korea (North)	10	10	0/10	10
Korea (South)	15	10	0/10	15
Kuwait	10	10	0/5	20
Luxembourg	15	10	0/10	12.5 (a)
Malaysia	10	10	0/10	10
Mexico	10	10	0/10	10
Mongolia	10	10	0/10	10
Morocco	10	10	0/10	10
Netherlands (e)	10	10	0/10	10
New Zealand	15	15	0/10	15
Norway	15	15	0/10	10/15 (c)
Pakistan	15	10	0/15	15 (a)
Papua New				
Guinea	15	15	0/10	15 (a)
Philippines	20	15	0/10/15	15
Poland	15	10	0/10	15
Portugal	10	10	0/10	10
Qatar	10	10	0/10	5
Romania	15	12.5	12.5	12.5/15 (c)
Russian				
Federation	15	15	0/15	15
Seychelles	10	10	0/10	10
Singapore	15	10	0/10	15

	Dividends (%)		Interest (b)	Royalties
	A	B	%	%
Slovak Republic	10	10	0/10	15
South Africa	15	10	0/10	10
Spain	15	10	0/10	10
Sri Lanka	15	15	0/15	15
Sudan	10	10	0/15	10
Suriname	15	15	0/15	15
Sweden	15	10	0/10	10/15 (c)
Switzerland	15	10	10	10 (a)
Syria	10	10	10	15/20 (c)
Taiwan	10	10	0/10	10
Thailand	15	15	0/15	10/15 (c)
Tunisia	12	12	0/12	15
Turkey	15	10	0/10	10
Ukraine	15	10	0/10	10
United Arab Emirates	10	10	0/5	5
United Kingdom	15	10	0/10	10/15 (c)
United States	15	10	0/10	10
Uzbekistan	10	10	0/10	10
Venezuela	15	10	0/10	20 (a)
Vietnam	15	15	0/15	15
Zimbabwe	20	10	10	15 (a)
Non-treaty jurisdictions	20	20	20	20

A Rate applicable to portfolio investments.

B Rate applicable to substantial holdings.

(a) Technical services are subject to the following reduced rates of withholding tax:

- Germany, 7.5%
- Luxembourg, 10%
- Pakistan, 15%
- Papua New Guinea, 10%
- Switzerland, 5%
- Venezuela, 10%
- Zimbabwe, 10%

(b) If two rates are other than 0%, the higher rate applies to interest paid to companies in certain specified industries or to interest on certain bonds. The 0% rate applies if the beneficial owner of the interest is the government, except under the Singapore treaty, which provides that the 0% rate applies to interest on government bonds.

(c) The rates vary according to the rights or information licensed.

(d) The tax treaty allows each of the signatory countries to apply the domestic tax anti-avoidance rules.

(e) On 30 July 2015, Indonesia and the Netherlands signed a new protocol to their tax treaty. This protocol provides reduced rates of 5% and 15% for dividends and 5% and 10% for interest (no tax exemption for interest paid to the Netherlands). The new protocol is subject to ratification of both countries before it becomes effective.

In addition to the above treaties, Indonesia has entered into agreements for the reciprocal exemption of taxes and duties on air transport with Bangladesh, Croatia, Laos, Morocco, Saudi Arabia and South Africa.



# Iraq

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## A. At a glance

Corporate Income Tax Rate (%)	15/35 (a)
Capital Gains Tax Rate (%)	15/35 (a)
Branch Tax Rate (%)	15/35 (a)
Withholding Tax (%)	
Dividends	0
Interest	15 (b)
Royalties	15 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (c)

- (a) The 15% rate is the general corporate income tax rate. The 35% rate applies to oil and gas production and extraction activities and related industries, including service contracts. The Kurdistan Region of Iraq has not yet adopted the 35% rate.
- (b) This withholding tax is imposed on payments to nonresidents.
- (c) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** In general, corporate income tax is imposed on profits arising in Iraq from commercial activities (or activities of a commercial nature), vocations and professions, including profits arising from contracts and undertakings. In assessing the taxability of nonresidents in Iraq, the General Commission for Taxes (GCT), which is the Iraqi tax authority, generally relies on certain factors that distinguish between “doing business in Iraq” and “doing business with Iraq.” If any one of the following factors is satisfied, a company is deemed to be “doing business in Iraq” and accordingly taxable in Iraq:

- The place of signing the contract by the party performing work under the contract (vendor or service provider) is in Iraq.
- The place of performance of work is in Iraq.
- The place of delivery of goods or services is in Iraq.
- The place of payment for the work is in Iraq.

The Iraqi Ministry of Finance’s Instructions No. (1) of 2014 amended the above four factors. Under the new instructions, the taxability of the following items is addressed separately:

- Supply contracts
- Supplementary or complementary services performed in relation to a supply contract
- Professional services

Income arising from a supply contract is taxable in Iraq if any one of the following factors applies:

- The vendor or service provider has a branch or an office in Iraq, and the contract is signed by the branch or office representative, any of the branch or office’s employees or any other person who is resident in Iraq and authorized to sign the contract.
- The vendor or service provider has a branch or an office in Iraq, and the contract is performed or executed by the branch or office representative, any of the branch or office’s employees or any other person who is resident in Iraq and is authorized to perform or execute the contract.
- The contract’s legal formalities and requirements are completed in Iraq in the name of the vendor or service provider (for example, customs clearance, payment of customs duties, opening of letter of credit or any related procedures, regardless of whether the vendor or service provider has a branch, office or agent in Iraq).
- Payments under the contract to the vendor or service provider are received fully or partially in Iraq, regardless of the currency used to make the payments.
- The vendor or service provider receives payment in barter.

Tax is imposed on income arising from supplementary or complementary services performed in Iraq with respect to a supply contract (such as erection, supervision, maintenance or engineering services), regardless of whether the services are included in the supply contract or in an independent contract. In addition, the taxability of the service component is determined separately from the taxability of the supply contract.

Tax is imposed on professional services performed in Iraq by a legal or natural person, regardless of whether the services are included in the supply contract or in an independent contract and

regardless of the place of payment. The taxability of the service component is determined separately from the taxability of the supply contract.

**Tax rates.** The general corporate income tax rate applicable to all companies (except oil and gas production and extraction activities and related industries, including service contracts) is a unified flat rate of 15% of taxable income. Activities relating to oil and gas production and extraction activities and related industries, including service contracts, are subject to income tax at a rate of 35% of taxable income. The Kurdistan Region of Iraq has not yet adopted the 35% rate.

**Withholding tax.** Companies doing business in Iraq are required to withhold taxes from payments made to their subcontractors and remit the withheld taxes to the GCT on a monthly basis. The withholding rates vary, depending on the nature of activities carried out under each contract. The Kurdistan Region of Iraq does not currently observe this tax withholding, retention and remittance process.

**Capital gains.** Capital gains derived from the sale of fixed assets are taxable at the normal corporate income tax rate of 15% (35% for oil and gas production and extraction activities and related industries, including service contracts, except in the Kurdistan Region of Iraq where the 35% tax rate has not yet been adopted). Capital gains derived from the sale of shares and bonds not in the course of a trading activity are exempt from tax; otherwise, they are taxed at the normal corporate income tax rates.

**Administration.** In Iraq, tax returns for all corporate entities must be filed in Arabic within five months after the end of the fiscal year, together with audited financial statements prepared under the Iraqi Unified Accounting System. The Kurdistan Regional Government's tax authority requires only large taxpayers to file a tax return. The tax filing in the Kurdistan Region of Iraq must be made within six months after the end of the fiscal year.

A delay fine equal to 10% of the tax due is imposed, up to a maximum of IQD500,000 (up to a maximum of IQD75,000 in the Kurdistan region of Iraq), on a taxpayer that does not submit or refuses to submit an income tax filing within five months after the end of the fiscal year (within six months in the Kurdistan Region of Iraq). Foreign branches that fail to submit financial statements by the due date for the income tax filing in Iraq are subject to an additional penalty of IQD10,000.

After an income tax filing is made, the tax authority undertakes an audit of the filing and may request additional information. It eventually issues a tax assessment in an estimation memorandum. Payment of the total amount of tax is due after the GCT and the taxpayer sign the estimation memorandum indicating their agreement with the tax assessment.

If the tax due is not paid within 21 days after the date of assessment notification, a late payment penalty equal to 5% of the amount of tax due is imposed. This amount is doubled if the tax is not paid within 21 days after the lapse of the first period. The

Kurdistan Regional Government's tax authority imposes different penalties and administers them differently.

**Dividends.** In general, dividends paid from previously taxed income are not taxable to the recipient.

**Interest.** Interest paid to nonresidents is subject to a withholding tax rate of 15%.

**Foreign tax relief.** A foreign tax credit is available to Iraqi companies on income taxes paid abroad. In general, the foreign tax credit is limited to the amount of an Iraqi company's income tax on the foreign income. Excess foreign tax credits may be carried forward for five years.

### C. Determination of trading income

**General.** In general, all income generated in Iraq is taxable in Iraq (see *Corporate income tax* in Section B), except for income exempt under a valid tax law or resolution, the industrial investment law, or the investment promotion law in the Kurdistan Region of Iraq.

Business expenses incurred to generate income are allowable, with limitations on certain items, such as entertainment and donations. However, provisions and reserves are not deductible for tax purposes.

**Tax depreciation.** The Iraqi Depreciation Committee sets the maximum depreciation rates for various types of fixed assets. These rates are set out in several tables for various industries. In general, the following are the acceptable depreciation methods:

- Straight line
- Declining balance
- Other methods (with the approval of the GCT)

If the rates used for accounting purposes are greater than the prescribed tax depreciation rates, the excess is disallowed for tax purposes.

**Relief for losses.** A tax loss from one source of income may offset profits from other sources of income in the same tax year. Unused tax losses may be carried forward and deducted from the taxable income of the taxpayer during the following five consecutive years, subject to the following conditions:

- Losses may not offset more than half of the taxable income of each of the five years.
- The loss may offset only income from the same source from which the loss arose.

To claim losses, a taxpayer must obtain appropriate documentation including financial statements that support the loss and sufficient documentation to support the expenses that created such loss.

**Groups of companies.** Iraqi law does not contain any provisions for filing consolidated returns or for relieving losses within a group of companies.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Stamp duties; imposed on the total contract value	
Iraq	0.2
Kurdistan Region of Iraq	0.1
(The stamp duty rates provided are the most commonly applied rates in Iraq and the Kurdistan Region of Iraq. In practice, the application of the stamp duty may vary.)	
Property tax; imposed on the annual rent	
From buildings	10.8
From land	2
Social security contributions; imposed on salaries and benefits of local and expatriate employees; a portion of employee allowances up to an amount equal to 30% of the base salary is not subject to social security contributions	
Employer (general)	12
Employer (oil and gas sector, except in the Kurdistan Region of Iraq)	25
Employee	5

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Iraq is the Iraqi dinar (IQD). Iraq does not impose any foreign-exchange controls. However, according to the Central Bank of Iraq's instructions and regulations, transfers of funds must be in accordance with the Anti-Terrorism Law and the Anti-Money Laundering Law.

**Debt-to-equity rules.** Iraq does not have any debt-to-equity rules. The only restrictions on debt-to-equity ratios are those stated in the articles and memoranda of association. However, the GCT may disallow claims of interest expense if it deems the expense to be excessive or unreasonable.

## F. Tax treaties

Iraq has entered into a bilateral double tax treaty with Egypt and a multilateral double tax treaty with the states of the Arab Economic Union Council.

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**A. At a glance**

Corporate Income Tax Rate (%)	12.5 (a)
Capital Gains Tax Rate (%)	33 (b)
Branch Tax Rate (%)	12.5 (a)
Withholding Tax (%)	
Dividends	20 (c)(d)
Interest	20 (d)(e)(f)
Royalties	20 (d)(f)(g)
Payments from Irish Real Estate Funds	20 (h)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1
Carryforward	Unlimited

- (a) This rate applies to trading income and to certain dividends received from nonresident companies. A 25% rate applies to certain income and to certain activities. For details concerning the tax rates, see Section B.

- (b) A 40% rate applies to disposals of certain life insurance policies.
- (c) This withholding tax is imposed on dividends distributed subject to exceptions (see Section B).
- (d) Applicable to both residents and nonresidents.
- (e) Interest paid by a company in the course of a trade or business to a company resident in another European Union (EU) member state or in a country with which Ireland has entered into a double tax treaty is exempt from withholding tax, subject to conditions. See footnote (p) in Section F for details regarding an extension of this exemption. Bank deposit interest is subject to a 37% deposit interest retention tax (DIRT). DIRT exemptions apply to bank interest paid to nonresidents and, subject to certain conditions, bank interest paid to Irish resident companies and pension funds.
- (f) Ireland implemented the EU Interest and Royalties Directive, effective from 1 January 2004.
- (g) Under Irish domestic law, withholding tax on royalties applies only to certain patent royalties and to other payments regarded as “annual payments” under Irish law. The Irish Revenue has confirmed that withholding tax need not be deducted from royalties paid to nonresidents with respect to foreign patents (subject to conditions).
- (h) A 20% withholding tax applies to payments from Irish Real Estate Funds (IREFs) to certain investors. A general exemption is provided for distributions of profits on disposals of property held for five years or longer. For further details, see Section B.

## B. Taxes on corporate income and gains

**Corporation tax.** A company resident in Ireland is subject to corporation tax on its worldwide profits (income plus capital gains). All Irish-incorporated companies are regarded as Irish resident, subject to an override in a double tax treaty. This rule applies from 1 January 2015 for companies incorporated on or after 1 January 2015. For companies incorporated before 1 January 2015, the new rule applies from the earlier of 1 January 2021 or from a date on or after 1 January 2015 on which both of the following conditions are satisfied:

- A change in ownership of the company occurs.
- Within one year before or five years after the change in ownership, a major change in the nature or conduct of the business of the company occurs.

For companies within this transitional period and for companies that are incorporated in other jurisdictions, the general rule for determining company residence is the common law, which provides that a company resides where its real business is carried on, that is, where the central management and control of the company is exercised.

Subject to neither of the changes referred to above occurring, a company incorporated in Ireland before 1 January 2015 is treated as resident for tax purposes in Ireland unless either of the following apply:

- The company or a related company (50% common ownership of ordinary share capital) carries on a trade in Ireland and either of the following conditions is satisfied:
  - The company is controlled by persons (companies or individuals) resident in a European Union (EU) member country or in a country with which Ireland has entered into a tax treaty (treaty country), provided these persons are not controlled by persons that are not resident in such countries.
  - The principal class of shares in the company or a related company is substantially and regularly traded on one or more recognized stock exchanges in an EU or treaty country.
- The company is regarded under a tax treaty as being resident in a treaty country and not resident in Ireland.

Notwithstanding the transitional rules, Finance (No. 2) Act 2013 provides that an Irish incorporated company is regarded as Irish resident if all of the following circumstances exist:

- The company is centrally managed and controlled in a territory with which a tax treaty is in force.
- It would have been tax resident in that relevant territory under its laws had it been incorporated there.
- The company would not otherwise be regarded by virtue of the law of any territory as resident in that territory.

A company not resident in Ireland is subject to corporation tax if it carries on a trade in Ireland through a branch or agency. The liability applies to trading profits of the branch or agency, other income from property or rights used by the branch or agency, and chargeable gains on the disposal of Irish assets used or held for the purposes of the branch or agency.

A company resident in a country with which Ireland has entered into a tax treaty is subject to tax only on profits generated by a permanent establishment as described in the relevant treaty. This normally requires a fixed place of business or dependent agent in Ireland. Companies that are resident in non-treaty countries and do not trade in Ireland through a branch or agency are subject to income tax on income arising in Ireland and to capital gains tax (CGT) on the disposal of certain specified Irish assets (see *Chargeable capital gains*).

**Rates of corporation tax.** The standard rate of corporation tax on trading income is 12.5%.

On election, the 12.5% rate also applies to dividends received from the following companies:

- A company resident in an EU member state, a treaty country or a country that has ratified the Organisation for Economic Co-operation and Development (OECD) Convention on Mutual Assistance in Tax Matters
- A company that is 75%-owned by a publicly quoted company

The election applies only to dividends sourced from trading income unless the dividends are portfolio dividends (less than 5% interest). In this instance, the dividends are deemed to be from a “trading” source. Foreign dividends from portfolio investments that form part of the trading income of a company are exempt from corporation tax.

A 25% rate applies to the following:

- Certain non-trading income, such as Irish rental and investment income
- Foreign income unless the income is part of an Irish trade
- Income from “working minerals” (broadly defined), petroleum activities and dealing or developing land other than construction operations (for the taxation of construction operations, see *Land transactions*)

*Start-up companies.* A three-year exemption from tax on certain trading profits and capital gains (subject to conditions) applies to companies with a total corporation tax liability (as defined) of less than EUR40,000 per year. This exemption applies to new companies that begin trading on or before 31 December 2018. A cap referring to employer social insurance costs applies.

*Land transactions.* Different tax rates apply to land transactions. Profits or gains derived from dealing in residential or nonresidential development land are subject to the higher rate of corporation tax (25%). Most construction operations are subject to corporation tax at the standard rate of 12.5%.

*Shipping companies.* Shipping companies that undertake qualifying shipping activities, including carriage of cargo and passengers, marine-related activities, leasing of qualifying ships and related activities, may elect to be subject to a special tonnage tax regime instead of the normal corporation tax regime.

Under the tonnage tax regime, profits are calculated on the basis of a specified profit per day according to the tonnage of the relevant ship. The following are the amounts of the daily profit attributed to each qualifying ship:

- For each 100 tons up to 1,000 tons: EUR1.00
- For each 100 tons between 1,000 and 10,000 tons: EUR0.75
- For each 100 tons between 10,000 and 25,000 tons: EUR0.50
- For each 100 tons above 25,000 tons: EUR0.25

The profits attributed to each qualifying ship for the accounting period will be determined by multiplying the daily profit as determined above by the number of days in the accounting period, or, if the ship was operated by the company as a qualifying ship for only part of the period, by the number of days in that part of the accounting period.

The standard corporation tax rate for trading income (12.5%) applies to the amount of profits determined under the rules described above.

*Oil and gas exploration.* Petroleum production tax (PPT) applies to oil and gas exploration authorizations granted on or after 18 June 2014. PPT replaces profit resources rent tax (PRRT). This new regime applies a tax-deductible PPT to the net profits of each field, using a sliding scale of rates from 10% to 40%, based on the profitability of the field. This is in addition to the existing 25% corporation tax rate. A minimum PPT equal to 5% of field gross revenue less transportation expenditure applies.

PRRT continues to apply to authorizations granted in the period 1 January 2007 through 17 June 2014. The PRRT is imposed in addition to the 25% corporation tax rate, and it operates on a graduated basis that is linked to the profitability of the oil or gas field. The tax rate varies according to the profit ratio (rate of cumulative profits less 25% corporation tax divided by accumulated capital investment). The following are the tax rates.

<b>Profit ratio</b>	<b>Tax rate (%)</b>
Less than 1.5	0
Between 1.5 and 3	5
Between 3 and 4.5	10
Exceeding 4.5	15

*Close companies.* Investment and rental income of a “close company” is subject to an additional 20% surcharge if it is not distributed within 18 months after the end of the relevant accounting period. A closely held professional services company is subject to a 15% surcharge on 50% of its undistributed trading income.

Broadly, a “close company” is a company that is under the control of five or fewer persons or under the control of its directors (as defined).

*Life insurance companies.* For life insurance business written before 1 January 2001, policyholders are subject to income tax at the standard rate (20%) on the investment income and gains less management expenses attributable to the policyholders. Life insurance companies withhold the income tax. Resident individuals do not pay any further tax. Companies are subject to Irish CGT arising on the disposal of a life insurance policy and receive a credit for income tax at the standard rate deemed to have been deducted by the life insurance company. For life insurance business written after 1 January 2001 and all other business of life companies, a tax-free buildup of investment return over the term of the policy (gross roll-up) is allowed. However, for Irish residents, an exit tax is imposed on gains resulting from certain “chargeable events” (as defined). The exit tax is withheld at a rate of 41% on the difference between proceeds on redemption, maturity or assignment, and the premiums or subscription amounts paid. A 60% exit tax applies to personal portfolio life insurance policies (PPLPs). This rate applies to domestic and foreign PPLPs that were not cashed in before 26 September 2001.

Deemed disposal rules apply to gross roll up life policies held by Irish residents. A deemed chargeable event occurs at the end of every eight-year period (relevant period) beginning with the inception of the life policy. Exit tax is imposed on the gain arising on this deemed chargeable event. These rules do not apply to policies held by nonresidents.

Shareholder profits of domestic life insurance companies are taxed at the standard rate of corporation tax (now 12.5%) regardless of whether they relate to business written before or after 1 January 2001.

Companies investing in Irish policies are generally subject to an exit tax, as described above. However, corporate holders of certain foreign policies are subject to self-assessment tax at a rate of 25% on profits from the investment in the policies. These foreign policies are policies issued by an insurance company or a branch of such a company carrying on business in a member state of the EU (other than Ireland), in a state in the European Economic Area (EEA) or in a country in the OECD with which Ireland has entered into a tax treaty. Payments with respect to such policies accruing to Irish residents that are not companies are subject to income tax at a rate of 41%. The 41% rate depends on the filing of a self-assessment return with the Irish authorities. The deemed disposal measures (see above) also apply to foreign life policies. Payments with respect to foreign policies, other than those mentioned above, are subject to tax at a rate of 40%. If a company investing in a life insurance policy is a close company, additional surcharges may apply.

*Investment undertakings (gross roll-up funds and net funds).* For investment undertakings (gross roll-up funds), distributions and other payments made are subject to an exit tax at a rate of 41%. This exit tax applies to the cancellation, redemption or assignment of shares and is imposed on the difference between the amount

payable to the shareholder and the amount invested by the shareholder. A pro rata calculation applies for partial disposal, redemption, cancellation, repurchase or assignment of shares unless the company has elected to apply a first-in, first-out basis of identification for such disposals. Investments in IFSC funds are now covered by the investment undertakings rules described above. Nonresidents are generally exempt from the exit tax in investment undertakings described above if they provide the relevant declarations (however, see *Irish Real Estate Funds*). Certain Irish residents are also exempt from the exit tax if the relevant declarations are provided.

A 60% exit tax applies to personal portfolio investment undertakings (PPIUs). A 60% rate also applies to foreign PPIUs that are equivalent to Irish investment undertakings.

Unit holders are deemed to dispose of units acquired by them every eight years from the date of acquisition. To the extent that a gain arises on this deemed disposal, exit tax must normally be deducted and paid by the investment undertaking to the Irish tax authorities. On the disposal of the relevant unit, a credit is available for the tax paid on the deemed disposal. Similarly, a refund is payable to the unit holder if the actual exit tax liability is less than the exit tax paid on the deemed disposals. This refund is generally paid by the investment undertaking which can set off the refund against future exit tax. The deemed disposal rules apply to units acquired on or after 1 January 2001.

Offshore funds that are equivalent to Irish investment undertakings are also subject to tax on a self-assessment basis similar to the rules applicable to foreign life policies (see *Life insurance companies*). Deemed disposal rules also apply to Irish residents after every eight years.

Offshore funds domiciled in another EU member state, EEA state or a member state of the OECD with which Ireland has entered into a double tax agreement, are no longer subject to the offshore fund rules, effective from 2 April 2007. They are subject to either marginal rate of income tax on distributions or CGT at 33%. Certain transitional rules apply. Other offshore funds are still subject to either marginal rate income tax or CGT at 40%, depending on certain circumstances.

Investments in undertakings for collective investment (net funds) that are companies are subject to corporation tax at a rate of 30%.

Ireland has repealed the EU Savings Directive and incorporated the revised EU Council Directive on Administrative Cooperation (DAC 2) into Irish law. Ireland has already implemented the OECD Common Reporting Standard (CRS).

**Irish Real Estate Funds.** Effective from 1 January 2017, a new 20% withholding tax applies to payments from Irish Real Estate Funds (IREFs) to certain investors that are entitled to an exemption from the normal exit charge described above, typically non-resident investors. It applies to many forms of returns to investors of profits from certain real estate business activities, including dealing in or developing Irish land or an Irish property rental business. The withholding tax applies from 1 January 2017, regardless of when the profits arose. Although a general exemption is pro-

vided for distributions of profits on disposals of property held for five years, this may not apply to many investor structures (guidance is expected).

An IREF is an investment undertaking (or a subfund of such undertaking) in which at least 25% of the value of the assets at the end of the previous accounting period is derived from the following:

- Land or minerals in Ireland
- Certain offshore exploration rights
- Shares in a real estate investment trust
- Unquoted shares deriving their value directly or indirectly from the above
- Certain mortgages
- Another IREF

In addition, from 1 January 2017, acquirers of units in IREFs must apply a 20% withholding tax (regardless of the seller's status), unless the consideration does not exceed EUR500,000. The 2017 Finance Act provides for a statutory advance clearance regime for certain indirect and direct investors with respect to this withholding tax.

**Knowledge Development Box.** The 2015 Finance Act introduced the Knowledge Development Box (KDB). This regime complies with the OECD's modified nexus approach. The KDB provides that an effective tax rate of 6.25% applies to qualifying profits. The relief is granted through a tax deduction and applies for accounting periods beginning on or after 1 January 2016 and before 1 January 2021. For KDB purposes, qualifying assets are innovations protected by qualifying patents (including patents pending) and certain copyrighted software. Expenditure on marketing-related intellectual property such as trademarks and brands does not qualify. KDB claims must be made within 24 months after the end of the accounting period.

**Chargeable capital gains.** Chargeable capital gains are subject to corporation tax at a rate of 33% (except for development land gains which are subject to CGT at that rate). In computing a gain, relief is given for the effects of inflation by applying an index factor. However, indexation relief applies only for the period of ownership of an asset up to 31 December 2002.

In calculating the liability for CGT on the disposal of development land or unquoted shares deriving their value from such land, certain restrictions apply. The adjustment for inflation is applied only to that portion of the purchase price reflecting the current use value of the land at the date of purchase. The balance of the purchase price, without an adjustment for inflation, is still allowed as a deduction. Gains on development land may be reduced only by losses on development land. However, losses on development land may be set off against gains on disposals of other assets.

A nonresident company is subject to CGT or corporation tax on its chargeable capital gains from the following assets located in Ireland:

- Land and buildings
- Minerals and mineral rights
- Exploration or exploitation rights in the continental shelf

- Unquoted shares deriving the majority of their value from such assets
- Assets used in a business carried on in Ireland through a branch or agency

*Exit charge.* A company that ceases to be tax resident in Ireland is deemed to have disposed of all of its assets at that time and to have immediately reacquired the assets at market value. The company is subject to corporation tax on any gains resulting from such deemed disposal. The tax is calculated in accordance with the normal CGT rules.

The exit charge does not apply if 90% of the exiting company's share capital is held by foreign companies resident in a jurisdiction with which Ireland has concluded a double tax treaty, or persons who are directly or indirectly controlled by such foreign companies.

An exemption applies to a company that ceases to be tax resident in Ireland but continues to carry on a trade in Ireland through a branch or an agency. In such circumstances, the assets used for the purposes of the branch or agency are not subject to the exit charge.

A company may postpone the charge in certain circumstances. In addition, an unpaid exit charge may be recovered from other group companies or controlling directors.

*Substantial shareholding relief.* An exemption from corporation tax applies to the disposal by an Irish company of a shareholding in another company (the investee company) if the following conditions are satisfied:

- At the time of disposal, the investee company is resident for tax purposes in Ireland, in another EU member state or in a country with which Ireland has entered into a tax treaty.
- The Irish company has held (directly or indirectly), for a period of at least 12 months, a minimum holding of 5% of the shares in the investee company.
- The investee company is wholly or principally a trading company or, taken together, the holding company, its 5% group and the investee company are wholly or principally a trading group.

If the above conditions are satisfied, the relief applies automatically (no claim or election mechanism exists).

**Administration.** The corporation tax liability is determined by self-assessment. As a result, a company must estimate its own liability. Preliminary tax is payable in two installments if the company is not a "small company" (see below). The initial installment is due on the 21st day of the 6th month of the accounting period (assuming the accounting period ends after the 21st day of a month). This installment must equal the lower of 50% of the tax liability for the preceding year or 45% of the tax liability for the current year. The final installment of preliminary tax is due 31 days before the end of the accounting period and must bring the aggregate preliminary tax payments up to 90% of the tax liability for the year. If this date falls on or after the 21st day of a month, the 21st of that month becomes the due date.

"Small companies" alternatively may pay preliminary tax equal to 100% of their tax liability for the preceding year. A company



qualifies as a “small company” if its corporation tax liability for the preceding year did not exceed EUR200,000.

A company that pays more than 45% of its corporation tax liability for a period as an initial installment of preliminary tax or more than 90% of its corporation tax liability for a period by the due date for its final installment of preliminary tax can elect jointly with another group company that has not met the 45% or 90% tests to treat the excess as having been paid by that latter company for interest calculation purposes only. Certain conditions apply.

Any balance of corporation tax due is payable by the due date for the filing of the corporation tax return (Form CT1). This is normally nine months after a company’s accounting year-end.

When the nine-month period ends on or after the 21st day of a month, the 21st of that month becomes the due date for filing the Form CT1 and the payment of any balance of corporation tax.

A start-up company with a corporation tax liability of less than EUR200,000 is relieved from having to make any corporation tax payment until its tax return filing date.

Corporation tax returns and payments must normally be filed electronically via Revenue Online Service. Electronic filers may avail of a two-day extension of return filing and payment deadlines. Accounts are required to be filed in iXBRL format, subject to limited iXBRL exemption criteria. A concessional three-month filing deadline may apply for iXBRL financial statements (not Form CT1).

If a company does not comply with the above filing obligation (including the requirement to submit accounts in iXBRL format), it is subject to one of the following surcharges:

- 5% of the tax, up to a maximum penalty of EUR12,695, if the filing is not more than two months late
- 10% of the tax, up to a maximum penalty of EUR63,485, in all other cases

In addition, the company suffers the reduction of certain tax reliefs, which consist of the set off of certain losses against current-year profits and the surrender of losses among a group of companies. The following are the applicable reductions:

- A 25% reduction, up to a maximum of EUR31,740, if the filing is not more than two months late
- A 50% reduction, up to a maximum of EUR158,715, in all other cases

The above surcharges and restrictions also apply if a company fails to comply with its local property tax (see Section D) obligations with respect to residential properties that it owns.

A limited number of cases are selected for later in-depth Revenue examination, and the assessment can be increased if the return is inaccurate.

A company must file a CGT return reporting disposals of development land and related unquoted shares and pay CGT on such disposals. CGT may be due twice a year, depending on the date of realization of the chargeable gains. CGT on such chargeable gains

arising in the period of 1 January to 30 November must be paid by 15 December of that same year. CGT on such gains arising in December of each year is due on or before 31 January of the following year.

### **Dividends**

*Dividend withholding tax.* Dividend withholding tax (DWT) is imposed on distributions made by Irish companies at a rate of 20%.

The law provides for many exemptions from DWT. Dividends paid to the following recipients are not subject to DWT:

- Companies resident in Ireland
- Approved pension schemes
- Qualifying employee share ownership trusts
- Collective-investment undertakings
- Charities
- Certain sports bodies promoting athletic or amateur games
- Trustees of Approved Minimum Retirement Funds (funds held by qualifying fund managers on behalf of the individuals entitled to the assets)

Additional exemptions are provided for nonresidents. Distributions are exempt from DWT if they are made to the following:

- Nonresident companies, which are under the direct or indirect control of persons (companies or individuals) who are resident in an EU member country or in a country with which Ireland has entered into a tax treaty (treaty country), provided that these persons are not under the control of persons not resident in such countries
- Nonresident companies, or 75% parent companies of nonresident companies, the principal class of shares of which is substantially and regularly traded on a recognized stock exchange in an EU member country or a treaty country
- Companies not controlled by Irish residents that are resident in an EU member country or a treaty country
- Non-corporate persons who are resident in an EU member country or a treaty country and are neither resident nor ordinarily resident in Ireland
- Certain qualifying intermediaries and authorized withholding agents

The above “treaty country” references are extended to any country with which Ireland has signed a double tax treaty (see footnote [p] in Section F).

Detailed certification procedures apply to some of the exemptions from DWT described above.

DWT does not apply to dividends covered by the EU Parent-Subsidiary Directive. Anti-avoidance provisions prevent the use of EU holding companies to avoid DWT. If a majority of an EU parent company’s voting rights are controlled directly or indirectly by persons not resident in an EU or tax treaty country, DWT applies unless it can be established that the parent company exists for bona fide commercial reasons and does not form part of a tax avoidance scheme. DWT may also be recovered under a double tax treaty. The 2014 Finance Act introduced a wider general anti-avoidance rule, which denies the benefit of the directive if “arrangements” exist that “are not put in place for valid commercial reasons which reflect economic reality.”

Distributions paid out of certain types of exempt income, such as exempt woodland income, are not subject to DWT.

Companies must file a return within 14 days after the end of the calendar month of the distribution. The return is required regardless of whether DWT applies to the distributions. Any DWT due must be paid over to the Collector General when the return is filed.

*Other.* A company resident in Ireland can exclude from its taxable income distributions received from Irish resident companies (franked investment income).

Irish resident shareholders, other than companies, are subject to income tax on distributions received. DWT may be claimed as a credit against the recipient's income tax liability. Recipients not subject to income tax may obtain a refund of DWT.

**Foreign tax relief.** Under tax treaty provisions, direct foreign tax on income and gains of an Irish resident company may be credited against the Irish tax levied on the same profits. However, foreign tax relief cannot exceed the Irish corporation tax attributable to the same profits.

For purposes of calculating the credit under tax treaties, income derived from each source is generally treated as a separate stream. Consequently, foreign tax may generally be credited only against the Irish corporation tax on the income that suffered the foreign tax. However, a unilateral credit for otherwise unrelieved foreign tax on interest income may be offset against the corporation tax payable on the "relevant interest." "Relevant interest" is defined as interest income from group companies, which are greater than 25% related and are resident in treaty countries. The unilateral credit relief effectively introduces a pooling mechanism for the calculation of the relief available.

If no treaty exists, a deduction for foreign tax paid is allowed against such income and gains. A unilateral credit relief is available for foreign tax deducted from royalties received by trading companies. For royalties received after 1 January 2012, a limited corporate tax deduction is available for foreign tax suffered that would not otherwise qualify for double tax relief or unilateral credit relief.

An Irish tax credit is available for taxes equivalent to corporation tax and CGT paid by a branch if Ireland has not entered into a tax treaty with the country where the branch is located or if Ireland's tax treaty with such country does not provide for relief (that is, unilateral relief for branch profits tax).

An Irish company that has branches in more than one country can pool its excess foreign tax credits between the different branches. This is beneficial if one branch suffers the foreign equivalent of corporation tax at a tax rate higher than 12.5% and another branch pays tax at a rate lower than 12.5%. Unused credits can be carried forward to offset corporation tax in future accounting periods.

Unilateral credit relief for foreign tax paid by a company on interest income that is included in the trading income of a company for Irish corporation tax purposes may also be available. The relief is available only if the company cannot claim relief under a double tax treaty for the foreign tax and if the tax has not been

repaid to the company. The unilateral relief is equal to the lesser of the Irish corporation tax attributable to the relevant interest or the foreign tax attributable to the relevant interest.

Unilateral credit relief may be available for Irish resident companies, or Irish branches of companies resident in EEA countries (excluding Liechtenstein), that receive dividends from foreign subsidiaries. Companies are permitted to “mix” the credits for foreign tax on different dividends from 5% subsidiaries for purposes of calculating the overall tax credit in Ireland. Any unused excess can be carried forward indefinitely and offset in subsequent periods. The subsidiaries can be located in any country. However, credits arising on dividends taxed at 12.5% are ring-fenced to prevent these tax credits from reducing the tax on the dividends taxed at the 25% rate.

An additional foreign tax credit (AFC) is available with respect to certain dividends received from companies resident in EEA countries (excluding Liechtenstein) if the existing credit for actual foreign tax suffered on the relevant dividend is less than the amount that would be computed by reference to the nominal rate of tax in the country from which the dividend is paid. The total foreign tax credit, including the AFC, cannot exceed the Irish corporation tax attributable to the income. Certain dividends are excluded.

Ireland has implemented the EU Parent-Subsidiary Directive (as amended). These provisions, which overlap to a significant extent with the unilateral credit relief measures described above, have been extended to Switzerland.

A company that incurs a tax liability on a capital gain in one of six specified countries may claim a credit for foreign tax against Irish CGT on the same gain. This unilateral credit is targeted at those countries with which Ireland has entered into double tax agreements before the introduction of CGT.

### **C. Determination of trading income**

**General.** The calculation of trading income is based on the company’s accounts prepared in accordance with generally accepted accounting practice (GAAP), subject to adjustments required or authorized by law. For tax purposes, accounts can be prepared under Irish GAAP (applies to accounting periods commencing before 1 January 2015), International Financial Reporting Standards (IFRS) or Financial Reporting Standards (FRS) 101 or 102 (FRS applies for any accounting periods commencing on or after 1 January 2015). Detailed rules address any transition from Irish GAAP to IFRS and FRS 101 or 102 and, from 1 January 2018, changes in accounting policies more generally.

If derived from Irish sources, income derived from commercial woodlands is exempt from tax.

Expenses must be incurred wholly and exclusively for the purposes of the trade and be of a revenue (as distinct from capital) nature. However, entertainment expenses are totally disallowed, unless they are incurred for employees only. The deductibility of motor leasing expenses is restricted by reference to the carbon dioxide emissions of the motor cars.

Revenue expenditure incurred in the three years before the beginning of trading is generally deductible.

A tax deduction was available for expenditure incurred on acquiring know-how, which includes industrial information and techniques likely to assist in the manufacture or processing of goods or materials, for the purpose of a trade. The deduction was available for expenditure incurred before 7 May 2011. See *Tax depreciation (capital allowances)* for relief available on expenditure on intangible assets incurred on or after this date.

Depreciation of assets is not deductible. Instead, the tax code provides for a system of capital allowances (see *Tax depreciation [capital allowances]*).

*Share-based payments.* Consideration consisting directly or indirectly of shares in the company or a connected company that is given for goods or services or that is given to an employee or director of a company is generally not deductible except for the following:

- Expenditure incurred by the company on acquiring the shares (or rights to receive the shares)
- Payments made to a connected company for the issuance or the transfer of shares (or rights to receive the shares)

In effect, a tax deduction is denied for IFRS 2 or Financial Reporting Standard (FRS) 20 accounting costs unless these costs reflect actual payments. In addition, the timing of the tax deduction for such payments is dependent on the employees' income tax positions.

*Interest payments.* Interest on loans used for trading purposes is normally deductible on an accrual basis in accordance with its accounting treatment unless specifically prohibited.

Certain types of interest paid in an accounting period may be classified as a distribution and, consequently, are not treated as an allowable deduction. However, interest may not be reclassified if it is paid by an Irish resident company to an EU resident company or to a resident of a treaty country (on election). Such interest is allowed as a trading deduction and is not treated as a distribution, subject to certain conditions and exceptions. To facilitate cash pooling and group treasury operations, in the context of a lending trade, a tax deduction may be allowed for interest payments to a connected company in a non-treaty jurisdiction, to the extent that the recipient jurisdiction levies tax on such interest.

Before 2003, a borrower could accrue interest on a loan and claim a tax deduction, while the lender might not be subject to tax until the interest was actually paid. However, since 2003, a tax deduction for interest accrued on a liability between connected persons (including companies and individuals) may be deferred until such time as the interest is actually paid if all of the following circumstances exist:

- The interest is payable directly or indirectly to a connected person.
- Apart from the new measure, the interest would be allowable in computing the trading income of a trade carried on by the payer.
- The interest is not trading income in the hands of the recipient, as determined under Irish principles.

Detailed rules provide for the apportionment of interest between allowable and non-allowable elements.

The above restriction does not apply to interest payable by an Irish company to a connected nonresident corporate lender if the lender is not under the control, directly or indirectly, of Irish residents.

Banks may deduct interest payments made to nonresident group companies in calculating trading income (that is, the payments are not reclassified as distributions).

Charges on income, such as certain interest expenses and patent royalties, are not deductible in the computation of taxable trading income, but may be deducted when paid as a charge. A tax deduction may be claimed for interest as a charge (as a deduction from total profits, which consists of income and capital gains) if the funds borrowed are used for the following non-trading purposes:

- Acquisition of shares in a rental or trading company, or a company whose business principally consists of holding shares in trading or rental companies
- Lending to the companies mentioned in the first bullet, provided the funds are used wholly and exclusively for the purpose of the trade or business of the borrower or of a connected company

Deductions of interest as a charge have always been subject to certain conditions and anti-avoidance measures. These conditions and measures have added complexities to the implementation and maintenance of structures designed to qualify for this interest relief. In particular, interest relief is restricted if the borrower receives or is deemed to have received, a “recovery of capital” (as defined).

Interest on loans made on or after 2 February 2006 is not allowed as a tax deduction if the loan to the Irish company is from a connected party and if the loan is used, directly or indirectly, to acquire shares from a connected company. The 2011 Finance Act introduced measures that restrict the deductibility of interest as a trading expense and interest as a charge to the extent that an acquisition of assets from a connected company is funded by monies borrowed from another connected company.

Certain additional anti-avoidance rules may apply in connected party situations.

*Foreign-exchange gains and losses.* Realized and unrealized foreign-exchange gains and losses relating to monies held or payable by a company for the purpose of its business, or to hedging contracts with respect to such items, are included in the taxable income of a company to the extent the gains and losses have been properly recorded in the company’s accounts. If a company acquires a shareholding in a 25% subsidiary in a foreign currency and that acquisition is funded by a liability (borrowings, share capital or a capital contribution) in the same foreign currency, the company can elect to match the foreign currency gain or loss on the asset (the shares in the 25% subsidiary) with the foreign currency gain or loss on the liability. As a result, the company is taxable only on the real economic gain or loss on the asset and not on currency movements against which it is economically hedged. A company must make the matching election within three weeks of the making of the investment.

An additional foreign-exchange matching measure permits trading companies to elect to match exchange-rate movements on trading assets denominated in foreign currency against movements on redeemable share capital denominated in foreign currency. The election for this treatment must be made within three weeks of acquiring the relevant trading asset.

**Inventories.** Stock is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis or some approximation of FIFO; the last-in, first-out (LIFO) basis is not acceptable.

**Provisions.** General provisions and reserves are not allowable deductions. Some specific provisions and reserves, including reserves for specific bad debts, may be allowed. In general, provisions created in accordance with Financial Reporting Standard 12 are deductible for tax purposes.

### **Tax depreciation (capital allowances)**

*Plant and machinery.* Capital expenditure on plant and machinery and motor vehicles in use at the end of an accounting period is written off at an annual straight-line rate of 12.5%.

The maximum qualifying expenditure for capital allowances on motor vehicles is EUR24,000. Capital allowances and leasing expense deductions for new motor cars are granted by reference to carbon dioxide emissions. As a result, some vehicles do not qualify for capital allowances or leasing expense tax deductions.

An immediate 100% write-off is allowed for capital expenditure on oil and gas exploration, development and abandonment, incurred under a license issued by the Minister for Energy. An immediate 100% write-off is also allowed for certain energy-efficient equipment.

The 2017 Finance Act provides for accelerated capital allowances for expenditure incurred on equipment and buildings used for the purposes of providing childcare services or a fitness center to employees. A Ministerial Order is required to implement this provision.

On the disposal of plant and machinery, a balancing charge or allowance applies, depending on the amount received on disposal compared with the written-down value of the asset. Balancing charges are not imposed with respect to plant and machinery if the proceeds from the disposal are less than EUR2,000.

*Computer software.* If a company carrying on a trade incurs capital expenditure on the acquisition of software or a right to use software in that trade, the right and related software is regarded as plant or machinery and qualifies for capital allowances over eight years. Some computer software may qualify for tax depreciation under the intangible assets regime (see *Intangible assets*).

*Patent rights.* A company incurring capital expenditure on the purchase of patent rights for use in a trade may be entitled to writing-down allowances. Relief is given over 17 years or the life of the patent rights, whichever is the shorter. Ongoing patent royalties are typically deductible when paid (see information regarding charges in *Interest payments*). The allowances are available

for expenditure incurred before 7 May 2011. See *Intangible assets* for relief available on expenditure incurred on or after this date.

*Immovable property.* The basic annual rate is 4% for industrial buildings. Capital expenditure incurred on hotels on or after 4 December 2002 is written off over 25 years (previously 7 years). Transitional measures applied to certain approved projects if the expenditure was incurred on or before 31 December 2006, and reduced rates applied in certain circumstances if the expenditure was incurred in the period 1 January 2007 through 31 July 2008.

*Urban renewal schemes.* Property-based tax incentives in urban renewal areas may be available for expenditure incurred before 31 July 2008. The reliefs include accelerated capital allowances for commercial and industrial buildings.

*Telecommunication infrastructure.* Capital allowances are available for capital expenditure incurred on the purchase of rights to use advanced telecommunication infrastructure. These intangible rights typically extend from 10 to 25 years. They are usually purchased with an upfront lump-sum payment. The expenditure incurred by a company on such rights may be written off over the life of the agreement relating to the use of the rights, with a minimum period of seven years.

*Other.* Capital allowances are also available on expenditure incurred for scientific research, dredging, mining development, ships, agricultural buildings, airport buildings, runways, and petroleum exploration, development and production.

*Intangible assets.* Capital allowances are available on a broad range of specified intangible assets acquired on or after 8 May 2009. Capital allowances are available for expenditure incurred on many types of intangible assets including, but not limited to, customer lists, brands, trademarks, patents, copyrights, designs, know-how, some computer software, pharmaceutical authorizations and related rights, licenses and attributable goodwill.

Relief is generally granted in line with book depreciation and is claimed on the annual tax return.

However, the company can elect for a 15-year write-off period, which is useful if intangible assets are not depreciated for book purposes. This election is made on an asset-by-asset basis.

For capital expenditure incurred by a company on or after 11 October 2017, the aggregate relief (inclusive of any related finance interest) is capped annually at 80% of the trading income of the relevant trade (previously 100%) in which the intangible assets are used. Excess allowances can be carried forward indefinitely against income of the same trade.

Allowances granted are clawed back if the asset is sold within a five-year period.

*Patent rights and know-how.* For acquisitions before 6 May 2011, allowances for acquired patent rights were granted over the shorter of 17 years or the duration of acquired rights. Certain know-how was deductible in full in the year of acquisition. After that date, relief must be claimed under the new intangible asset regime (see *Intangible assets*).



**Research and development expenditures.** A corporation tax credit of 25% is available for qualifying research and development (R&D) expenditure incurred by companies for R&D activities carried on in EEA countries. This credit is granted in addition to any existing deduction or capital allowances for R&D expenditure. As a result of this credit, companies may enjoy an effective benefit of up to 37.5% of R&D expenditure.

R&D credits that cannot be used in an accounting period can be carried forward indefinitely to future accounting periods. Excess R&D credits can be carried back against corporation tax paid in the immediately preceding accounting period. Any remaining excess credits may be refunded over a three-year period. This enhancement of the R&D credit regime represents a significant cash-flow opportunity for loss-making companies. However, a 12-month time limit for R&D claims applies. All R&D claims must be made within 12 months after the end of the accounting period in which the R&D expenditure giving rise to the claim is incurred.

A reward scheme allows companies to use all or part of the R&D credit to reward key employees.

**Film credit.** Amendments to the provisions relating to relief for investment in qualifying films (Section 481 relief) were introduced in 2015. The principle of relief for investors in films is replaced with a tax credit system for producer companies. The film corporation tax credit of 32% applies against the corporation tax liability of the producer company. Any excess is available for payment to the producer company. Detailed certification rules and conditions apply.

**Relief for losses.** Trading losses and charges incurred by a company in an accounting period in a trading activity that is not subject to the 25% corporation tax rate (effectively most trades) can be offset only against profits of that accounting period or the preceding accounting period to the extent that the profits consist of trading income subject to the 12.5% rate. Any unused trading losses may be carried forward to offset future trading income derived from the same trade.

Relief may be available through a reduction of corporation tax on a value basis. For example, in 2018, when the standard corporation tax rate on trading income is 12.5%, 12.5% of the trading loss may be offset against the corporation tax liability of a company with respect to profits from all sources. The full amount of the trading loss that is so utilized is regarded as being used up for purposes of calculating losses that may be carried forward. In effect, a company needs trading losses equal to twice the amount of its passive income to eliminate its tax liability on such income.

Terminal loss relief may be available if a company incurs a loss in its last 12 months of trading. This relief allows such losses to be carried back against income of the same trade in the preceding three years.

**Groups of companies.** Certain tax reliefs are available to a group of companies that meet the following requirements:

- The group companies have a minimum share relationship of 75%.

- The parent company is entitled to 75% of distributable profits.
- The parent company is entitled to 75% of assets available for distribution on a winding up.

Such companies may transfer surplus losses and excess charges on income. Surplus losses of companies owned by a consortium may also be transferred.

Group and consortium relief are available if all of the companies in the group or consortium are resident in an EEA member country (except Liechtenstein). Loss relief was historically restricted to losses incurred in a business carried on by a company subject to Irish corporation tax. However, group relief is now available for certain “trapped” trading losses incurred by non-Irish 75% subsidiaries resident in an EEA country (except Liechtenstein). Losses that can be used elsewhere are ineligible for surrender.

Losses can be transferred between two Irish resident companies if both companies are part of a 75% group involving companies that are tax resident in an EU or tax treaty country, or quoted on a recognized stock exchange. In determining whether a company is a 75% subsidiary of another company for the purpose of group relief (losses), the parent is no longer regarded as owning any shares that it owns directly or indirectly in a company that is not resident for tax purposes in a relevant territory. This effectively means that losses may not be surrendered if a company resident in a state that has not entered into a double tax treaty with Ireland is between a claimant and a surrendering company in the group structure.

The National Asset Management Agency Act 2009 provides for a limited form of loss surrender between certain financial institutions in the same group with respect to excess losses carried forward from earlier periods for which the surrendering financial institution cannot obtain relief.

In a 75% group, assets may be transferred without generating a chargeable gain. An asset retains its tax value while it is held within the group. The tax value is generally based on original cost; for assets acquired before 6 April 1974, the tax value is computed with reference to the market value on that date. If an asset is transferred to a company that leaves the group within 10 years after the transaction, that company is deemed to have disposed of and immediately reacquired the asset at its market value at the time of its acquisition, effectively crystallizing the deferred gain.

A nonresident company that is resident in an EEA country (except Liechtenstein) and, effective from 1 January 2018, companies resident in jurisdictions with which Ireland has a double tax treaty may be taken into account in determining whether a group exists for chargeable gains purposes. An Irish branch of a company resident in an EEA country (except Liechtenstein) and, effective from 1 January 2018, an Irish branch of a company resident in a jurisdiction with which Ireland has a double tax treaty, that is a member of a group may transfer assets to another member of a group on a tax-neutral basis. Any gain arising on the transfer is not taxable until the asset is sold outside the group. To qualify for such relief, the following conditions must be satisfied:

- Each of the companies in the group must be resident in Ireland or in an EEA country (except Liechtenstein) or, effective from

1 January 2018, in a jurisdiction with which Ireland has a double tax treaty.

- Any companies not resident in Ireland must be carrying on a trade in Ireland through a branch.
- The transferred asset must be a chargeable asset for corporation tax purposes in Ireland.

Dividends paid between Irish resident companies are not subject to DWT (see Section B) if the appropriate declarations are made. However, a 51% subsidiary resident in Ireland may pay dividends free of DWT without the parent company making a formal declaration to the subsidiary that it is an Irish resident company. Withholding tax is not imposed on interest and royalty payments between members of a 51% group.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on any supply of goods or services, other than an exempt supply made in or deemed to be made in Ireland, and on imports from other than EU member states at the point of entry	
Standard rate	23
Other rates	0/4.8/5.4/9/13.5
Stamp duty, on certain documents (maximum rate)	6
Local property tax (residential property); assessed on the midpoint value of valuation bands	
Market value less than EUR1 million	0.18
Market value greater than EUR1 million	
First EUR1 million	0.18
Balance	0.25
Pay-related social insurance (PRSI) (for the period ending 31 December 2018), on employees' salaries; paid by	
Employers	
For employees earning a weekly salary of more than EUR376; on each employee's salary without limit	10.85
For employees earning a weekly salary of EUR376 or less	8.6
Employees	
PRSI; on annual salary	4
Universal Social Charge (USC)	
Annual salary of up to EUR12,012 (exempt if income is less than EUR13,000)	0.5
Annual salary of EUR12,013 to EUR19,372	2
Annual salary of EUR19,373 to EUR70,044	4.75
Annual salary in excess of EUR70,044	8
(A 2% rate applies to individuals over 70 years old or who hold a full medical card and whose aggregate income for the year is less than EUR60,000.)	

## E. Miscellaneous matters

**Foreign-exchange controls.** Foreign-exchange controls are not imposed, except in very limited circumstances at the discretion of the Minister for Finance. For example, the minister may impose foreign-exchange controls to comply with EU law or a United Nations resolution.

**Debt-to-equity ratios.** No thin-capitalization rules exist, but interest payments to 75%-nonresident affiliated companies may be treated as distributions of profit and consequently are not deductible (for details regarding this rule, see Section C).

**Controlled foreign companies.** No controlled foreign company (CFC) rules exist in Ireland.

**Anti-avoidance rule.** A general anti-avoidance rule (GAAR) empowers the Revenue Commissioners to reclassify a “tax avoidance” transaction in order to remove a tax advantage resulting from such transaction. An additional surcharge equal to 30% (20% for transactions begun on or before 23 October 2014) of the underpayment can be imposed if the Revenue Commissioners deny a tax advantage and if the taxpayer had not made a “protective notification” of the “tax avoidance” transaction to the Revenue within 90 days after the beginning of the transaction.

**Transfer pricing.** Transfer-pricing legislation in Ireland is effective from 1 January 2011. The rules apply to any arrangement between associated enterprises if the transaction meets the definition of an Irish trading transaction for one or both of the parties. For the purposes of determining an arm’s-length price, the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations are adopted. Sufficient records must be maintained to support an arm’s-length price. OECD-style documentation is sufficient.

Grandfathering provisions apply to transactions for which the terms were agreed on before 1 July 2010. Exemptions from the rules are available for small and medium-sized enterprises, which are companies with fewer than 250 employees and turnover of less than EUR50 million or assets of less than EUR43 million.

**Country-by-Country Reporting.** The 2015 Finance Act introduced Country-by-Country Reporting compliant with the OECD’s recommendations. For accounting periods beginning on or after 1 January 2016, Irish-headquartered companies must file a Country-by-Country Report with the Irish Revenue within 12 months after the end of their accounting period. In addition, Country-by-Country notifications must be made no later than the last day of the fiscal year to which the report relates. Groups with annual consolidated group revenue in the immediately preceding accounting period of less than EUR750 million are exempt from this reporting requirement.

**Construction operations.** Special withholding tax rules apply to payments made by principal contractors to subcontractors with respect to relevant contracts in the construction, forestry and meat-processing industries. Under these rules, principal

contractors must withhold tax from certain payments. Under this electronic system (within which all relevant contracts must be registered), withholding rates of 0%, 20% and 35% apply. If subcontractors are not registered with the Revenue or if serious compliance issues that need to be addressed exist, the rate is 35%. All other subcontractors should qualify for the 20% rate.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a)(y)	Interest (b)	Royalties (c)
	%	%	%
Albania	0	7 (e)	0/7
Armenia	0	0/5/10 (g)	0/5
Australia	0	0/10	0/10
Austria	0	0	0
Bahrain	0	0 (b)	0
Belarus	0	0/5 (e)	0/5
Belgium	0	0/15 (m)	0
Bosnia and Herzegovina	0	0	0
Botswana	0	0/7.5 (e)	0/5/7.5 (f)
Bulgaria	0	0/5 (e)(m)	0/10 (m)
Canada	0	0/10 (l)	0/10 (d)
Chile	0	0/4/5/15	0/2/10 (r)
China (mainland)	0	0/10 (e)	0/6/10 (j)
Croatia	0	0	0
Cyprus	0	0	0
Czech Republic	0	0	0/10 (m)
Denmark	0	0	0
Egypt	0	0/10	0/10
Estonia	0	0/10 (e)(m)	0/5/10 (f)(m)
Ethiopia	0	0/5 (e)	0/5
Finland	0	0	0
France	0	0	0
Georgia	0	0	0
Germany	0	0	0
Greece	0	0/5 (m)	0/5 (m)
Hong Kong SAR	0	0/10 (e)	0/3
Hungary	0	0	0
Iceland	0	0	0/10
India	0	0/10 (e)	0/10
Israel	0	0/10	0/10
Italy	0	0/10 (m)	0
Japan	0	0/10	0/10
Korea (South)	0	0	0
Kuwait	0	0	0/5
Latvia	0	0/10 (m)	0/5/10 (f)(m)
Lithuania	0	0/10 (m)	0/5/10 (f)(m)
Luxembourg	0	0	0
Macedonia	0	0	0
Malaysia	0	0/10	0/8

	<b>Dividends (a)(y)</b>	<b>Interest (b)</b>	<b>Royalties (c)</b>
	%	%	%
Malta	0	0 (m)	0/5 (m)
Mexico	0	0/5/10 (g)	0/10
Moldova	0	0/5 (e)	0/5
Morocco	0	0/10 (e)	0/10
Montenegro	0	0/10 (e)	0/5/10 (q)
Netherlands	0	0	0
New Zealand	0	0/10	0/10
Norway	0	0	0
Pakistan	0	0/10 (e)	0/10
Panama	0	0/5 (e)	0/5
Poland	0	0/10 (m)	0/10 (m)
Portugal	0	0/15 (m)	0/10 (m)
Qatar	0	0	0/5
Romania	0	0/3 (i)(m)	0/3 (h)(m)
Russian Federation	0	0	0
Saudi Arabia	0	0	0/5/8 (f)
Serbia	0	0/10 (e)	0/5/10 (q)
Singapore	0	0/5 (e)	0/5
Slovak Republic	0	0	0/10 (h)(m)
Slovenia	0	0/5 (e)(m)	0/5 (m)
South Africa	0	0	0
Spain	0	0	0/5/8/10 (m)
Sweden	0	0	0
Switzerland	0	0	0
Thailand	0	0/10/15 (s)	0/5/10/15 (t)
Turkey	0	0/10/15 (n)	0/10
Ukraine	0	0/5/10 (u)	0/5/10 (v)
United Arab Emirates	0	0	0
United Kingdom	0	0	0
United States	0	0	0
Uzbekistan	0	0/5	0/5
Vietnam	0	0/10	0/5/10/15 (k)
Zambia	0	0/10 (w)	0/8/10 (x)
Non-treaty jurisdictions	0/20 (o)(p)	20 (b)(p)	0/20 (c)

- (a) Withholding tax at a rate of 20% applies to dividends distributed on or after 6 April 2001. The table assumes that the recipient of the dividends is not a company controlled by Irish residents (that is, the domestic measure providing that DWT is not imposed on payments to residents of treaty countries applies). If domestic law allows the imposition of DWT, a refund of the DWT may be obtained under the terms of an applicable tax treaty.
- (b) Interest is generally exempt from withholding tax if it is paid by a company or investment undertaking in the ordinary course of its business to a company resident in an EU member country or a country with which Ireland has entered into a tax treaty. However, this exemption may be unavailable if the recipient is resident in a country that does not generally impose a tax on interest received from foreign sources.
- (c) Under Irish domestic law, withholding tax on royalties applies only to patent royalties and to other payments regarded as "annual payments" under Irish law. The Irish Revenue has confirmed that withholding tax need not be deducted from royalties paid to nonresidents with respect to foreign patents (subject to conditions). Effective from 4 February 2010, withholding tax does not apply to patent royalties paid by a company in the course of a trade or business to a company resident in a treaty country that imposes a generally applicable tax on royalties received from foreign sources (subject to conditions).

- (d) The normal withholding tax rate for royalties is 10%. However, the following royalties are exempt unless the recipient has a permanent establishment in Ireland and the income is derived there:
- Copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or artistic works (but not including royalties paid for motion picture films or for works on film or videotape or other means of reproduction for use in connection with television broadcasting)
  - Royalties for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experience (but not including any such royalties in connection with rental or franchise agreements)
- (e) The 0% rate also applies in certain circumstances, such as if the interest is paid by, or received from, a central bank or local authority.
- (f) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The higher rate applies to other royalties.
- (g) The 0% rate also applies in certain circumstances, such as if the interest is paid by or received from a central bank or local authority. The 5% rate applies if the beneficial owner of the interest is a bank. The 10% rate applies to other interest.
- (h) A 0% rate also applies to royalties for the use of copyrights of literary, artistic or scientific works, including motion pictures, film recordings on tape, other media used for radio or television broadcasting or other means of reproduction or transmission.
- (i) The 0% rate also applies to interest paid to banks or financial institutions, interest paid on loans with a term of more than two years and interest paid in certain other circumstances.
- (j) The withholding tax rate for royalties is 10%, but only 60% of royalties for the use of, or the right to use, industrial, commercial or scientific equipment is taxable.
- (k) The 5% rate applies to royalties paid for the use of patents, designs or models, plans, secret formulas or processes or for information concerning industrial or scientific experience. The 10% rate applies to royalties paid for the use of trademarks or information concerning commercial experience. The 15% rate applies to other royalties.
- (l) The normal withholding tax rate for interest is 10%, but a 0% rate applies in certain circumstances.
- (m) Ireland has implemented Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between 25%-associated companies of different EU member states. The 2005 Finance Act extended these benefits to Switzerland. If the directive applies, the withholding tax rate is reduced to 0%.
- (n) The 10% rate applies to interest paid with respect to a loan or other debt claim for a period exceeding two years or interest paid to a financial institution.
- (o) Irish domestic law may provide for an exemption from DWT under certain circumstances (see Section B).
- (p) Certain withholding tax exemptions that are available to treaty countries under Irish domestic law (see footnotes [a] and [b]) may be extended to residents of any countries with which Ireland signs a double tax treaty (beginning on the date of signing of such agreement), subject to conditions.
- (q) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works. The 10% rate applies to royalties paid for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, computer software, industrial, commercial or scientific equipment or information concerning industrial, commercial or scientific experience.
- (r) The 2% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The higher rate applies to other royalties.
- (s) The 10% rate applies if the interest is beneficially owned by a financial institution or if it is beneficially owned by a resident of the other contracting state and is paid with respect to indebtedness arising from a sale on credit by a resident of that other state of equipment, merchandise or services, unless the sale is between persons not dealing with each other at arm's length. The 15% rate applies to interest in other cases.
- (t) The 5% rate applies to the right to use copyrights of literary, artistic or scientific works. The 10% rate applies to the use of, or the right to use, industrial, commercial or scientific equipment, or patents. The 15% rate applies to the use of, or the right to use, trademarks, designs or models, plans, secret formulas or processes and to information concerning industrial, commercial or scientific experience.

- (u) The 10% rate applies if the interest is beneficially owned by a resident of other contracting state. The 5% rate applies to interest paid in connection with the sale on credit of industrial, commercial or scientific equipment, or on loans granted by banks.
- (v) The 5% rate applies with respect to copyrights of scientific works, patents, trademarks, secret formulas or processes or information concerning industrial, commercial or scientific experience.
- (w) The 10% rate applies if the interest is beneficially owned by a resident of the other contacting state.
- (x) The 8% rate applies to royalties with respect to copyrights of scientific works, patents, trademarks, designs or models plans, secret formulas or processes, or information concerning industrial commercial or scientific experience.
- (y) For purposes of giving relief under a double tax agreement, IREF distributions (see *Irish Real Estate Funds* in Section B) are regarded as income from immovable property if the investor in an investment undertaking is beneficially entitled directly or indirectly to at least 10% of the IREFs units. Otherwise, the payment is regarded as a dividend for treaty purposes. The table assumes that the distribution is not from an IREF.

Ireland has entered into limited double tax agreements with Guernsey, the Isle of Man and Jersey, which do not provide for reductions in withholding taxes.

Ireland has ratified a double tax treaty with Kazakhstan. Notification of the completion of Kazakhstan's ratification procedures is awaited.

Ireland has ratified the protocol to the existing double tax treaty with Belgium. Notification of the completion of Belgium's ratification procedure is awaited. Negotiations for a protocol to the existing double tax treaty with Mexico have concluded.

Ireland is negotiating double tax treaties with Azerbaijan, Ghana, Oman, Turkmenistan and Uruguay.

Ireland's exiting treaties will also be updated to incorporate provisions under the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting.



# Isle of Man

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## A. At a glance

Resident Corporation Income Tax Rate (%)	0 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0 (a)
Withholding Tax (%)	
Dividends	0
Interest	0 (b)
Royalties	0
Net Operating Losses	
Carryback	1 (c)
Carryforward	Unlimited (c)

- (a) The standard 0% rate of corporate income tax applies to all profits derived by companies except for the following:
- Certain banking business in the Isle of Man and certain retail business in the Isle of Man, which are subject to tax at a rate of 10%
  - Profits arising from land and property in the Isle of Man, which are subject to tax at a rate of 20%
- (b) Information is exchanged automatically in all cases.
- (c) Loss relief is available in certain circumstances (see Section C).

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies resident in the Isle of Man are subject to income tax on their worldwide income, but relief from double taxation may be available. A nonresident company with a branch carrying on a trade in the Isle of Man is subject to tax on the income of the branch. A company is resident in the Isle of Man if it is incorporated in the Isle of Man or if the central management and control of the company is exercised there.

**Rates of corporation tax.** The standard rate of corporate income tax is 0%. This rate applies to all profits derived by trading and investment companies, except for the following:

- Certain banking business in the Isle of Man and certain retail business in the Isle of Man, which are subject to tax at a rate of 10%

- Profits arising from land and property in the Isle of Man, which are subject to tax at a rate of 20%

Trading companies may also elect to be taxed at the 10% rate.

**Special types of companies.** Special types of companies in the Isle of Man are described briefly below.

*Funds industry.* The Isle of Man has a full suite of fund options, with the Specialist Funds being a popular vehicle for alternative investment. Management fees, including administration services' fees, to Specialist Funds, are exempt for value-added tax (VAT) purposes if the services are provided from the IOM. Specialist Funds can include close-ended investment trust companies. The exemption can also cover UK-listed investment entities, including investment trust companies, venture capital trusts, and certain overseas funds.

The Isle of Man also offers exempt schemes that are not subject to regulation. Exempt schemes may have up to 49 members (provided the scheme is not available to the public; that is, it is a private engagement). Virtually all types of assets can be held in these schemes.

Overseas funds may be administered in the Isle of Man without being subject to Isle of Man regulations if they are incorporated in a jurisdiction with an appropriate regulatory framework.

*Limited liability companies.* The Limited Liability Companies Act 1996 allows for the formation of limited liability companies (LLCs). The liability of the members of an LLC is limited to the members' contributions to capital.

For Manx tax purposes, an LLC is treated like a partnership. Consequently, an LLC's profits are allocated among its members for tax purposes.

*New Manx Vehicles.* The New Manx Vehicle (NMV) is a corporate vehicle that is subject to simplified filing requirements and that is designed to be flexible and inexpensive to administer. It is taxed in the same manner as normal Isle of Man companies.

*Manx foundations.* Under the Foundations Act 2011, foundations can be created in the Isle of Man. Manx foundations are regarded as corporate taxpayers for purposes of Manx corporate income tax and are taxed in the same manner as normal Isle of Man companies. Manx foundations are of particular interest to persons who are from civil law jurisdictions.

**Capital gains.** The Isle of Man does not impose a tax on capital gains.

**Administration.** Tax returns must be filed within 12 months and 1 day after the accounting year-end, and any tax payable is due at the same time. In certain circumstances, companies wholly subject to the 0% rate file shortened tax returns.

Filing penalties apply for the late submission of company returns. The first penalty is GBP250. A further penalty of GBP500 is imposed if the return is not filed within 18 months and 1 day after the end of the accounting period. If the return remains outstanding

24 months after the end of the accounting period, the company and its officers may be subject to criminal proceedings.

**Withholding taxes.** In general, no withholding tax is imposed on dividends, interest and royalties paid by Isle of Man resident companies. The Assessor of Income Tax may require a person who makes a payment or credit of taxable income to a person resident outside the Isle of Man to deduct income tax from such payment or credit at a rate specified by the Assessor. For example, a 20% withholding tax is imposed on Isle of Man rent paid by Isle of Man resident companies to nonresident companies and individuals.

**Foreign tax relief.** Foreign tax on income of a resident company may be credited against Manx income tax on the same profits. Foreign tax relief cannot exceed the income tax assessed by the Isle of Man on those profits.

### C. Determination of trading income

**General.** The tax assessment is based on financial accounts prepared using generally accepted accounting principles, subject to certain adjustments and provisions.

Expenses must be incurred wholly and exclusively for the purpose of the trade and not be capital in nature. Dividends are not deductible in calculating taxable profit.

**Inventories.** Inventory is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis; the last-in, first-out (LIFO) basis is not acceptable.

#### Capital allowances (tax depreciation)

*Plant and machinery.* A first-year allowance of up to 100% may be claimed. Annual writing-down allowances of 25% may also be claimed.

*Motor vehicles.* Expenditures on motor vehicles qualify for an annual allowance of 25% of the declining balance. The maximum annual allowance is GBP3,000.

*Industrial buildings, agricultural buildings and tourist premises.* A 100% initial allowance may be claimed on capital investment to acquire, extend or alter a qualifying industrial building, agricultural building or tourist facility. This allowance is granted on expenditures in excess of any government grants received.

*Disposals.* On the ultimate disposal of assets on which capital allowances have been claimed, an adjustment is made by add-back or further allowance to reflect the net cost to the company of the asset.

**Relief for trading losses.** Trading losses may be used to offset other income of the year in which the loss was incurred or income of the preceding year if the same trade was carried on, or losses may be carried forward, without time limit, to offset future income from the same trade. Special rules apply to the carryback of losses on commencement or cessation of the trade.

Companies may also surrender losses to 75%-group companies. A recipient company can use surrendered losses only against profits earned in the same year of assessment.

Under the loss relief rules described above, relief is allowable only against profits chargeable at the same rate of tax. Losses arising from activities subject to tax at the rate of 0% may not be relieved against profits taxed at 10%.

#### **D. Other significant taxes**

The Isle of Man and the United Kingdom are considered one area for VAT, customs and excise purposes. VAT, customs and excise rates are levied in the Isle of Man at the same rates as in the United Kingdom. The Customs and Excise Division in the Isle of Man operates independently from the United Kingdom, but under similar legislation.

Under Protocol 3 of the UK's Treaty of Accession to the European Union (EU), the Isle of Man enjoys the benefits of being within Europe for financial services, customs and VAT purposes, but outside the United Kingdom and the EU with respect to direct taxation and legal and regulatory matters. This makes it possible to operate businesses from the Isle of Man that are subject to a corporate income tax rate of 0%, but are VAT-registered. It allows UK inward investors to arrange for VAT registration in the Isle of Man without the risk of a taxable presence in the United Kingdom. The Isle of Man has its own Electronic Processing Unit (EPU), whereby international traders or their agents can electronically declare imports or exports into or out of the Isle of Man or the United Kingdom. This results in a system-generated customs clearance. On payment of duties and taxes due, goods can then enter into free circulation and be traded with any other EU member state. Businesses can land their goods in the Isle of Man or the United Kingdom and make customs declarations through the Isle of Man for both jurisdictions. Systems and procedures in both the Isle of Man and the United Kingdom are the same and rules, procedures and decisions from the Isle of Man apply throughout the EU.

The Isle of Man has the same system for National Insurance contributions as the United Kingdom, but the contributions are calculated at lower rates.

#### **E. Miscellaneous matters**

**Anti-avoidance provisions.** The Assessor of Income Tax has the authority to make an assessment or an additional assessment in situations in which the Assessor considers Manx tax to have been avoided. Appeals are made to the Income Tax Commissioners. No assessment is made if the person involved provides evidence to the Assessor that the purpose of avoiding or reducing income tax liability was not the primary purpose or one of the primary purposes for which the transaction was carried out.

**Foreign-exchange controls.** The Isle of Man does not impose any foreign-exchange controls.

**Transfer pricing.** Isle of Man law does not include transfer-pricing rules. However, domestic anti-avoidance provisions need to be considered.

**Debt-to-equity rules.** The Isle of Man does not impose debt-to-equity requirements.

## F. Tax treaties

The Isle of Man has entered into double tax treaties with Bahrain, Estonia, Guernsey, Jersey, Luxembourg, Malta, Qatar, Seychelles, Singapore, and the United Kingdom. It has also signed a double tax treaty with Belgium, but this treaty is not yet in force.

In addition, the Isle of Man has entered into agreements with the following countries to eliminate the double taxation of profits with respect to enterprises operating ships or aircraft in international traffic.

Denmark	Germany	Norway
Faroe Islands	Greenland	Poland
Finland	Iceland	Sweden
France	Netherlands	United States

The Isle of Man has signed tax information exchange agreements (TIEAs) with the following countries.

Argentina	Germany	Poland
Australia	Greenland	Portugal
Botswana	Iceland	Romania
British Virgin Islands	India	Slovenia
Canada	Indonesia	Spain*
Cayman Islands	Ireland	Swaziland*
China (mainland)	Italy	Sweden
Czech Republic	Japan	Switzerland
Denmark	Lesotho	Turkey
Faroe Islands	Mexico	Turks and Caicos Islands
Finland	Netherlands	United Kingdom
France	New Zealand	United States
	Norway	

\* TIEAs with these countries are awaiting ratification.

# Israel

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**A. At a glance**

Corporate Income Tax Rate (%)	23 (a)
Capital Gains Tax Rate (%)	23 (a)(b)
Branch Tax Rate (%)	23 (a)
Withholding Tax (%)	
Dividends	0/15/20/25/30 (c)(d)
Interest	0/23 (a)(c)(e)(f)
Royalties from Patents, Know-how, etc.	23 (a)(c)(e)

Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) This is the regular company tax rate for profits and real capital gains. Reduced rates of company tax are available in accordance with the Capital Investment Encouragement Law (for details, see Section B).
- (b) See Section B for details.
- (c) The withholding tax may be reduced by applicable tax treaties.
- (d) The 0% rate generally applies to distributions to Israeli parent companies. In addition, reduced withholding tax rates of 15% and 20% may apply under the Capital Investment Encouragement Law.
- (e) In principle, the withholding taxes on interest and royalties are not final taxes.
- (f) Interest paid to nonresidents on Israeli corporate bonds registered for trading on the Tel-Aviv Stock Exchange is exempt. In general, interest paid to nonresidents on Israeli governmental bonds is exempt. However, interest on short-term bonds (issued for 13 months or less) is taxable.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to Israeli tax on their worldwide income. Nonresident companies are subject to Israeli tax on income accrued or derived in Israel, unless otherwise provided for in an applicable tax treaty.

A company is considered resident in Israel for Israeli tax purposes if either of the following applies:

- It is incorporated in Israel.
- Its business is controlled and managed in Israel.

**Rates of corporate tax.** Effective from 1 January 2018, the regular rate of company tax is 23%. The following are the combined Israel taxes on profits, taking into account the 30% withholding tax on dividends paid to shareholders holding 10% or more of the company (material shareholders) and the 25% withholding tax imposed on shareholders holding less than 10% of the company:

- Material shareholders: 46.1% for 2018. Shareholders who are individuals may be subject to an additional tax at a rate of 3% on their taxable income in excess of ILS640,000 (linked to the Consumer Price Index each year).
- Other shareholders: 42.25% for 2018. For individual shareholders, an additional tax of 3% may apply (see above).

The dividend withholding tax rates mentioned above may be reduced based on applicable tax treaties.

**Tax levy on oil and gas.** Under the Windfall Profits Tax Law, a levy is imposed on oil and gas profits from an oil or gas project in the relevant tax year. The levy is designed to capitalize on the economic dividend arising from each individual reservoir. The levy is imposed only after the investments in exploration, development and construction are fully returned plus a yield that reflects, among other items, the developer's risks and required financial expenses. The levy is progressive and has a relatively lower rate when first collected, and increases as the project's profit margins grow.

**Tax reductions and exemptions.** The major tax reductions and exemptions offered by Israel are described below.

*Capital Investment Encouragement Law.* The Capital Investment Encouragement Law has the following objectives:



- Achieving of enhanced growth targets in the business sector
- Improving the competitiveness of Israeli industries in international markets
- Creating employment and development opportunities in outlying areas

Precedence is granted to innovation and development areas.

The country is divided into national priority areas, which benefit from several reduced tax rates and benefits based on the location of the enterprise.

A reduced uniform corporate tax rate for exporting industrial enterprises (generally over 25% of turnover from export activity) applies. The reduced tax rate does not depend on a program and applies to the industrial enterprise's industrial income.

The reduced tax rates for industrial enterprises that meet the criteria of the law are 7.5% for Development Area A and 16% for the rest of the country. In addition, accelerated depreciation applies. The accelerated depreciation reaches 400% of the standard depreciation rate on buildings (not exceeding 20% per year and exclusive of land) and 200% of the standard depreciation rate on equipment.

A reduced tax on dividends of 15% or 20% is imposed without distinction between foreign and local investors. These tax rates may be reduced under applicable tax treaties. On the distribution of a dividend to an Israeli company, no withholding tax is imposed.

A unique tax benefit is granted to certain large industrial enterprises. This entitles such companies to a reduced tax rate of 5% in Development Area A and 8% in the rest of the country.

In addition to the above tax benefits, fixed asset grants of 20% to 30% of the investment cost of fixed assets may be granted to enterprises in Development Area A.

Grants may also be made under the Employment Grant Program. These grants are made to create incentives for employment in the outlying areas of Israel. The grants are up to 27.5% of the cost of salaries for a period of two and one-half to four years, depending on the location, number of employees and the employees' salaries.

*New innovation box.* Israel approved a new innovation box regime for intellectual property (IP)-based companies, effective from 1 January 2017. This regime is included in the Capital Investment Encouragement Law.

The Israeli government tailored the new regime to the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) framework, encouraging multinationals to consolidate IP ownership and profits in Israel, together with existing Israeli research and development (R&D) functions.

Tax benefits created to achieve this goal include a reduced corporate income tax rate of 6% on IP-based income and on capital gains from future sales of IP. The 6% rate applies to qualifying Israeli companies that are part of a group with global consolidated revenue of over ILS10 billion (USD2,500,000,000).

Other qualifying companies with global consolidated revenue below ILS10 billion are subject to a 12% tax rate. However, if the Israeli company is located in a development area, the tax rate is further reduced to 7.5%.

In addition, withholding tax on dividends is subject to a reduced rate of 4% for all qualifying companies (unless further reduced by a treaty).

Entering into the regime is not conditioned on making additional investments in Israel. A company can qualify if it invests at least 7% of the last three years' revenue in R&D or incurs ILS75 million in R&D expenses per year and if it meets one of the following conditions:

- It has at least 20% R&D employees (or more than 200 R&D employees).
- A venture capital investment of ILS8 million was previously made in the company.
- It had average annual growth over three years of 25% in sales or employees.

Companies not meeting the above conditions may still be considered qualified companies at the discretion of the Israeli Innovation Authority in the Economy Ministry.

Companies wishing to exit from the regime in the future will not be subject to the clawback of tax benefits.

The Finance Committee also approved a stability clause to encourage multinationals to invest in Israel. Accordingly, companies will be able to confirm the applicability of tax incentives for a 10-year period under a ruling process.

In line with the new OECD Nexus Approach, the Finance Minister promulgated regulations to ensure that companies are benefiting from the regime to the extent qualifying R&D expenses are incurred.

*Research and development incentives.* R&D programs are available to Israeli companies. The Office of the Chief Scientist at the Ministry of Economy primarily provides these incentives. The company can obtain an R&D grant equal to about 30% to 60% of its R&D expenses, depending on the grant program, the company's technology innovation and its business model. Binational agreements for joint R&D projects are also available. These agreements provide for grants equaling 30% to 60% of the R&D expenses incurred during the commercial phase.

Some of Israel's tax treaties include tax-sparing clauses under which regular Israeli taxes, rather than reduced Israeli taxes, may be credited against tax imposed on dividends received from an Israeli company in the investor's country of residence. As a result, the Israeli tax benefits may be partially or fully preserved for an investor in an Israeli company enjoying the benefits of the Capital Investment Encouragement Law.

*Eilat free trade zone.* A value-added tax (VAT) exemption and employment benefits are granted to enterprises in the Eilat free trade zone.

*Other incentives.* Approved residential rental properties qualify for reduced company tax rates on rental income (and on gains

derived from sales of certain buildings that have a residential element; a building has a residential element if at least 50% of the floor space is rented for residential purposes for a prescribed number of years, according to detailed rules). The reduced rates generally range from 11% (plus 15% withholding tax on dividends) for companies to 20% for individuals.

Preferential tax treatment may also be allowed with respect to the following:

- Real Estate Investment Trust (REIT) companies
- Agriculture
- Oil
- Movies
- International trading
- R&D financing
- Hotels and tourist ventures

Foreign resident investors may qualify for exemption from capital gains tax in certain circumstances (see *Capital gains and losses*).

### **Capital gains and losses**

*Residents.* Resident companies are taxable on worldwide capital gains. Capital gains are divided into real and inflationary components. The following are descriptions of the taxation of these components:

- Effective from 1 January 2018, the tax rate on real capital gains is the standard corporate tax rate of 23%.
- The inflationary component of capital gains is exempt from tax to the extent that it accrued on or after 1 January 1994, and is generally taxable at a rate of 10% to the extent that it accrued before that date.

Gains derived from sales of Israeli real estate or from sales of interests in real estate associations (entities whose primary assets relate to Israeli real estate) are subject to Land Appreciation Tax at rates similar to those applicable to other capital gains.

Capital losses may be used to offset capital gains derived in the same or future tax years without time limit. In each year, capital losses are first offset against real gains and then offset against taxable inflationary amounts in accordance with the following ratio: ILS3.5 of inflationary amounts per ILS1 of capital losses. Capital losses from assets located abroad must be offset against capital gains on other assets abroad, then against capital gains from assets in Israel.

Capital losses incurred on securities can also be offset against dividend and interest income in the same year, subject to certain conditions.

*Nonresidents.* Unless a tax treaty provides otherwise, in principle, nonresident companies and individuals are subject to Israeli tax on their capital gains relating to any of the following:

- An asset located in Israel.
- An asset located abroad that is primarily a direct or indirect right to an asset, inventory or real estate in Israel or to a real estate association (an entity whose primary assets relate to Israeli real estate). Tax is imposed on the portion of the consideration that relates to such property in Israel.

- Shares or rights to shares (for example, warrants and options) in an Israeli resident entity.
- A right to a nonresident entity that primarily represents a direct or indirect right to property in Israel. Tax is imposed on the portion of the consideration that relates to such property in Israel.

Foreign residents not engaged in business in Israel may qualify for exemption from capital gains tax on disposals of the following investments:

- Securities traded on the Tel-Aviv stock exchange (with certain exceptions)
- Securities of Israeli companies traded on a recognized foreign stock exchange

The above exemption does not apply to the following:

- Gains attributable to a permanent establishment (generally a fixed place of business) of the investor in Israel
- Shares of Real Estate Investment Trust (REIT) companies
- Capital gains derived from the sale of Israeli governmental short-term bonds (issued for 13 months or less)

Foreign residents may also qualify for an exemption from capital gains tax on disposals of all types of Israeli securities not listed to trade that were purchased on or after 1 January 2009 if the seller (the company or individual who sold the Israeli securities to the foreign resident) was not a related party.

The above exemption does not apply to the following:

- Gains attributable to a permanent establishment (generally a fixed place of business) of the investor in Israel
- Shares of a company whose assets are principally Israeli real estate
- Shares of a company that has the value of its assets derived principally from the usufruct of immovable property and right to payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources (for example, companies that hold licenses to exploit gas and minerals in Israel's territory, which includes Israel's economic water)

In other cases, unless a tax treaty provides otherwise, foreign resident companies pay capital gains tax in accordance with the rules and rates applicable to Israeli resident companies, as described above. However, nonresidents investing with foreign currency may elect to apply the relevant exchange rate rather than the inflation rate to compute the inflationary amount.

**Administration.** The Israeli tax year is normally the calendar year. However, subsidiaries of foreign publicly traded companies may sometimes be allowed to use a different fiscal year.

Companies are generally required to file audited annual tax returns and financial statements within five months after the end of their fiscal year, but extensions may be obtained.

Companies must normally file monthly or bimonthly reports and make payments with respect to the following taxes:

- Company tax advances, which are typically computed as a percentage of a company's sales revenues
- Supplementary company tax advances with respect to certain nondeductible expenses

- Tax and social security contributions withheld from salaries and remittances to certain suppliers
- VAT

Nonresidents are required to appoint an Israeli tax representative and VAT representative if any part of their activities is conducted in Israel. The VAT representative is deemed to be the tax representative if no other tax representative is appointed. The tax representative is empowered to pay tax out of the foreign resident's assets.

**Dividends.** A 30% withholding tax is generally imposed on dividends paid to individual shareholders holding 10% or more of the shares in an Israeli company (material shareholders). A 25% withholding tax is imposed on dividends paid to individual shareholders holding less than 10% of the shares in an Israeli company and on regular dividends paid by a publicly traded company (regardless of whether the recipient is a material shareholder). However, resident companies are exempt from company tax on dividends paid out of regular income that was accrued or derived from sources within Israel. Companies are generally subject to tax at a rate of 25% on foreign dividend income that is paid from a foreign source or from income accrued or derived abroad (foreign-source income that is passed up a chain of companies).

A reduced withholding tax of 15% or 20% is imposed on dividends paid out of the income of a company entitled to the benefits of the Capital Investment Encouragement Law. The rate may be further reduced under an applicable tax treaty. However, if such dividend is paid to an Israeli company, it is generally exempt from withholding tax (with certain exceptions).

**Interest.** Israeli resident companies are taxable on worldwide interest, original discount and linkage differentials income. The tax rate for these types of income is the standard corporate tax rate of 23%. Interest, original discount and linkage differentials income are treated as derived from Israeli sources if the payer is located in Israel. In principle, the same taxation rules apply to non-Israeli resident companies on Israeli-source interest, original discount and linkage differentials income, unless a tax treaty provides otherwise.

Nevertheless, an exemption from Israeli tax is available to foreign investors that receive interest income on bonds issued by Israeli companies traded on the Israeli stock exchange.

In addition, interest paid to nonresidents on Israeli governmental bonds that are issued for 13 months or more is exempt.

**Israeli holding companies and participation exemption.** To qualify for the participation exemption, an Israeli holding company must satisfy various conditions, including the following:

- It must be incorporated in Israel.
- Its business is controlled and managed in Israel only.
- It may not be a public company or a financial institution.
- It must not have been formed in a tax-deferred reorganization.
- For 300 days or more in the year, beginning in the year after incorporation, the holding company must have an investment of at least ILS50 million in the equity of, or as loans to, the investee companies, and at least 75% of the holding company's assets must consist of such equity investments and loans.

In addition, the foreign investee company must satisfy the following conditions:

- It must be resident in a country that entered into a tax treaty with Israel, or it must be resident in a foreign country that had a tax rate for business activity of at least 15% on the date of the holding company's investment (however, it is not required that the investee company pay the 15% tax [for example, it obtains a tax holiday]).
- At least 75% of its income in the relevant tax year is accrued or derived from a business or one-time venture abroad.
- The Israeli holding company must hold an "entitling shareholding" in the investee company for at least 12 consecutive months. An "entitling shareholding" is a shareholding that confers at least 10% of the investee's profits. The entitling shareholding must span a period of at least 12 months that includes the date on which the income is received.

An Israeli holding company is exempt from tax on the following types of income:

- Capital gains derived from the sale of an entitling shareholding in an investee company
- Dividends distributed during the 12-month minimum shareholding period with respect to an entitling shareholding in an investee company
- Interest, dividends and capital gains derived from securities traded on the Tel-Aviv Stock Exchange
- Interest and indexation amounts received from Israeli financial institutions

In addition, dividends paid by Israeli holding companies to foreign resident shareholders are subject to a reduced rate of dividend withholding tax of 5%.

**Foreign tax relief.** A credit for foreign taxes is available for federal and state taxes but not municipal taxes. Any excess foreign tax credit may be offset against Israeli tax on non-Israeli-source income from the same type in the following five tax years.

With respect to foreign dividend income, an Israeli company may receive a direct and an underlying tax credit for foreign taxes. The foreign dividend income is grossed up for tax purposes by the amount of the creditable taxes. The following are the alternative forms of the credit:

- Direct foreign tax credit only: corporate tax rate of 23% is imposed on foreign dividend income, and any dividend withholding tax incurred is creditable in Israel.
- Direct and underlying foreign tax credit: corporate tax rate of 23% is imposed on foreign dividend income, and a credit is granted for dividend withholding tax and underlying corporate tax paid abroad by 25%-or-greater affiliates and their direct 50%-or-greater subsidiaries. If an underlying foreign tax credit is claimed, any excess foreign tax credit may not be used to offset company tax in future years.

Foreign residents that receive little or no relief for Israeli taxes in their home countries may be granted a reduced Israeli tax rate by the Minister of Finance.

### C. Determination of trading income

**General.** Taxable income is based on financial statements that are prepared in accordance with generally accepted accounting principles and are derived from acceptable accounting records. In principle, expenses are deductible if they are wholly and exclusively incurred in the production of taxable income. Various items may require adjustment for tax purposes, including depreciation, R&D expenses, and vehicle and travel expenses.

**Inventories.** In general, inventory may be valued at the lower of cost or market value. Cost may be determined using one of the following methods:

- Actual
- Average
- First-in, first-out (FIFO)

The last-in, first-out (LIFO) method is not allowed.

**Provisions.** Bad debts are deductible in the year they become irrecoverable. Special rules apply to employee-related provisions, such as severance pay, vacation pay, recreation pay and sick pay.

**Depreciation.** Depreciation at prescribed rates, based on the type of asset and the number of shifts the asset is used, may be claimed with respect to fixed assets used in the production of taxable income.

Accelerated depreciation may be claimed in certain instances. For example, under the Inflationary Adjustments Regulations (Accelerated Depreciation), for assets first used in Israel between 1 June 1989 and 31 December 2013, industrial enterprises may depreciate equipment using the straight-line method at annual rates ranging from 20% to 40%. Alternatively, they may depreciate equipment using the declining-balance method at rates ranging from 30% to 50%.

The following are some of the standard straight-line rates that apply primarily to non-industrial companies.

<b>Asset</b>	<b>Rate (%)</b>
Mechanical equipment	7 to 10
Electronic equipment	15
Personal computers and peripheral equipment	33
Buildings (depending on quality)	1.5 to 4
Goodwill	10 (a)
Patent rights and technology	12.5 (b)

(a) Subject to the fulfillment of certain conditions.

(b) For industrial companies, subject to the fulfillment of certain conditions.

**Groups of companies.** Subject to certain conditions, consolidated returns are permissible for an Israeli holding company and its Israeli industrial subsidiaries if the subsidiaries are all engaged in the same line of production. For this purpose, a holding company is a company that has invested at least 80% of its fixed assets in the industrial subsidiaries and controls at least 50% (or two-thirds in certain cases) of various rights in those subsidiaries. For a diversified operation, a holding company may file a consolidated

return with the subsidiaries that share the common line of production in which the largest amount has been invested.

Group returns may also be filed by an Israeli industrial company and Israeli industrial subsidiary companies if the subsidiaries are at least two-thirds controlled (in terms of voting power and appointment of directors) by the industrial company and if the industrial company and the subsidiaries are in the same line of production.

Detailed rules concerning the deferral of capital gains tax apply to certain types of reorganizations, including corporate mergers, divisions and shares-for-assets exchanges. In many cases, an advance ruling is necessary.

**Relief for losses.** In general, business losses may be offset against income from any source in the same year. Unrelieved business losses may be carried forward for an unlimited number of years to offset business income, capital gains derived from business activities or business-related gains subject to the Land Appreciation Tax (see Section B). According to case law, the offset of losses may be disallowed after a change of ownership and activity of a company, except in certain bona fide circumstances.

Special rules govern the offset of foreign losses incurred by Israeli residents. Passive foreign losses may be offset against current or future foreign passive income (for example, income from dividends, interest, rent or royalties). Passive foreign rental losses arising from depreciation may also be offset against capital gains from the sale of the relevant foreign real property.

Active foreign losses (relating to a business or profession) may be offset against the following:

- Active foreign income and business-related capital gains in the current year.
- Passive foreign income in the current year.
- Active Israeli income in the current year if the taxpayer so elects and if the foreign business is controlled and managed in Israel. However, in the preceding two years and in the following five years, foreign-source income is taxable up to the amount of the foreign loss.
- Active foreign income and business-related capital gains in future years.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), standard rate	17
Wage and profit tax, imposed on financial institutions instead of VAT; this tax is imposed in addition to company tax	17
National insurance contributions on monthly employment income (subject to an upper income limit that fluctuates periodically) Employer payments; rates depend on residency of employee	Various



Nature of tax	Rate (%)
Employee payments; rates depend on residency of employee	Various
Payroll levy on salaries of foreign employees; levy does not apply if monthly salary exceeds twice the average monthly salary	10 to 20
Acquisition tax, imposed on purchasers of real estate rights; maximum rate	0 to 10
Annual municipal taxes on property	Various

## E. Miscellaneous matters

**Foreign-exchange controls.** The Israeli currency is the new Israel shekel (ILS).

No exchange-control restrictions exist.

**Debt-to-equity rules.** No thin-capitalization rules are imposed in Israel. However, approved enterprises and approved properties (see Section B) must be at least 30% equity-financed if they received their approval before 1 April 2005.

**Transfer pricing.** Transactions between related parties should be at arm's length. Detailed transfer-pricing regulations apply. An Israeli taxpayer must report on each international transaction undertaken with a related party and indicate the arm's-length amount for such transaction. Advance rulings may be requested regarding transfer pricing.

**Measures to counteract tax planning involving foreign companies.** Certain measures are designed to counteract tax planning involving foreign companies.

*Foreign professional companies.* Israeli residents are taxed on deemed dividends received from foreign professional companies (FPCs) at the standard corporate tax rate; a foreign corporate tax credit is available. In addition, on the actual distribution of dividends by FPCs, Israeli residents are subject to dividend tax. A company is considered to be an FPC if a company meets all of the following conditions:

- It has five or fewer ultimate individual shareholders.
- It is owned 75% or more by Israeli residents.
- Most of its 10%-or-more shareholders conduct a special profession for the company.
- Most of its income or profits are derived from a special profession.

The special professions include engineering, management, technical advice, financial advice, agency, law, medicine and many others.

*Controlled foreign corporations.* Israeli residents are taxed on deemed dividends received from a controlled foreign corporation (CFC) if they hold 10% or more of the CFC. An amendment to the CFC regime took effect on 1 January 2014. A foreign company (or any other body of persons) is considered to be a CFC if all of the following conditions exist:

- The foreign company primarily derives passive income or profits that are taxed at a rate of 15% or less abroad.
- The foreign company's shares are not publicly traded, or less than 30% of its shares or other rights have been issued to the public or listed for trade.

- One of the following requirements is satisfied:
  - Israeli residents own either directly or indirectly more than 50% of the foreign company.
  - An Israeli resident owns over 40% of the foreign company, and together with a relative, owns more than 50% of the company.
  - An Israeli resident has veto rights with respect to material management decisions, including decisions regarding the distribution of dividends or liquidation.

The shareholdings of the CFC are calculated as the higher of the following:

- The shareholdings at the tax year-end
- The shareholdings any day in the tax year plus any day in the following tax year

The deemed dividend is the taxpayer's share of passive undistributed income on the last day of the tax year. Under the 2014 amendment, the possibility of claiming a deemed foreign tax credit is abolished.

*Reportable transactions.* Certain types of transactions with foreign companies must be reported to the tax authorities.

**Withholding taxes on overseas remittances.** Israeli banks must withhold tax, generally at a rate of 25%, from most overseas remittances unless the remittances relate to imported goods. An exemption or a reduced withholding rate may be obtained from the Israeli tax authorities in certain circumstances, such as when a treaty applies or when the payments are for services that are rendered entirely abroad. A 30% withholding tax rate applies to dividends paid to recipients holding 10% or more of the payer entity.

**Free-trade agreements.** Israel has entered into free-trade agreements with Bulgaria, Canada, the European Free Trade Association, the European Union, Mexico, Romania, Turkey and the United States.

## F. Treaty withholding tax rates

The following table provides Israeli withholding tax rates for payments of dividends, interest and royalties to residents of various jurisdictions. Exemptions or conditions may apply, depending on the terms of the particular treaty.

	Dividends	Interest	Royalties (a)
	%	%	%
Austria	25	15	10
Belarus	10	5/10 (c)	5/10 (aa)
Belgium	15	15	10
Brazil	10/15 (l)	15 (c)	10/15 (jj)
Bulgaria	10/12.5 (b)	5/10 (c)	12.5 (d)
Canada	15	15	15
China (mainland)	10	7/10 (e)	7/10 (f)
Croatia	5/10/15 (h)	0/5/10 (c)(ll)	5
Czech Republic	5/15 (g)	10	5
Denmark	0/10 (oo)	0/5 (q)(mm)	0
Estonia	0/5 (oo)	5 (c)	0
Ethiopia	5/10/15 (h)	0/5/10 (c)(ll)	5
Finland	5/10/15 (h)	10 (i)	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties (a)</b>
	<b>%</b>	<b>%</b>	<b>%</b>
France	5/10/15 (h)	5/10 (i)(j)	10
Georgia	0/5 (oo)	0/5 (q)(mm)	0
Germany	5/10 (vv)	5	0
Greece	25 (k)	10	10
Hungary	5/15 (g)	0	0
India	10	10	10
Ireland	10	5/10 (j)	10
Italy	10/15 (l)	10	10
Jamaica	15/22.5 (m)	15	10
Japan	5/15 (n)	10	10
Korea (South)	5/10/15 (h)	7.5/10 (c)	2/5 (o)
Latvia	5/10/15 (h)	5/10 (c)	5
Lithuania	5/10/15 (h)	0/10 (q)(ll)	5/10 (u)
Luxembourg	5/10/15 (h)	5/10 (c)	5
Macedonia (pp)	5/15 (ww)	10 (xx)	5 (yy)
Malta	0/15 (uu)	0/5 (q)(ss)	0
Mexico	5/10 (p)	10 (q)	10
Moldova	5/10 (kk)	0/5 (q)(mm)	5
Netherlands	5/10/15 (h)	10/15 (r)	5
Norway	25	25	10
Panama	5/15/20 (qq)	0/15 (rr)	15
Philippines	10/15 (s)	10	10/15 (t)
Poland	5/10 (g)	5	5/10 (u)
Portugal	5/10/15 (h)	10 (q)	10
Romania	15	5/10 (v)	10
Russian Federation	10	10 (q)	10
Singapore	5/10 (g)	7 (c)	5 (x)
Slovak Republic	5/10 (g)	2/5/10 (y)	5
Slovenia	5/10/15 (h)	0/5 (q)(mm)	5
South Africa	25	25	0
Spain	10	5 (z)	5/7 (aa)
Sweden	0 (w)	25	0
Switzerland	5/10/15 (h)	5/10 (c)	5
Taiwan	10	7/10 (c)	10
Thailand	10/15 (bb)	10/15 (cc)	5/15 (dd)
Turkey	10	10 (ee)	10
Ukraine	5/10/15 (h)	5/10 (c)	10
United Kingdom	15	15	0
United States	12.5/15/25 (ff)	10/17.5 (gg)	10/15 (hh)
Uzbekistan	10	10	5/10 (ii)
Vietnam	10	10 (q)	5/7.5/15 (u)
Non-treaty jurisdictions (nn)	25/30	23 (tt)	23 (tt)

(a) Different rates may apply to cultural royalties.

(b) The 10% rate applies to dividends that are paid out of profits taxed at a reduced company tax rate. For other dividends, the withholding tax rate may not exceed one-half the non-treaty withholding tax rate; because the non-treaty withholding tax rate for dividends is currently 25%, the treaty withholding tax rate is 12.5%.

(c) Interest on certain government loans is exempt. The rate of 5% (Belarus, Bulgaria, Croatia, Ethiopia, Latvia, Luxembourg, Switzerland and Ukraine), 7% (Taiwan) or 7.5% (Korea) applies to interest on loans from banks or financial institutions. The 10% rate (Brazil, 15%; Estonia, 5%; and Singapore, 7%) applies to other interest payments.

(d) The withholding tax rate may not exceed one-half the non-treaty withholding tax rate; because the non-treaty withholding tax rate is currently 26.5%, the treaty withholding tax rate is 13.25%.

- (e) The 7% rate applies to interest paid to banks or financial institutions.
- (f) Under a protocol to the treaty, the 7% rate is the effective withholding rate for amounts paid for the use of industrial, commercial or scientific equipment.
- (g) The 5% rate applies if the recipient holds directly at least 10% of the capital of the payer (Hungary, Singapore and Slovak Republic) or at least 15% of the capital of the payer (Poland), or if the recipient is a company that holds at least 15% of the capital of the payer (Czech Republic).
- (h) The 5% rate applies if the dividends are paid out of profits that were subject to the regular company tax rate (currently, 26.5%) and if they are paid to a corporation holding at least 10% (Ethiopia, Finland, France, Korea, Latvia, Lithuania, Luxembourg, Slovenia and Switzerland) or 25% (Croatia, Netherlands, Portugal and Ukraine) of the payer's capital. The 10% rate applies to dividends paid to such a corporation (under the Ukraine treaty, a corporation holding at least 10%) out of profits that were taxed at a reduced rate of company tax. The 15% rate applies to other dividends.
- (i) Alternatively, an interest recipient may elect to pay regular tax (currently, the company tax rate is 26.5%) on the lending profit margin.
- (j) The 5% rate applies to interest on a bank loan as well as to interest in connection with sales on credit of merchandise between enterprises or sales of industrial, commercial or scientific equipment.
- (k) Dividends are subject to tax at the rate provided under domestic law, which is currently 25% in Israel.
- (l) The 10% rate applies if the recipient holds at least 25% of the capital of the payer.
- (m) The 15% rate applies if the recipient is a company that holds directly at least 10% of the voting power of the payer.
- (n) The 5% rate applies to corporate recipients that beneficially own at least 25% of the voting shares of the payer during the six months before the end of the accounting period for which the distribution is made.
- (o) The 2% rate applies to royalties for use of industrial, commercial or scientific equipment.
- (p) The 5% rate applies if the recipient holds at least 10% of the payer and if the payer is not an Israeli resident company that paid the dividends out of profits that were taxed at a reduced tax rate. The 10% rate applies to other dividends.
- (q) Interest on certain government loans is exempt.
- (r) The 10% rate applies to a Dutch bank or financial institution.
- (s) The 10% rate applies if the recipient holds at least 10% of the capital of the payer.
- (t) The 15% rate applies unless a lesser rate may be imposed by the Philippines on royalties derived by a resident of a third country in similar circumstances. The Philippines-Germany treaty specifies a 10% withholding tax rate on industrial and commercial royalties. Consequently, a 10% rate might apply to these royalties under the Israel-Philippines treaty.
- (u) The 5% rate applies to royalties for the use of industrial, commercial or scientific equipment. The 7.5% rate (Vietnam) applies to technical fees.
- (v) The 5% rate applies to interest on bank loans as well as to interest in connection with sales on credit of merchandise between enterprises or sales of industrial, commercial or scientific equipment. Interest on certain government loans is exempt.
- (w) Under a disputed interpretation of the treaty, a 15% rate may apply to dividends paid out of the profits of an approved enterprise or property.
- (x) The tax rate on the royalties in the recipient's country is limited to 20%.
- (y) The 2% rate applies to interest paid on certain government loans. The 5% rate applies to interest received by financial institutions that grant loans in the course of its usual business activities. The 10% rate applies to other interest payments.
- (z) This rate applies to interest in connection with sales on credit of merchandise between enterprises and sales of industrial, commercial or scientific equipment, and to interest on loans granted by financial institutions.
- (aa) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment (and road transport vehicles under the Belarus treaty), or for copyrights of literary, dramatic, musical or artistic works. The rate for other royalties is 10% (Belarus) or 7% (Spain).
- (bb) The 10% rate applies if the recipient is an Israeli resident or if the recipient is a Thai resident holding at least 15% of the capital of the payer.
- (cc) The 10% rate applies to interest paid to banks or financial institutions, including insurance companies.
- (dd) The 5% rate applies to royalties paid for the use of literary, artistic or scientific works, excluding radio or television broadcasting works.
- (ee) Interest on certain government loans is exempt. The 10% rate applies to all other interest payments.

- (ff) The 12.5% rate applies to dividends paid by a company that does not have an approved enterprise or approved property in Israel to US corporations that own at least 10% of the voting shares of the payer, subject to certain conditions. The 15% rate applies to dividends paid out of the profits of an approved enterprise or property. The 25% rate applies to other dividends.
- (gg) The 10% rate applies to interest on a loan from a bank, savings institution, insurance company or similar company. The 17.5% rate applies to other interest. Alternatively, an interest recipient may elect to pay regular tax (the company tax rate is currently 26.5%) on the lending profit margin.
- (hh) The 10% rate applies to copyright and film royalties. The 15% rate applies to industrial and other royalties.
- (ii) The 5% rate applies to royalties paid for the use of literary, artistic or scientific works, excluding cinematographic films. The 10% rate applies to other royalties.
- (jj) The 15% rate applies to royalties for the use of, or the right to use, trademarks. The 10% rate applies to other royalties.
- (kk) The 5% rate applies if the dividends are paid to a corporation holding at least 25% of the payer's capital. The 10% rate applies to other dividends.
- (ll) The 0% rate applies to interest with respect to sales on credit of merchandise or industrial, commercial or scientific equipment. Under the Lithuania treaty, such credit must not exceed six months and related parties are excluded.
- (mm) The 0% rate applies to interest with respect to a loan, debt-claim or credit guaranteed or insured by an institution for insurance or financing of international trade transactions that is wholly owned by the other contracting state (Denmark, Georgia and Moldova) or acts on behalf of the other contracting state (Slovenia), and with respect to interest paid on traded corporate bonds (Denmark and Georgia). The 5% rate applies to other interest.
- (nn) See Sections A and B. A 25% withholding tax rate applies to dividends and other payments to recipients who hold under 10% of the payer entity.
- (oo) The 0% rate applies if the recipient is a company that holds directly at least 10% of the capital of the payer for a consecutive period of at least 12 months.
- (pp) This treaty has been signed, but it has not yet been ratified.
- (qq) The 5% rate applies to dividends paid to pension schemes. The 20% rate applies to distributions from a real estate investment company if the beneficial owner holds less than 10% of the capital of the company. The 15% rate applies to other dividends.
- (rr) The 0% rate applies to interest on certain government loans, interest paid to pension schemes and interest on certain corporate bonds traded on a stock exchange. The 15% rate applies to other interest.
- (ss) The 0% rate applies to interest derived from corporate bonds listed for trading.
- (tt) This is the regular company tax rate for profits and real capital gains effective from 1 January 2018.
- (uu) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership or a real estate investment company) that holds directly at least 10% of the capital of the company paying the dividends. The 15% rate applies to dividends in all other cases. Distributions made by a real estate investment company that is a resident of Israel to a resident of Malta may be taxed in Malta. Such distributions may also be taxed in Israel according to the laws of Israel. However, if the beneficial owner of these distributions is a resident of Malta holding directly less than 10% of the capital of the distributing company, the tax charged in Israel may not exceed a rate of 15% of the gross distribution.
- (vv) The 5% rate applies if the recipient holds at least 10% of the payer's capital. The 10% rate applies to other dividends.
- (ww) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership or a real estate investment company) that holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (xx) The maximum tax rate is 10% if the beneficial owner of the interest is a resident of the other contracting state. However, interest arising in a contracting state is exempt from tax in that state if one of the following circumstances exists:
- The interest is paid to the government of the other contracting state, a local authority or the central bank thereof.
  - The interest is paid by the government of that contracting state, a local authority or the central bank thereof.
- (yy) The maximum tax rate is 5% if the beneficial owner of the royalties is a resident of the other contracting state.

# Italy

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**A. At a glance**

Corporate Income Tax Rate (%)	24 (a)
Capital Gains Tax Rate (%)	1.2/24 (b)
Branch Tax Rate (%)	24 (a)
Withholding Tax (%)	
Dividends	0/1.2/26 (c)(d)
Interest	0/12.5/26 (e)(f)
Royalties from Patents, Know-how, etc.	0/22.5/30 (f)(g)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (h)

- (a) The 2016 Budget Law provides that, except for banks and other financial entities, the corporate income tax (*imposta sul reddito delle società*, or IRES) rate is reduced to 24%, effective from the 2017 fiscal year (fiscal years beginning after 31 December 2016). A 6.5% surcharge (increasing the total tax rate to 34%) was imposed on oil, gas and energy companies with revenues exceeding EUR3 million and taxable income exceeding EUR300,000 with reference to the preceding year (for 2011 to 2013, the surcharge was 10.5%). During 2015, the Italian Constitutional Court declared such surcharge unconstitutional and consequently repealed the surcharge without retroactive effect. A local tax on productive activities (*imposta regionale sulle attività produttive*, or IRAP) is imposed on the net value of production. For further details regarding IRAP, see Section B.
- (b) For details concerning capital gains taxation, see Section B.
- (c) Withholding tax is not imposed on dividends paid to resident companies. The 26% rate applies to dividends paid to resident individuals with substantial and non-substantial participations (for information on substantial and non-substantial participations, see the discussion of capital gains taxation in Section B). The 26% rate applies to dividends paid to nonresidents. Nonresidents may be able to obtain a refund of the withholding tax equal to the amount of foreign tax paid on the dividends. However, the maximum refund is 11/26 of the withholding tax paid. Tax treaties may provide for a lower tax rate. However, the maximum refund is 11/26 of the withholding tax paid. Tax treaties may provide for a lower tax rate. Effective from 1 January 2008, a 1.375% rate applied under certain circumstances (see Section B). This rate is increased to 1.2% as of 2017. If either the treaty or the 1.2% rate applies, the 11/26 tax refund cannot be claimed.
- (d) Under the European Union (EU) Parent-Subsidiary Directive, dividends distributed by an Italian subsidiary to an EU parent company are exempt from withholding tax, if among other conditions, the recipient holds 10% or more of the shares of the subsidiary for at least one year. See Section B. Similar treatment may apply to dividend payments to Swiss parents under the EU-Switzerland treaty (Article 15).
- (e) The 0% rate applies under certain circumstances to interest derived by nonresidents on the white list (see Section B) from treasury bonds, bonds issued by banks and “listed” companies, “listed” bonds issued by “non-listed” companies (often referred to as “mini-bonds”), nonbank current accounts and certain cash pooling arrangements and in other specific cases. The term “listed” refers to a listing on the Italian exchange or on an official exchange or a multilateral system for exchange of an EU or European Economic Area (EEA) country. The 26% rate applies to interest derived by residents and nonresidents from corporate bonds and similar instruments and from loans, in general. The 26% rate also applies as a final tax to interest paid to residents on bank accounts and deposit certificates. The rate applicable to interest paid on treasury bonds issued by the Italian government and by white-list countries is reduced to 12.5%. For resident individuals carrying on business activities in Italy and resident companies, interest withholding taxes are advance payments of tax. In all other cases, the withholding taxes are final taxes. Tax treaties may also provide for lower rates. For further details, see Section B.
- (f) No withholding tax is imposed on interest and royalties paid between associated companies of different EU member states if certain conditions are met. For details, see Section B. Similar treatment may apply to interest payments to Swiss companies under the EU-Switzerland treaty (Article 15).

- (g) The withholding tax rate of 30% applies to royalties paid to nonresidents. However, in certain circumstances, the tax applies on 75% of the gross amount, resulting in an effective tax rate of 22.5%. These rates may be reduced under tax treaties.
- (h) Loss carryforwards are allowed for corporate income tax purposes only. Losses incurred in the first three tax years of an activity may be carried forward indefinitely. Losses incurred in the following years can also be carried forward indefinitely but can only be used against a maximum amount of 80% of taxable income. Anti-abuse rules may limit loss carryforwards.

## B. Taxes on corporate income and capital gains

**Corporate income tax.** Resident companies are subject to corporate income tax (*imposta sul reddito delle società*, or IRES) on their worldwide income (however, effective from the 2016 fiscal year, an elective branch exemption regime is available; see Section E). A resident company is a company that has any of the following located in Italy for the majority of the tax year:

- Its registered office
- Its administrative office (similar to a “place of effective management” concept)
- Its principal activity

Unless they are able to prove the contrary, foreign entities controlling an Italian company are deemed to be resident for tax purposes in Italy (so-called “Esterovestizione”) if either of the following conditions is satisfied:

- The foreign entity is directly or indirectly controlled by Italian resident entities or individuals.
- The majority of members of the board of directors managing the foreign entity are resident in Italy.

Nonresident companies are subject to IRES on their Italian-source income only.

**Rate of corporate tax.** The 2018 corporate tax rate is 24%. A 3.5% surcharge is applied on banks and financial entities for which the aggregate corporate tax rate is 27.5%.

Management companies are excluded from the application of the 3.5% corporate income tax surcharge, which is otherwise generally applied to financial entities. However, a 96% limit on the deduction of interest expenses is imposed on such companies (as opposed to the previous 100% deduction rule).

The 2018 Budget Law extends the exclusion from the application of the 3.5% surcharge and the 96% limitation on the deduction of interest expenses to securities companies.

**Local tax.** Resident and nonresident companies are subject to a regional tax on productive activities (*imposta regionale sulle attività produttive*, or IRAP) on their Italian-source income. For manufacturing companies, IRAP is imposed at a standard rate of 3.9% on the “net value of production” (see below). However, different rates apply to the following:

- Corporations and entities granted concession rights other than those running highways and tunnels: 4.2%
- Banks and other financial entities: 4.65%
- Insurance companies: 5.9%
- Public administration entities performing business activities: 8.5%

In addition, each of the 20 Italian regions may increase or decrease the rate of IRAP by a maximum of 0.9176 percentage point, and companies generating income in more than one region are required to allocate their tax base for IRAP purposes among the various regions in the IRAP tax return.

The IRAP tax base is the “net value of production,” which is calculated by subtracting the cost of production from the value of production (that is, in general, revenue less operating costs). However, certain deductions are not allowed for IRAP purposes, such as the following:

- Certain extraordinary costs (but certain extraordinary income is not taxable). In this regard, the IRAP calculation must take into account the new profit-and-loss scheme contained in provisions introduced by Legislative Decree No. 139/2015, as well as the corresponding tax provisions expressly applicable to IRAP, which were introduced by Law Decree No. 244/2016.
- Bad debt losses.
- Labor costs (excluding certain compulsory social contributions and a fixed amount of the wages, in application of the so-called Cuneo Fiscale). However, under the 2015 Budget Law, labor costs incurred for employees hired on a permanent basis are fully deductible for IRAP purposes, beginning with the fiscal year including 31 December 2015.
- Interest expenses (but interest income is not taxable). However, banks, insurance companies and financial holding companies can deduct 96% of interest expenses and are taxed on 100% of interest income.

In addition, special rules for the calculation of the tax base for IRAP purposes apply to banking institutions, insurance companies, public entities and non-commercial entities.

### **Capital gains**

*Resident companies and nonresident companies with a permanent establishment in Italy.* In general, capital gains derived by resident companies or nonresident companies with a permanent establishment (PE) in Italy are subject to IRES and IRAP (gains derived from sales of participations and extraordinary capital gains derived from transfers of going concerns are excluded from the tax base for IRAP purposes). Capital gains on investments that have been recorded in the last three financial statements as fixed assets may be electively taxed over a maximum period of five years.

Italian corporate taxpayers (that is, companies and branches) may benefit from a 95% participation exemption regime (that is, only 5% is taxable) for capital gains derived from disposals of Italian or foreign shareholdings that satisfy all of the following conditions:

- The shareholding has been classified as of the first financial statements closed during the holding period as a long-term financial investment.
- The Italian parent company holds the shareholding for an uninterrupted period of at least 12 months before the disposal.
- The subsidiary actually carries on a business activity (real estate companies are assumed not to be carrying on a business activity; therefore, they can satisfy this requirement only under certain limited circumstances).

- The subsidiary is not resident in a tax haven (a jurisdiction on the blacklist; for additional information regarding gains from blacklist participations, see *Dividends*).

The last two conditions described above must be satisfied uninterruptedly through the three financial years before the year of the disposal.

If the conditions described above are not satisfied, capital gains on the sale of shares are fully included in the calculation of the tax base for IRES purposes.

In general, capital losses on shares are deductible. However, an exception is made for capital losses on participations that would benefit from the 95% participation exemption. These losses are 100% nondeductible. However, losses from sales of participations not qualifying for the participation exemption are nondeductible up to the amount equal to the exempt portion of the dividends received on such participations during the 36 months preceding the sale.

*Nonresident companies without a PE in Italy.* Most tax treaties prevent Italy from levying taxation on nonresidents deriving capital gains from the sale of Italian participations.

If no treaty protection is available, capital gains derived from sales of a substantial participation in Italian companies and partnerships are subject to tax in Italy, but 41.86% of such gains is exempt. As a result, 58.14% of the gains realized in 2018 by a nonresident entity from the transfer of any Italian shares is subject to corporate income tax in Italy at a 24% tax rate (effective tax rate of 13.95% for 2018). Effective from 2019, capital gains derived from sales of a substantial participation are subject to a 26% substitute tax.

A “substantial participation” in a company listed on a stock exchange requires more than 2% of the voting rights at ordinary shareholders’ meetings or 5% of the company’s capital. For an unlisted company, these percentages are increased to 20% and 25%, respectively.

Capital gains on “non-substantial participations” are subject to a substitute tax of 26%. However, certain exemptions to the 26% rate may apply under domestic law, such as for the following:

- A nonresident (including a person from a tax haven) selling listed shares
- Nonresident shareholders resident in white-list jurisdictions under specified circumstances

Under the 2018 Budget Law, effective from 2019, capital gains on substantial and non-substantial participations are both subject to the 26% substitute tax, but no exemptions from the substitute tax are available for capital gains on substantial participations.

**Administration.** Income tax returns must be filed by the end of the ninth month following the end of the company’s fiscal year. Companies must make advance payments of their corporate and local tax liability based on a forecast method or a specified percentage of the tax paid for the preceding year.

Under Law Decree No. 193/2016, effective from 1 January 2017, the balance of the corporate income tax must be paid by 30 June of the following year.

IRES due must be paid in accordance with the following schedule:

- The first advance payment due for the current fiscal year must be paid by the same date as the balance due for the preceding fiscal year (last day of the sixth month following the end of the preceding fiscal year).
- The second advance payment must be paid by the last day of the 11th month following the end of the preceding fiscal year.
- The balance payment must be paid by the last day of the sixth month following the end of the fiscal year.

*Statute of limitations.* The 2016 Budget Law introduced a change to the statute of limitations rules. Under the new measures, a company may be subject to a tax assessment up to the end of the fifth year following the year of filing of the relevant tax return (the previous term was the fourth year following the year of the filing of the tax return). In addition, the statute of limitations is now extended to seven years for a failure to file any tax return (the previous term as five years). The 2016 Budget Law repealed the doubling of the statute of limitations in the case of criminal tax investigations. The new rules apply to tax assessments issued with reference to the 2016 fiscal year and subsequent years.

Law Decree No. 193/2016 introduced new provisions with respect to the correction of tax returns. To correct mistakes or omissions, including those related to increased or reduced taxable income, tax debts or tax credits, taxpayers may now submit an amending return to the Revenue Agency before the statute of limitations period expires (that is, before 31 December of the fifth year following the year in which the relevant tax return is filed). Any arising tax credits can then be offset against other amounts due, subject to certain conditions.

*Tax rulings.* Several tax ruling procedures are available in Italy.

Taxpayers may request in advance ordinary tax rulings to clarify the application of certain tax measures to transactions if objective uncertainty exists regarding the tax law. The request for an ordinary tax ruling must include the identification data for the taxpayer, a description of the transaction and a list of applicable measures, circulars and court decisions as well as the documentation related to the transaction.

Legislative Decree No. 156/2015 reorganized the tax-ruling procedures. In particular, effective from the 2016 fiscal year, the following are the main categories of rulings:

- Ordinary ruling (*interpello ordinario*), concerning the application of statutory provisions with objectively unclear interpretations
- Probative ruling (*interpello probatorio*), concerning the valuation and the fulfilment of the requirements necessary to qualify for specific tax regimes
- Anti-abuse ruling (*interpello antiabuso*), concerning the application of the abuse of law legislation to actual cases

- Exempting ruling (*interpello disapplicativo*), concerning the relief from application of specific anti-avoidance rules (for example, limitations to deductions or tax credits)

An international ruling scheme specifically deals with transfer pricing (advance pricing agreements [APAs] may be concluded for transfer-pricing issues), cross-border payments (interest, dividends and royalties), PE issues (including the determination of the existence of a PE) and the Patent Box Regime (see below). The international ruling is binding for the fiscal year in which the ruling is entered into and for the following four fiscal years, unless material changes in legal or economic circumstances arise. A rollback effect is available in certain circumstances and subject to certain limits (for other information regarding the international ruling scheme, see *Advance Tax Agreements for Companies with International Operations*).

*Advance Tax Agreements for Companies with International Operations*. Legislative Decree No. 147/2015 (the Internationalization Decree) revised and expanded the scope of a specific type of tax agreement (formerly called the International Ruling) available for companies with international operations.

International Rulings were already available for taxpayers to reach agreements with the tax authorities on the following:

- Transfer-pricing issues (through the conclusion of APAs)
- Cross-border flow matters
- Attribution of profits to domestic and foreign PEs
- Existence of PEs

Under the revised rules, the International Ruling is renamed the Advance Tax Agreement for Enterprises with International Activities and its scope is extended to the following:

- Agreements on asset bases in the case of inbound and outbound migrations
- For companies that participate in the Cooperative Compliance Program (CCP, see *Cooperative Compliance Program* in Section E), agreements on the fair market value of costs incurred with respect to blacklist entities (blacklist costs) for deduction purposes (nonetheless, the blacklist cost deduction limitation rule has been fully repealed, effective from the 2017 fiscal year, and blacklist costs are now fully deductible)

In principle, the Advance Tax Agreement is valid for five years, which consists of the year in which it is signed and the following four years, to the extent that the underlying factual and legal circumstances remain unchanged.

During the period of validity of the agreement, the tax authorities may exercise their power of scrutiny only with respect to matters that are not covered in the Advance Tax Agreement.

In addition, the new provision explicitly regulates rollback effects.

*Advance tax ruling for new investments*. A new type of ruling is introduced for investments of at least EUR30 million that have a significant and durable impact on employment with respect to the particular business activity.

The ruling provides the taxpayer an advance confirmation of the tax treatment of the entire investment plan (including the various

envisaged transactions to achieve the plan) as well as, if needed, assurance on whether a going concern is formed. In addition, the ruling may also confirm the absence of any abusive behaviors, the existence of prerequisites to exclude the application of anti-avoidance provisions or recognition of access to specific tax regimes.

The authorities must respond within 120 days with the possibility to extend the term by an additional 90 days if additional information is requested. If no response is provided by the end of these time periods, it is deemed that the administration implicitly agrees with the interpretation provided by the taxpayer. The position expressed in the ruling is binding on the tax authorities and remains valid as long as the factual and legal circumstances addressed in the ruling remain unchanged.

Taxpayers conforming to the ruling response may also take advantage of the CCP, regardless of their turnover threshold.

**Dividends.** Dividends distributed to Italian entities and Italian PEs of foreign companies are 95% excluded from corporate taxation regardless of the source (domestic or foreign) of such dividends and are taxable on a cash basis.

Dividends sourced in blacklist jurisdictions in accordance with the latest 2015 blacklist jurisdiction definition (countries where corporate income tax is applied at a rate lower than 50% of the Italian corporate income tax rate [also includes tax rates resulting from special regimes]) are subject to the following rules:

- Dividends derived directly from participations in blacklist subsidiaries are fully taxed.
- Dividends derived indirectly through controlled foreign white list subsidiaries with blacklist participations are fully taxed.
- Dividends sourced in a blacklist country may obtain 95% ordinary exemption treatment if the taxpayer can document that the participation in the foreign entity did not lead to an allocation of income to countries or territories with a privileged tax regime.
- Blacklist dividends are 50% excluded from corporate taxation if the taxpayer can document that the foreign entity carried out as its main activity an actual industrial or commercial activity in the relevant market or territory.
- Dividends accrued during any fiscal year before 2015 and paid by a blacklist entity in or after 2015 may obtain 95% exclusion treatment provided that the entity was considered white-listed under the pre-2015 blacklist jurisdiction definition.

A 26% withholding tax is imposed on dividends paid by Italian companies to nonresident companies without a PE in Italy (double tax treaties may provide for lower rates). Nonresidents may obtain a refund of dividend withholding tax equal to the amount of foreign tax paid on the dividends, but the maximum refund equals 11/26 of the withholding tax paid. Dividends paid by Italian entities (out of profits accrued in the fiscal year following the one in progress on 31 December 2007 and in subsequent fiscal years) to entities established in an EU member state or in an EEA country included in the white list are subject to a reduced withholding tax rate of 1.2%. If the 1.2% rate applies, the 11/26 tax refund cannot be claimed.



Companies from EU member states that receive dividends from Italian companies may be exempted from the dividend withholding tax or obtain a refund of the tax paid if they hold at least 10% of the shares of the payer for at least one year. A similar provision is available for Swiss recipients under certain circumstances on the basis of Article 15 of the EU-Switzerland tax treaty of 2004.

For nonresident companies with a PE in Italy, dividends may be attributed to the Italian PE for tax purposes. In this case, the dividend is taxed at the level of the PE, and no withholding tax applies.

**Withholding taxes on interest and royalties.** Under Italian domestic law, a 26% withholding tax is imposed on loan interest paid to nonresidents. Lower rates may apply under double tax treaties.

A 30% withholding tax applies to royalties and certain fees paid to nonresidents. In certain circumstances, the tax applies to 75% of the gross amount, resulting in an effective tax rate of 22.5%. Lower rates may apply under double tax treaties.

As a result of the implementation of EU Directive 2003/49/EC, interest payments and qualifying royalties paid between “associated companies” of different EU member states are exempt from withholding tax. A company is an “associated company” of a second company if any of the following circumstances exist:

- The first company has a direct minimum holding of 25% of the voting rights of the second company.
- The second company has a direct minimum holding of 25% of the voting rights of the first company.
- An EU company has a direct minimum holding of 25% of the voting rights of both the first company and the second company.

Under the EU directive, the shareholding must be held for an uninterrupted period of at least one year. If the one-year requirement is not satisfied as of the date of payment of the interest or royalties, the withholding agent must withhold taxes on interest or royalties. However, if the requirement is subsequently satisfied, the recipient of the payment may request a refund from the tax authorities.

To qualify for the withholding tax exemption, the following additional conditions must be satisfied:

- The recipient must be a company from another EU member state that is established as one of the legal forms listed in Annex A of the law.
- The company must be subject to corporate tax without being exempt or subject to a tax that is identical or similar.
- The recipient must be the beneficial owner of the payment.

An interest and royalty regime similar to the above-mentioned EU Directive 2003/49/EC applies under certain circumstances to recipients residing in Switzerland on the basis of Article 15 of the EC-Switzerland tax treaty of 2004.

Domestic withholding taxes on interest and royalties may be reduced or eliminated under tax treaties.

An exemption also applies to interest derived by nonresidents on the white list under certain circumstances (see footnote [e] in Section A).

**Tax on financial transactions.** A domestic tax on financial transactions (so-called “Tobin Tax,” which is also known as the “Italian Financial Transaction Tax”) is imposed on certain financial transactions regardless of where the transactions are executed and the nationalities of the parties. The tax is imposed on the following types of transfers:

- Transfers of shares and participating financial instruments issued by Italian resident entities (including the conversions of bonds into shares but excluding the conversion of bonds into newly issued shares in the case of the exercise of options of existing shareholders)
- Transfers of other instruments representing the above shares and participating financial instruments
- Derivatives transactions that have as a main underlying asset the above shares or participating financial instruments
- Transactions in “derivative financial instruments” in shares and participating financial instruments or in such instruments whose value depends mostly on the value of one or more of the above financial instruments
- Transactions in any other securities that allow the purchase or sale of the above shares and participating financial instruments or transactions that allow for cash regulations based on the shares

The tax on financial transactions also applies to high-frequency trading transactions executed on Italian financial markets if conditions listed in the Ministerial Decree issued on 21 February 2013 are met. Specific exemptions and exclusions are also provided by this decree (for example, the tax does not apply to new issues of shares or on intercompany transactions).

The tax is levied at the following rates, which depend on the type of transaction and relevant market:

- Transactions in shares and participating financial instruments are subject to a 0.1% tax if executed on a regulated market or a multilateral trading facility established in an EU member state or in an EEA member state allowing an adequate exchange of information with Italy. The rate is 0.2% in all other cases.
- Transactions in derivatives and other financial instruments relating to shares and participating financial instruments are subject to a fixed tax ranging from EUR0.01875 to EUR200, depending on the type of instrument and the value of the agreements. If derivative contracts are executed on a regulated market or multilateral trade facility, the tax is reduced to 20% of these fixed amounts.
- High-frequency trading transactions are subject to a 0.02% tax on the counter-value of orders automatically generated (including revocations or changes to original orders). The tax is applied in addition to the tax on financial transactions due on transfers of shares and participating financial instruments as well as on transactions in the relevant derivative instruments.

The tax on financial transactions on share transactions is due from the transferee only, while the tax applicable to transactions in derivatives is due from each party to the transaction.

The tax payment must be made in accordance with the following rules:

- By the 16th day of the month following the month in which the transfer of the ownership occurred (if effected through the Centralized Management Company [Società di Gestione Accentrata], by the 16th day of the second month following the transaction date) for the following:
  - Shares and participating financial instruments issued by Italian resident entities
  - Instruments representing such shares and participating financial instruments
- By the 16th day of the month following the month in which the contract is concluded (if effected through the Centralized Management Company, by the 16th day of the second month following the transactions date) for the following:
  - Derivatives that have as a main underlying asset the above shares or participating financial instruments
  - “Derivative financial instruments” in shares and participating financial instruments
  - Instruments whose value depends mostly on the value of one or more of the above financial instruments
  - Other securities that allow the purchase and sale of the above shares and participating financial instruments or that allow for cash regulations (settlements) based on such financial instruments
- By the 16th day of the month following the month in which the annulment or amending order is sent for the high-frequency trading transactions executed on Italian financial markets

**Exit tax.** The transfer of tax residence abroad qualifies as a taxable event in Italy. As a result, any unrealized capital gains must be computed on the basis of the fair market value principle and taxed immediately. The transfer of tax residence is not considered a taxable event only to the extent that the assets related to the Italian business are attributed to an Italian PE of the migrating company.

Under recently adopted rules, as an alternative to an immediate levy, Italian companies shifting their tax residence to other EU or EEA white-list countries may elect either to defer exit taxation to the moment of actual realization or to pay the tax due in six annual installments.

If taxation is deferred to the moment of actual realization, periodical information filings by the migrated company with the Italian tax authorities are required so that the tax authorities are in a position to monitor the events related to the migrated assets. The installment election exempts a taxpayer from any filing obligations. Both the deferral and the installment elections trigger interest payments and require the submission of proportioned guarantees if a serious and significant danger for the collection of taxes (specific guarantee exclusions are provided for by the law) exists. The following must also be considered:

- The moment of actual realization of the gains related to the migrated assets must be identified in accordance with ordinary Italian tax principles. Specific rules are applicable to identify the moment of actual realization of the following:
  - Assets and rights that can be subject to the amortization process (including intangible assets and goodwill)

— Shares and financial instruments

In any case, the gains related to the migrated assets are deemed realized after 10 years from the end of the fiscal year in which the transfer of the tax residence occurs.

- Mergers and other reorganizations do not interrupt the tax deferral if the migrated company remains a resident of a country described above and if the migrated assets are not transferred to a resident of a country other than a country described above.

The Internationalization Decree clarifies that the above regime also applies to the transfer to any EU member state or any qualifying EEA country of specific assets of an Italian PE to the extent that those assets constitutes a going concern.

**Inbound migration.** The Internationalization Decree provides that tax migration of companies from a white-list jurisdiction to Italy entails the tax step-up of the company's assets and liabilities at fair market value.

For entities migrating to Italy from a blacklist jurisdiction, the tax basis of the assets is considered equal to the lower of the acquisition cost, the book value or the fair market value, while the tax basis of the liabilities is equal to the higher of these items. Alternatively, such companies may elect for a tax ruling in which they reach agreement with the Italian tax authorities on the relevant tax values (see *Administration*).

**Patent Box Regime.** The 2015 Budget Law introduced a favorable tax regime for income generated through the use of qualified intangible assets, such as industrial patents, models and designs capable of being legally protected, trademarks, know-how and other intellectual properties.

Taxpayers performing activities related to such intangibles are eligible, under a specific election, for a reduction of the IRES and IRAP tax base equal to 50% (for 2017 and future years) of the income derived from the use of the qualifying assets. The exemption applies to income earned both from the licensing of the intellectual property to a related or unrelated party and from the direct exploitation of the asset. An advance ruling may be required if certain circumstances exist, as a prerequisite to access the regime.

Capital gains derived from the disposal of the qualifying assets can be exempted if at least the 90% of the cash received from the disposal is used to maintain or develop other qualifying intangible assets before the end of the second fiscal year following the year in which the disposal took place.

The beneficial regime is valid for five fiscal years after the year of the election.

On 28 November 2017, the Italian government issued an additional decree providing amendments to the above regime.

The amendments are aimed to correct the existing differences between the Italian rules and the Organisation for Economic Co-operation and Development (OECD) recommendations set forth under Base Erosion and Profit Shifting (BEPS) Action 5 by aligning the domestic provisions to the OECD standards.

To achieve this alignment, the decree has introduced the following measures:

- Removal of trademarks from the list of qualifying intellectual properties.
- Introduction of specific coordination measures (grandfathering). Under these measures, if an election with respect to the trademarks has already been exercised, a company may continue to benefit from the regime for a five-year validity period that may not be extended beyond 30 June 2021. Such an option is non-renewable.
- Introduction of exchange-of-information rules related to elections for the regime with respect to trademarks.

**Foreign tax relief.** A foreign tax credit may be claimed for foreign-source income. The amount of the foreign tax credit cannot exceed that part of the corporate income tax, computed at the standard rate, that is attributable to the foreign-source income. Accordingly, the foreign tax credit may be claimed up to the amount that results from prorating the total tax due by the proportion of foreign-source income over total income.

If income is received from more than one foreign country, the above limitation on the foreign tax credit is applied for each country (per-country limitation). Excess foreign tax credits may be carried forward or back for eight years.

For corporate groups that elect the worldwide tax consolidation (see Section C), an Italian parent company may consolidate profits and losses of its foreign subsidiaries joining the tax group and compute a single group tax liability. Such group tax liability may be offset by a direct foreign tax credit granted to the resident parent company with respect to taxes paid abroad by foreign subsidiaries that are members of the tax group.

The Internationalization Decree provides important clarifications concerning foreign taxes eligible for a tax credit.

### C. Determination of business income

**General.** To determine taxable income, profits disclosed in the financial statements are adjusted for exempt profits, nondeductible expenses, special deductions and losses carried forward. Exempt profits include interest on government bonds issued on or before 30 September 1986 and income subject to Italian withholding tax at source as a final tax.

The following general principles govern the deduction of expenses:

- Expenses are deductible if and to the extent to which they relate to activities or assets that produce revenue or other receipts that are included in income.
- Expenses are deductible in the fiscal year to which they relate (accrual basis rule). Exceptions are provided for specific items, such as compensation due to directors, which is deductible in the fiscal year in which it is paid.

The 2016 Budget Law provides that companies are no longer subject to limitations in deducting expenses incurred in transactions with enterprises and consultants resident in blacklist countries.

**Inventories.** Inventory is normally valued at the lower of cost or market value for both fiscal and accounting purposes. For determination of “cost,” companies may select one of the various methods of inventory valuation specifically provided in the law, such as first-in, first-out (FIFO); last-in, first-out (LIFO); or average cost.

Banks and other financial entities can deduct only 96% of interest expenses for both IRES and IRAP purposes.

**Depreciation and amortization allowances.** Depreciation at rates not exceeding those prescribed by the Ministry of Finance is calculated on the purchase price or cost of manufacturing. Incidental costs, such as customs duties and transport and installation expenses, are included in the depreciable base. Depreciation is computed on the straight-line method. Rates for plant and machinery vary between 3% and 15%.

In general, buildings may be depreciated using a 3% annual rate. Land may not be depreciated. If a building has not been purchased separately from the underlying land, for tax purposes, the gross value must be divided between the non-depreciable land component and the depreciable building component. The land component may not be less than 20% of the gross value (increased to 30% for industrial buildings). As a result, the effective depreciation rate for buildings is 2.4% (2.1% for industrial buildings).

Purchased goodwill may be amortized over a period of 18 years. Know-how, copyrights and patents may be amortized in accordance with financial statements, but over at least two fiscal years. The amortization period for trademarks is 18 years.

Research expenses and advertising expenses may be either entirely deducted in the year incurred or written off in equal installments in that year and in the four subsequent years, at the company's option.

Amortization allowances of other rights may be claimed with reference to the utilization period provided by the agreement.

The 2016 Budget Law introduced 40% extra depreciation (resulting in a total of 140% tax depreciation) for new tangible assets whose depreciation rate for tax purposes exceeds 6.5%. Under the 2018 Budget Law, to qualify for extra depreciation, the assets must be acquired from 1 January 2018 to 31 December 2018 (or by 30 June 2019, provided that the purchase orders are accepted by the seller by 31 December 2018 and at least 20% of their price is paid by the same date). The law also reduces the rate of the extra applicable depreciation from 40% to 30%.

The 2018 Budget Law also extends the term for the 150% extra amortization, provided that the investments are made by 31 December 2018 or by 31 December 2019 for the 2018 and 2019 fiscal years, respectively. The extra amortization had been originally introduced by the 2017 Budget Law and provides for an increased amortization up to 150% of the value of certain listed “smart equipment,” which is allowed to benefit from specific digital and technological transformation processes under the model promoted by the Italian government plan “Industry 4.0.”

**Provisions.** The Italian tax law provides a limited number of provisions.

*Bad and doubtful debts.* A general provision of 0.5% of total trade receivables at the year-end may be made each year until the total doubtful debt provision reaches 5%. Bad debts actually incurred are deductible to the extent they are not covered by the accumulated reserve. In this regard, losses on bad debts are deductible for corporate income tax purposes only if they derive from “certain and precise” elements and if the debtor has been subject to a bankruptcy procedure or insolvency procedure. The Internationalization Decree provides that, effective from the 2015 fiscal year, the deduction for bad debt losses is allowed with respect to foreign bankruptcy and insolvency procedures, to the extent that they are equivalent to the Italian procedures and that the relevant foreign country allows a satisfactory exchange of information. “Certain and precise elements” are deemed to exist if one of the following conditions is met:

- The bad debt is not more than EUR2,500 (or EUR5,000 in the case of companies having a turnover not less than EUR100 million) and has been unpaid for at least six months.
- The right to collect the credit has expired. Under Article 2946 of the Italian Civil Law, the ordinary right to collect a credit expires after 10 years.
- The credit has been deleted from the financial statements in application of the relevant accounting rules.

For banks and financial entities, Law Decree No. 83/2015 repealed the rules concerning the tax deductibility of bad debt write-downs and bad debt losses arising from the transfer of receivables.

*Redundancy and retirement payments.* Provisions for redundancy and retirement payments are deductible in amounts stated by civil law and relevant collective agreements.

**Limitations on interest deductions.** For companies other than banks and other financial entities, the deductibility of net interest expenses is determined in accordance with an Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) test. Under this test, net interest expenses (that is, interest expenses exceeding interest income) are deductible only up to 30% of EBITDA and the excess can be carried forward indefinitely and used in the fiscal years in which 30% of EBITDA is higher than the net interest expense for the year. In addition, spare EBITDA capacity, which arises if the net interest expenses are less than 30% of EBITDA, is available for carryforward. For tax consolidations, excess interest expenses of a group company may be offset with spare EBITDA capacity of another group company.

The 2016 Budget Law provides changes in the deductibility of interest expenses for banks and other financial entities.

Specific rules apply to a domestic tax group if an excess of net interest expenses at the level of one entity may be deducted by the group and if other members have a corresponding amount of spare EBITDA.

**Foreign-exchange losses.** Gains and losses resulting from the mark-to-market of foreign currency-denominated debts, credits and securities are not relevant. An exception is provided for those

hedged against exchange risk if the hedging is correspondingly marked-to-market at the exchange rate at the end of the fiscal year.

**Relief for losses.** For corporate income tax purposes only, losses may be carried forward with no time limit and deducted from income of the following periods for a total amount equal to 80% of taxable income (or a lower value if the tax-loss amount does not reach 80% of the amount of taxable income for the fiscal year).

Losses incurred in the first three years of an activity may also be carried forward for an unlimited number of tax periods, and the limit of 80% of taxable income does not apply. The three-year time limit is computed from the company's date of incorporation. In addition, to qualify for an unlimited loss carryforward, such losses must derive from a new activity; that is, companies within the same group may not have previously carried out the activity.

Restrictions on tax losses carried forward apply if ownership of the company is transferred and if the company changes its activity.

The company resulting from or surviving after a merger may carry forward unrelieved losses of the merged companies to offset its own profits. In general, tax losses carried forward may not exceed the lower of the net equity at the close of the last fiscal year or the net equity shown on the statement of net worth prepared for the merger of each company involved in the merger. This limitation is applied on a company-by-company basis. Contributions to capital made in the 24 months preceding the date of the net worth statement are disregarded. Special rules further limit the amount of the losses that can be carried forward. Additional measures combat abuses resulting from the use of losses with respect to mergers, demergers and the transparency regime (see *Consortium relief*).

*Intragroup transfer of tax losses.* Under new provisions introduced by the 2017 Budget Law, it is now possible for Italian resident companies, not being part of a tax group, but connected by at least 20% voting rights and profit share, to transfer tax losses accrued in the first three fiscal years to each other, provided that certain conditions are met.

The transfer must be related to the whole amount of the tax losses for the first three fiscal years of activity. The acquiring company must remunerate the seller for the losses transferred by using the same corporate tax rate of the fiscal year when the tax losses accrued. The remuneration is not subject to tax for the seller.

*Limitation on tax attributes carryforward in the case of change of ownership and extraordinary transactions.* The 2017 Budget Law extends certain limitations already provided for the carrying forward of tax losses to spare nondeductible interest expenses and excess notional interest deduction (NID; see *Notional interest deduction*). In particular, such tax attributes may no longer be carried forward if the majority of the shares giving voting rights in the ordinary shareholders' meeting are transferred (that is, change of control) and if a change of the main business activity carried out by the Italian resident company takes place, unless a vitality test is met. The vitality test is an anti-avoidance rule aimed at



barring the transfer of net operating losses and other attributes (also through an intercompany reorganization) to profitable companies that could offset all or a large part of the companies' taxable income with the inherited losses, NID and other attributes.

The 2017 Budget Law also extends to the excess NID, the limitation already provided for the carrying forward of tax losses and spare nondeductible interest expenses in the case of domestic and cross-border merger and demerger transactions.

**Notional interest deduction.** The Italian notional interest deduction (NID) or allowance for corporate equity (commonly referred to by the Italian acronym "ACE") grants Italian enterprises (including Italian branches of foreign businesses) a deduction from taxable income corresponding to an assumed "notional return" on qualifying equity increases contributed after the 2010 fiscal year. In particular, Italian resident companies are permitted to deduct from their net taxable income (that is, after applying any tax loss carryforward) an amount corresponding to a notional return on the increase in equity as compared to the equity as of the end of the 2010 fiscal year (New Equity). For Italian PEs of nonresident companies, the benefit is computed on the increase in the relevant endowment fund (for a PE, the endowment fund is equivalent to the share capital). The NID deduction may offset the net tax base but it cannot generate a tax loss. Any excess NID can be carried forward or converted into tax credits for IRAP purposes.

The New Equity is the result of an algebraic sum of positive and negative equity adjustments occurring after 2010. The following are positive adjustments:

- Contributions in cash
- Non-distribution of profits (the reserves that are not available are not qualified for equity increases)
- The waiver of credits by shareholders and the offset of credits by shareholders (credits are receivables that the shareholders have in favor of the company)

The following are negative adjustments:

- Assignments to shareholders.
- For adopters of International Financial Reporting Standards (IFRS), an equity reduction subsequent to a buy-back of own shares is considered up to the limit of any profits set aside as an available reserve.

Statutory losses do not qualify as negative equity adjustments for NID purposes because they do not represent a voluntary act of assignment to the shareholders. However, the value of the New Equity on which the NID deduction must be computed cannot be higher than the net equity of the entity at the end of each fiscal year (which is affected by the statutory losses).

For 2014, 2015 and 2016, the rate of the notional return was fixed at 4%, 4.5% and 4.75%, respectively. The 2017 Budget Law set the NID rate at 1.6% for the 2017 fiscal year and at 1.5% for the 2018 fiscal year.

The 2017 Budget Law also introduced a new negative adjustment for determining the New Equity qualifying for NID. In particular,

the increase of securities and financial instruments, other than participations, compared to the amount held as of 31 December 2010, reduces the qualifying equity.

The positive effect of an equity increase in a given year will permanently qualify as New Equity in subsequent years (in principle, securing a permanent NID deduction). This also applies to any reduction resulting from a negative adjustment.

Specific rules apply to a domestic tax group if an excess of NID at the level of one entity is surrendered to the group and used to offset the income generated by other members.

*Anti-avoidance rule.* Certain events are deemed to generate an undue duplication of the benefit with respect to the same contribution of cash and consequently trigger a corresponding decrease of the equity basis on which the benefit is calculated. In principle, the events identified by the anti-avoidance provision include the following:

- Cash contributions to related companies
- Financings with respect to related companies
- Acquisitions of controlling participations in related companies
- Acquisitions of businesses from related parties

In addition, cash contributions from nonresident blacklisted entities do not qualify for the benefit.

**Non-operating companies.** Italian resident companies and PEs of nonresident companies are deemed to be “non-operating companies” if the total of their average non-extraordinary revenues (proceeds from the ordinary activities of a company as shown on its financial statements) and increases in inventory are less than the sum of the average of the following during the preceding three years:

- 2% of the book value of the company’s financial assets
- 6% of the book value of the company’s real estate assets
- 15% of the book value of the company’s other long-term assets

The following companies are also deemed to be non-operating companies:

- Companies that incurred tax losses for five consecutive fiscal years
- Companies that incurred tax losses for four consecutive fiscal years and in the fifth fiscal year generated income in an amount lower than the minimum resulting from the application of the percentages described in the next paragraph

If the company qualifies as a non-operating company, its taxable income cannot be lower than the sum of the following items (minimum income):

- 1.5% of the book value of the company’s financial assets for the year
- 4.75% of the book value of the company’s real estate assets for the year
- 12% of the book value of the company’s other assets for the year

Non-operating companies may not generate tax losses. Previous tax losses (that is, those incurred when the company was operating) cannot be offset against the minimum income. In the

(unlikely) event that the taxable income exceeds the minimum, only 80% of the amount exceeding the minimum can be offset.

The income of non-operating companies is subject to corporate income tax at a rate of 34.5% (rather than the ordinary 24% rate). IRAP (see Section B) also applies.

Non-operating companies that are in a value-added tax (VAT) credit position may no longer take the following actions:

- They may not claim such VAT for a refund.
- They may not use the VAT to offset other tax payments due.
- They may not surrender the VAT to other group companies.
- They may not carry forward the VAT.

Companies can be exempted from the above-mentioned regime, for both income tax and VAT purposes, if they prove to the tax authorities that they were not able to reach the minimum income requirements because of extraordinary circumstances (an advance ruling must be obtained for such a determination). Certain companies are specifically excluded from the non-operating companies' regime (for example, listed groups, companies with 50 or more shareholders, companies with an amount of business income greater than the total assets value and companies that become insolvent or enter into an insolvency procedure).

**Groups of companies.** Groups of companies may benefit from tax consolidation and consortium relief. These regimes allow the offsetting of profit and losses of members of a group of companies.

*Domestic tax consolidation.* Italian tax consolidation rules provide two separate consolidation systems, depending on the residence of the companies involved. A domestic consolidation regime is available for Italian resident companies only. A worldwide consolidation regime, with slightly different conditions, is available for multinationals.

To qualify for consolidation, more than 50% of the voting rights of each subsidiary must be owned, directly or indirectly, by the common Italian parent company.

For a domestic consolidation, the election is binding for three fiscal years. However, if the holding company loses control over a subsidiary, such subsidiary must be immediately excluded from the consolidation. The tax consolidation includes 100% of the subsidiaries' profits and losses, even if the subsidiary has other shareholders. The domestic consolidation may be limited to certain entities, leaving one or more otherwise eligible entities outside the group filing election. Tax losses realized before the election for tax consolidation can be used only by the company that incurred such losses. Tax consolidation also allows net interest expenses (exceeding 30% of a company's EBITDA) to be offset with spare EBITDA capacity of another group company.

Dividends paid within a domestic consolidation are subject to the ordinary 1.2% tax at the level of the recipient.

*Horizontal consolidation.* To comply with Case C-40/13 of the Court of Justice of the EU, the Internationalization Decree introduces the possibility of electing a domestic tax consolidation between two or more Italian sister companies with a common parent residing in any EU or EEA country that provides adequate

exchange of information with Italy. These new measures are effective from the 2015 fiscal year.

Under the new measures, a nonresident parent company can designate an Italian resident subsidiary to elect for a tax-consolidation regime together with each resident company controlled by the same foreign entity.

In addition, the horizontal consolidation may also include Italian PEs of EU and qualifying EEA companies to the extent that the nonresident company with a PE in Italy is controlled by the same parent company.

*Consortium relief.* Italian corporations can elect consortium relief if each shareholder holds more than 10% but less than 50% of the voting rights in the contemplated Italian transparent company. Under this election, the subsidiaries are treated as look-through entities for Italian tax purposes and their profits and losses flow through to the parent company in proportion to the stake owned. These profits or losses can offset the shareholders' losses or profits in the fiscal year in which the transparent company's fiscal year ends. Tax losses realized by the shareholders before the exercise of the election for the consortium relief cannot be used to offset profits of transparent companies.

Dividends distributed by an eligible transparent company are not taken into account for tax purposes in the hands of the recipient shareholders. As a result, Italian corporate shareholders of a transparent company are not subject to corporate income tax on 5% of the dividends received (in all other circumstances this would mean an effective tax rate of 1.2%).

The election does not change the tax treatment of dividends distributed out of reserves containing profits accrued before the exercise of the election.

The consortium relief election is binding for three fiscal years and requires the consent of all the shareholders.

The consortium relief election may be beneficial for joint ventures that are not eligible for tax consolidation because the control test is not met. In addition, the election is also available for nonresident companies that are not subject to Italian withholding tax on dividend payments (that is, EU corporate shareholders qualifying under the EU Parent-Subsidiary Directive). If both EU corporate shareholders qualifying under the EU Parent-Subsidiary Directive and Italian corporate shareholders hold an Italian subsidiary, the EU corporate shareholders would want to elect consortium relief to allow the Italian corporate shareholders to benefit from tax transparency.

*Group value-added tax.* For groups of companies linked by more than a 50% direct shareholding, net value-added tax (VAT; see Section D) refundable to one group company with respect to its own transactions may be offset against VAT payable by another, and only the balance is required to be paid by, or refunded to, the group.

*European VAT Group.* The 2017 Budget Law introduces, effective from 1 January 2018, the option for the European VAT Group (as

provided by Article 11 of the EU Directive 2006/112/CE) in the Italian VAT law.

Companies included in the European VAT Group are treated as a single VAT taxable person, which means the following:

- Transactions carried out between the entities of the group are not subject to VAT.
- Transactions carried out between an entity of the group and a third party are treated as performed by the group as a single entity.
- Entities incorporated in Italy should be entitled to elect the group if, while legally independent, they are closely bound one to another by the following financial, economic and organizational links:
  - Financial link: a minimum corporate participation link must exist between the entities electing for the group (more than 50% of the voting rights).
  - Economic link: the entities must perform the same kind of activity or complementary, ancillary and auxiliary activities.
  - Organizational link: a link between the decision-making bodies of the entities must exist.

If the election is made, all entities fulfilling the requirements must adhere to the group.

#### D. Other significant taxes

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate</b>
Value-added tax (VAT), on goods, services and imports	
Standard rate	22%
Other rates	4%/10%
Municipal tax (Imposta Unica Comunale, or IUC); includes real property tax (Imposta Municipale Unica, or IMU), tax on municipal services (Tassa per Servizi Indivisibili, or TASI) and tax on garbage disposal (Tassa per Rifiuti, or TARI)	
IMU; imposed on Italian property's re-evaluated cadastral value; rates may be modified by municipal authorities; not applicable to principal home; payable by the owner of the real property; ordinary rate	0.76%
TASI; imposed on both the real estate owner and real estate user; rates may be modified by municipal authorities; ordinary rate	0.1%
TARI; imposed on the user	Various
Social security contributions (2017 rates); includes mandatory social contribution, Pension Fund contribution and Health Assistance Fund contribution; rates depend on the employer's sector of economic activity	
Industrial sector	
Mandatory social contributions; payable by employers with more than 50 employees; includes pension (IVS) and other minor contributions; payable on gross remuneration Employers (overall rates)	

<b>Nature of tax</b>	<b>Rate</b>
Workers	41.07%
Office staff	38.85%
Executives	36.15%
Employees' charge (quotas already included in the overall rates)	
Executives	9.19%
Workers and office staff	9.49%
(For employees who have no social security record before 1 January 1996, the above pension contributions payable by employers and employees are calculated on gross remuneration capped at EUR101,427 for 2018.)	
Additional contribution payable to the Pension Fund for Industrial Executives (PREVINDAI); based on gross remuneration capped at EUR150,000	
Employers	4%
Employees	4%
Additional contribution payable for industrial executives to the Health Assistance Fund (FASI)	
Employers	quarterly EUR468 + 318/ annual EUR1,872 + 1,272
Employees	quarterly EUR240/ annual EUR960
Tertiary and commerce sector (trade, services and activities complementary and auxiliary to industrial production and the agricultural sector)	
Mandatory social contributions; includes pension and other minor contributions; payable on gross remuneration by employers with more than 200 employees	
Employers (overall rates)	
Workers	39.37%
Office staff	39.37%
Executives	36.03%
Employees' charge (quotas already included in the overall rates)	
Executives	9.19%
Workers and office staff	9.49%
(For employees who have no social security record before 1 January 1996, the above pension contributions payable by employers and employees are calculated on gross remuneration capped at EUR101,427 for 2018.)	
Additional pension and health assistance contributions; payable by employees	
Pension fund (FON. TE.); payable on remuneration base for the severance payment fund (TFR)	
Employers	1.55%
Employees	0.55%
Health fund	
Employers	EUR120 per year
Employees	EUR24 per year

Nature of tax	Rate
Mandatory insurance premium for injuries or professional diseases; payable by employers; the rate depends on the professional risk related to the employment activity performed by the individual (income cap of approximately EUR30,076.80 for 2018 applies to executives)	Various
Tax on digital transactions related to the performance of services carried out through electronic means (web tax); introduced by the 2018 Budget Law; expected to be in force from 1 January 2019; however, it is subject to an implementing decree to be issued by the Ministry of Economy and Finance by 30 April 2018 (the web tax applies from the first day of January of the year following the publication of the decree, which will identify the services and transactions subject to the tax); applicable to services rendered by both resident and nonresident enterprises to Italian businesses other than Italian permanent establishments of nonresidents; “services carried out through electronic means” are those supplied through the internet or an electronic network, the nature of which makes the performance completely automatic, with minimum human intervention and for which the information technology component is essential; the tax will be imposed on the amount of the consideration paid in exchange for the performance of the above services, net of VAT, regardless of where the transaction is concluded; the tax is due from the buyers of the services unless the supplier declares in the invoice that it has not reached the threshold of 3,000 transactions in the calendar year; the tax is settled by the buyer by the 16th day of the month following the payment of the consideration and is not creditable against Italian corporate income tax; the web tax will not be an income tax; it will apply on the amount of the business-to-business transactions; therefore, it will also apply in the absence of profits	2%

## E. Miscellaneous matters

**Foreign-exchange controls.** The underlying principle of the foreign-exchange control system is that transactions with nonresidents are permitted unless expressly prohibited. However, payments by residents to foreign intermediaries must be channeled through authorized banks or professional intermediaries. In addition, transfers of money and securities exceeding EUR10,000 must be declared to the Italian Exchange Office. Inbound and outbound investments are virtually unrestricted.

**Transfer pricing.** Italy imposes transfer-pricing rules on transactions between related resident and nonresident companies. Under these rules, intragroup transactions must be carried out at arm’s length. In principle, Italian transfer-pricing rules do not apply to domestic transactions. However, under case law, grossly

inadequate prices in these transactions can be adjusted on abuse-of-law grounds.

No penalty applies as a result of transfer-pricing adjustments if Italian companies complied with Italian transfer-pricing documentation requirements, allowing verification of the consistency of the transfer prices set by the multinational enterprises with the arm's-length principle. Such documentation consists of the documents called the following:

- Masterfile
- Country Specific Documentation

The Masterfile collects information regarding the multinational group and it must be organized in the following chapters.

<b>Chapter</b>	<b>Information in chapter</b>
1	A general description of the multinational group
2	Multinational group structure (organizational and operational)
3	Business strategies pursued by the multinational group
4	Transaction flows
5	Intragroup transactions
6	Functions performed, assets used and risks assumed
7	Intangible assets
8	Transfer-pricing policy of the multinational group
9	Relationships with the tax administrations of the EU member states regarding Advance Pricing Arrangements (APAs) and transfer-pricing rulings

The submission of more than one Masterfile is allowed if the multinational group carries out several industrial and commercial activities that are different from each other and regulated by specific transfer-pricing policies.

The Country Specific Documentation contains information regarding the enterprise and it must be organized in the following chapters and annexes.

<b>Chapter</b>	<b>Information in chapter or annex</b>
1	General description of the enterprise
2	Business sectors
3	Enterprise's organization chart
4	General business strategies pursued by the enterprise and potential changes compared to the previous tax years
5	Controlled transactions
6	Intragroup transactions
Annex 1	Flowchart describing the transaction flows, including those falling outside the scope of the ordinary management activities
Annex 2	Copies of written contracts on the basis of which the transactions referred to in Chapters 5 and 6 are regulated



The Internationalization Decree further clarifies that the transfer-pricing rules described above do not apply to transactions between resident entities.

Decree No. 50 of 2017 replaced the reference to the “fair market value” principle set out in Article 9 of the Italian Consolidated Law on Income Tax (Testo Unico delle Imposte sui Redditi, or TUIR) for purposes of computing the transfer-pricing adjustments. Under the new wording of Article 110, Paragraph 7 of the TUIR, the transfer-pricing adjustments are determined with reference to the conditions and prices that would have been agreed on by independent entities operating in conditions of free competition and in comparable circumstances, if an increase in income is derived. In other words, the transfer-pricing adjustments should be determined under a free-competition scenario, which is more in line with the OECD guidelines for national legislation.

The negative income tax adjustment under Article 110, Paragraph 7, of the TUIR, can occur in the following circumstances:

- In the execution of agreements concluded with the competent authorities of foreign states following the mutual agreement procedure provided under a double tax treaty.
- At the end of the checks carried out as part of the international cooperation activities whose results are shared by states’ participants.
- Following a ruling regarding the taxpayer by a state with which Italy has entered into a double tax treaty that allows an adequate exchange of information and is issued according to the methods and terms provided by the Director of the Revenue Agency, against a positive adjustment and in accordance with the arm’s-length principle. A facility exists for the taxpayer to request the activation of the mutual agreement procedure referred to in the first bullet, provided that the conditions are met.

**Country-by-Country Reporting.** The 2016 Budget Law introduced a new Country-by-Country Reporting (CbCR) obligation for multinational entities. Entities subject to this obligation must submit an annual report indicating the amounts of revenues, gross profits, taxes paid and accrued, and other indicators of effective economic activities.

Italian parent companies of certain groups and certain Italian resident companies controlled by a foreign company are subject to the CbCR obligation.

Italian parent companies are subject to the CbCR obligation if their groups meet the following conditions:

- They are required to submit group consolidated financial statements. These are groups that exceed two of the following two of the following thresholds for two consecutive years:
  - Total assets of EUR20 million
  - Turnover of EUR40 million
  - 250 employees
- They had consolidated annual turnover in the preceding fiscal year of at least EUR750 million.
- They are not controlled by other entities.

Italian resident companies controlled by a foreign company are subject to the CbCR obligation if they are required to submit

group consolidated financial statements in a country where the CbCR does not apply or in a country that does not allow exchange of information regarding the CbCR.

In the case of a failure to submit a report or an incomplete submission of a report, penalties apply from EUR10,000 to EUR50,000.

On 8 March 2017, the Italian Ministry of Economy and Finance released the Ministerial Decree with implementation details for the CbCR process for Italian entities belonging to Multinational Enterprise (MNE) groups.

**EU blacklist.** In December 2017, the Economic and Financial Affairs (Ecofin) Council published an EU blacklist containing a list of non-cooperative countries in the tax sector. On 13 March 2018, the list was updated. The jurisdictions currently included in the EU blacklist are the following:

- American Samoa
- Bahamas
- Guam
- Namibia
- Palau
- St. Kitts and Nevis
- Samoa
- Trinidad and Tobago
- United States Virgin Islands

The Ecofin Council based the inclusion of the countries on the blacklist on the following:

- Failure to implement the exchange of information in financial matters with EU countries
- Failure to ratify the OECD Convention on Mutual Administrative Assistance in Tax Matters
- Failure to implement the OECD's standards for the prevention of BEPS
- Facilitation of offshore structures
- Existence of a "harmful preferential tax regime"

**Cooperative Compliance Program.** An elective Cooperative Compliance Program (CCP) is introduced for selected taxpayers that have adopted an adequate internal audit model to manage and control their tax risks with the purpose of promoting communication and cooperation between taxpayers and tax authorities.

Taxpayers that adhere to the CCP can benefit from certain advantages such as the following:

- Agreements on tax positions before the filing of the return
- Quicker rulings (45 days)
- No need for guarantees for tax refunds
- Reduction of applicable penalties to half of the minimum in the case of assessments concerning tax risks timely communicated by the taxpayer

Taxpayers that file a request to adhere to the CCP should receive an answer within 120 days.

In the case of a positive answer, admission to the regime is effective as of the fiscal year in which the request is filed and continues until the taxpayer files an end notice.

The tax authorities may exclude taxpayers from the CCP if during any of the years following the taxpayers' admission, the taxpayers no longer meet the CCP's requirements.

Taxpayers should adopt a collaborative attitude with Italian tax authorities by timely disclosing transactions that may be deemed to be aggressive tax planning, by promptly responding to any request and by promoting a corporate culture adhering to principles of fairness and respect of tax laws.

**Controlled foreign companies.** The Internationalization Decree introduced important changes to the controlled foreign company (CFC) regulations. Under the old rules, the income of a CFC was attributed to the Italian parent under a flow-through taxation principle if the subsidiary was located in a blacklist country, unless an advance ruling was obtained under one of the following exceptions:

- The foreign entity carried out as a main activity an actual industrial or commercial activity in the market of the state or territory in which it was located (first exemption).
- The participation in the foreign entity did not have the purpose to allocate income to countries or territories with a privileged tax regime (that is, the income is subject to an adequate level of tax in white-list jurisdictions).

The CFC legislation also applied to non-blacklist subsidiaries if both of the following circumstances existed:

- The effective tax rate applicable to the income of the foreign white-list entity was lower than 50% of the applicable Italian corporate tax rate.
- More than 50% of the foreign entity's gross revenues had a "passive income" nature.

In this scenario, CFC rules did not apply if the taxpayer proved through a tax ruling that the foreign company was not an artificial arrangement to obtain undue tax savings.

As mentioned in *Transfer pricing*, the Internationalization Decree introduced some changes to the above rules. The ruling procedure to avoid the applicability of the CFC legislation is no longer mandatory, but it remains as an optional procedure. The conditions required for the exemption from the regime can now be proved during the tax audit process. Accordingly, tax assessments concerning the CFC regime cannot be issued if the taxpayer has not been given the opportunity to provide evidence of one of the mentioned exemptions within 90 days from the clarification request.

In the absence of a positive ruling (and provided that the flow-through taxation has not been applied), the Italian parent needs to disclose in its tax return the ownership of the shares triggering the application of the CFC rule. Specific penalties of up to EUR50,000 apply for a failure to make such disclosure.

In addition, the Internationalization Decree provides that the CFC rules apply only to controlled companies, as opposed to the old legislation, which also applied to non-controlled subsidiaries under qualifying participations.

The new rules are effective from the 2015 fiscal year.

The 2016 Budget Law repealed the existing relevant blacklist for the application of the CFC regime and introduced new criteria to identify blacklist entities.

Effective from the 2016 fiscal year, foreign subsidiaries are considered blacklist entities for CFC purposes if they have a nominal corporate income tax rate lower than the 50% of the Italian rate or if special regimes allow a level of taxation below 50% of the Italian rate. The CFC rules do not apply to EU and EEA resident entities that provide an adequate exchange of information with Italy.

**Anti-avoidance legislation.** Legislative Decree No. 128/2015 repealed the preexisting anti-avoidance provision (Art. 37-bis of Presidential Decree No. 600/1973) and introduced a written rule on “abuse of law,” which replaces the unwritten principle developed by the Italian jurisprudence in recent years.

The newly introduced rule applies to all direct and indirect taxes with the exclusion of custom duties.

The rule defines “abuse of law” as “one or more transactions lacking any economic substance which, despite being formally compliant with the tax rules, achieve essentially undue tax advantages.”

Transactions are deemed to lack economic substance if they imply facts, actions and agreements, even related to each other, that are unable to generate significant business consequences other than tax advantages. As indicators of lack of economic substance, the anti-avoidance rule refers to cases in which inconsistency exists between the qualification of the individual transactions and their legal basis as a whole and cases in which the choice to use certain legal instruments is not consistent with the ordinary market practice.

Tax advantages are deemed to be undue if they consist of benefits that, even if not immediate, are achieved in conflict with the purpose of the relevant tax provisions and the principles of the tax system.

Notwithstanding the above, the anti-avoidance rule establishes that no abuse of law exists if a transaction is justified by non-negligible business purposes (other than of a tax nature) including those aimed at improving the organizational and managerial structure of the business.

Taxpayers can submit ruling requests to the Italian authorities to verify whether any envisaged or realized transactions are considered abusive. The application must be filed before the deadline for the relevant tax return submission or before the satisfaction of other tax obligations associated with the transactions.

It is now specifically provided that challenges based on the new anti-avoidance rule (that is, other than those based on tax evasion or the implication of specific tax crimes) do not trigger criminal law consequences.

In the context of anti-avoidance, the 2018 Budget Law defines the extent of Article No. 20 of the Stamp Duty Consolidated Code, which was considered by some court decisions to be an anti-avoidance provision.

The 2018 Budget Law states that this provision must be applied to identify the taxation for each single act to be registered, regardless of the interpretative elements external to the same act (for example, the behaviors of the parties), as well as the acts included in other legal transactions “linked” to the one to be registered.

**Debt-to-equity rules.** For information regarding restrictions on the deductibility of interest, see Section C.

**Mergers and acquisitions.** Mergers of two or more companies, demergers and asset contributions in exchange for shares are, in principle, tax-neutral transactions. However, companies undertaking mergers, demergers and asset contributions in exchange for shares may step up the tax basis of the assets for IRES and IRAP purposes by paying a step-up tax at rates ranging from 12% to 16%. Different types of step-up elections are available.

**Foreign PEs of Italian entities and Italian PEs of foreign entities.** The Internationalization Decree introduces changes to the law regarding foreign PEs of Italian entities and Italian PEs of foreign entities, which are described below.

*Foreign PEs of Italian entities.* The Internationalization Decree (Legislative Decree No. 147/2015) introduced an election to exempt income generated through foreign PEs. For branches located in a blacklist country, CFC rules apply unless one of the available CFC exemptions is met. The election is irrevocable and involves automatically all of a company’s PEs (that is, “all in or all out”). The relevant election must be made at the time of creation of the first PE.

The exemption regime is effective from the 2016 fiscal year.

With respect to existing PEs, the election must be made by the end of the second fiscal year following the fiscal year of the effective date of the new provisions (2016 fiscal year), and it should not give rise per se to taxable gains or losses. Recapture rules apply with respect to any tax losses derived through the PEs in the years before the election.

After the election is made, the Italian company must separately disclose the income of the foreign PEs in the tax return.

The Italian tax authorities issued Protocol No. 2017/165138 on 28 August 2017, providing implementing rules with respect to the foreign branch exemption option introduced by Legislative Decree No. 147/2015.

Under the Tax Decree, effective from the 2017 tax year, the conversion to euros of the balance of the accounts of foreign PEs no longer needs to be done according to the exchange rate on the last day of the fiscal year. It now must be done according to the applicable exchange rate on the basis of the correct accounting principles. The difference between the balance of the current fiscal year and the balance of the previous fiscal year is not included in taxable income.

*Italian PEs of foreign entities.* The Internationalization Decree revises the method of attribution of income to Italian PEs in line with the “Authorized Organisation for Economic Co-operation and Development (OECD) Approach.” The PE income is deter-

mined according to the ordinary rules for resident companies and on the basis of a specific statutory account prepared according to the Italian accounting principles applying to resident enterprises with similar features.

Accordingly, the Internationalization Decree also repeals certain provisions providing for PE “force of attraction.” In addition, dealings between Italian PEs and foreign headquarters are explicitly subject to Italian transfer-pricing rules. In this respect, a PE is treated as separate and independent from its headquarters, and profits attributed to the PE are those that the branch would have earned at arm’s length as if it were a “distinct and separate” entity performing the same or similar functions under the same or similar conditions, determined by applying the arm’s-length principle. A branch “free capital” (*fondo di dotazione*) is also attributed to the PE on the basis of OECD principles.

The Internationalization Decree also specifies that tax authorities cannot apply penalties to assessments issued before the issuance of such regulations. The new rules are effective from the 2016 fiscal year. The 2018 Budget Law expands the definition of a PE to align it with the revised definition in the 2017 version of the OECD model. However, in a departure with the current OECD version, the Italian domestic rule includes the following definition of a digital PE: “A continuous and significant economic presence of a foreign company in Italy, regardless of whether it has a substantial Italian physical presence, will trigger the existence of a fixed base that could give rise to an Italian PE.”

**Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS.** On 7 June 2017, Italy and 67 other jurisdictions signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (the MLI).

At the time of signature, Italy submitted a list of 84 tax treaties entered into by Italy and other jurisdictions that it would like to designate as covered tax agreements (tax treaties to be amended through the MLI).

Together with the list of covered tax agreements, Italy also submitted a provisional list of reservations and notifications (MLI positions) with respect to the various provisions of the MLI. The definitive MLI positions will be provided on the deposit of Italy’s instrument of ratification, acceptance or approval of the MLI.

## F. Treaty withholding tax rates

	Dividends (1) %	Interest %	Royalties %
Albania	10	0/5 (d)(e)(z)	5
Algeria	15	0/15 (d)(e)(z)	5/15 (o)
Argentina	15	0/20 (d)(e)(z)	10/18 (h)
Armenia	5/10 (a)	0/10 (b)(d)	7
Australia	15	0/10 (d)	10
Austria	15	0/10 (d)(e)(z)	0/10 (i)
Azerbaijan	10	0/10 (yy)	5/10 (xx)
Bangladesh	10/15 (a)	0/10/15 (d)(e)(y)	10
Barbados	15	0/5 (d)(e)(z)	5
Belarus	5/15 (a)	0/8 (d)(e)(z)	6

	<b>Dividends (1)</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Belgium	15	0/15 (w)	5
Bosnia and Herzegovina (v)	10	10	10
Brazil	15	0/15 (d)	15/25 (k)
Bulgaria	10	0	5
Canada	5/15 (a)	0/10 (d)(e)(z)	0/5/10 (h)
Chile	10	4/5/10/15	2/5/10
China (mainland)	10	0/10 (d)(tt)	10
Congo (Republic of)	8/15 (fff)	0	10
Côte d'Ivoire	15/18 (t)	0/15 (d)	10
Croatia	15	0/10 (b)(d)	5
Cyprus	15 (vv)	10	0
Czech Republic	15	0	0/5 (h)
Denmark	0/15 (a)	0/10 (ee)(mm)	0/5 (nn)
Ecuador	15	0/10 (d)(e)(z)	5
Egypt	26 (cc)	0/25 (d)(e)(z)	15
Estonia	5/15 (a)	0/10 (d)(uu)	5/10 (kk)
Ethiopia	10	0/10 (oo)	20
Finland	10/15 (a)	0/15 (d)(e)(z)	0/5 (o)
France	5/15 (a)(gg)	0/10 (d)(e)(z)(ee)	0/5 (o)
Georgia	5/10 (a)	0	0
Germany	10/15 (a)	0/10/15 (d)(e)(z)(ee)(ff)	0/5 (l)
Ghana	5/15 (a)	10	10
Greece	15	0/10 (d)(e)(z)	0/5 (m)
Hong Kong SAR (ddd)	10 (ccc)	0/12.5 (d)(ccc)	15 (ccc)
Hungary	10	0	0
Iceland	5/15 (a)	0	5
India	15/25 (a)	0/15 (d)(e)	20
Indonesia	10/15 (a)	0/10 (d)(e)(z)	10/15 (x)
Ireland	15	10	0
Israel	10/15 (a)	10	0/10 (o)
Japan	10/15 (a)	10	10
Jordan	10	0/10 (d)(e)	10
Kazakhstan	5/15 (a)	0/10 (d)(e)(z)	0/10 (hh)
Korea (South)	10/15 (a)	0/10 (d)(e)(uu)	10
Kuwait	5/20 (a)	0	10
Kyrgyzstan (u)	15	0	0
Latvia	5/15 (a)	0/10 (d)	5/10 (kk)
Lebanon	5/15 (aaa)	0	0
Lithuania	5/15 (a)	0/10 (d)(e)(z)	5/10 (kk)
Luxembourg	15	0/10 (d)(e)(z)	10
Macedonia	5/15 (a)	0/10 (d)(e)(z)	0
Malaysia	10 (ww)	0/15 (d)	15
Malta	15	0/10 (d)(e)(z)	0/10 (m)
Mauritius	5/15 (a)	0/20 (dd)	15
Mexico	15	0/15 (d)(e)(z)	0/15 (l)
Moldova	5/15	5	5
Montenegro (v)	10	10	10
Morocco	10/15 (a)	0/10 (d)(e)(z)	5/10 (o)
Mozambique	15	0/10 (ll)	10
Netherlands	5/10/15 (c)	0/10 (d)(e)(z)	5
New Zealand	15	0/10 (d)(e)(z)	10
Norway	15	0/15 (d)(e)(z)	5

	<b>Dividends (1)</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Oman	5/10 (pp)	0/5 (oo)	10
Pakistan	15/25 (a)	0/30 (d)(e)(z)	30
Philippines	15	0/10/15 (d)(e)(z)	15/25 (zz)
Poland	10	0/10 (d)(e)(z)	10
Portugal	15	0/15 (d)(e)(z)	12
Qatar	5/15 (a)	0/5 (d)(e)(z)	5
Romania	10	0/10 (d)(e)(z)	10
Russian Federation	5/10 (g)	10	0
San Marino	5/15	0/13	10
Saudi Arabia	5/10 (a)	0/5 (d)(e)(z)	10
Senegal	15	0/15 (ll)	15
Serbia (v)	10	10	10
Singapore	10	0/12.5 (d)(z)	15/20 (n)
Slovak Republic	15	0	0/5 (bbb)
Slovenia	5/15 (a)	0/10 (d)(e)(z)	5
South Africa	5/15 (a)	0/10 (d)(e)(z)	6
Spain	15	0/12 (d)(e)(z)	4/8 (o)
Sri Lanka	15	0/10 (d)(e)(z)	10/15 (q)
Sweden	10/15 (a)	0/15 (d)(e)(z)	5
Switzerland (eee)	15	12.5 (rr)	5
Syria	5/10 (a)	0/10 (qq)	18
Taiwan	10	10	10
Tajikistan (u)	15	0	0
Tanzania	10	15	15
Thailand	15/20 (a)	0/10 (d)(e)(j)	5/15 (h)
Trinidad and Tobago	10/20 (a)	0/10 (z)	0/5 (bb)
Tunisia	15	0/12 (d)(e)	5/12/16 (r)
Turkey	15	15	10
Turkmenistan (u)	15	0	0
Uganda	15	0/15 (b)(z)	10
Ukraine	5/15 (a)	0/10 (ll)	7
USSR (u)	15	0/26 (ii)	–
United Arab Emirates	5/15 (a)	0	10
United Kingdom	5/15 (a)(gg)	0/10 (e)(ee)	8
United States	5/15	0/10 (aa)	0/5/8 (s)
Uzbekistan	10	0/5 (ll)	5
Venezuela	10	0/10 (b)(z)	7/10 (p)
Vietnam	5/10/15 (f)	0/10 (d)(e)(z)	7.5/10 (jj)
Yugoslavia (v)	10	10	10
Zambia	5/15 (a)	0/10 (d)	10
Non-treaty jurisdictions	26 (ss)	26 (ss)	22.5/30 (ss)

(1) Dividends paid by Italian companies to EU parent companies are exempt from withholding tax if the recipient company holds a participation of at least 10% in the distributing company for an uninterrupted period of at least one year. Otherwise, a 1.2% dividend withholding tax rate applies under domestic law to dividends paid to EU and EEA subject-to-tax companies.

(a) The lower rate applies to corporate shareholders satisfying the following qualifying tests:

- Armenia: at least 10% of the capital (equal to at least USD100,000 or the equivalent value in other currency) for 12 months
- Bangladesh, Canada, Estonia, India, Kazakhstan and Lithuania: at least 10% of the capital



- Denmark, Qatar and Saudi Arabia: at least 25% of the capital for 12 months before the date the dividend is distributed
  - Finland: more than 50% of the capital
  - France: more than 10% of the capital for 12 months
  - Belarus, Georgia, Germany, Indonesia, Israel, Korea, Macedonia, Mauritius, Moldova, Morocco, Pakistan, Slovenia, Syria, Trinidad and Tobago, United Arab Emirates and Zambia: at least 25% of the capital
  - Ghana: at least 10% of the capital
  - Iceland: beneficial owner is a company (other than a partnership) owning at least 10% of the capital for at least 12 months
  - Japan: at least 25% of the shares with voting rights for six months
  - Kuwait: at least 25% of the capital
  - Latvia: beneficial owner is a company (other than a partnership) owning at least 10% of the capital
  - South Africa: at least 25% of the capital for 12 months ending on the date the dividend is declared
  - Sweden: at least 51% of the capital
  - Thailand: at least 25% of the shares with voting rights
  - Ukraine: at least 20% of the capital
  - United Kingdom: at least 10% of the shares with voting rights for 12 months
- (b) The 0% rate applies to interest paid to or by a government.
- (c) The 5% rate applies to corporations that beneficially own more than 50% of the voting rights of the shares for the 12-month period ending on the date of declaration of the dividend. The 10% rate applies to the gross amount of the dividends if the beneficial owner is a company that is not entitled to the application of the 5% rate and that has held at least 10% of the voting shares of the company paying the dividends for the 12-month period preceding the date of declaration of the dividends. The 15% rate applies in all other cases.
- (d) Interest paid to a “government” or central bank is exempt. The term “government” refers to the central government and any other local authority entirely owned by the state that receives interest on behalf of the central authority.
- (e) Interest paid by a contracting state is exempt. Under the Philippines treaty, the loan must involve the issuance of bonds or financial instruments similar to bonds.
- (f) The 5% rate applies to dividends paid to corporations that beneficially own at least 70% of the capital of the payer. The 10% rate applies to dividends paid to corporations that beneficially own at least 25% but less than 70% of the capital of the payer. The 15% rate applies to other dividends.
- (g) The 5% rate applies if the recipient of the dividend is a corporation that beneficially owns more than 10% of the capital of the payer and if the value of the participation of the recipient is at least USD100,000 or an equivalent amount in another currency. The 10% rate applies to other dividends.
- (h) The lower rate is for the use of or right to use literary, artistic and scientific copyrights. Under the Canada treaty, the lower rate applies only to literary and artistic copyrights.
- (i) The higher rate applies if the recipient has an investment exceeding 50% of the capital of the payer.
- (j) The 10% rate applies only if the payer is engaged in an industrial activity and the interest is paid to a financial institution (including an insurance company). The exemption also applies to bonds issued by a contracting state.
- (k) The 25% rate applies to trademark royalties only.
- (l) The lower rate applies to royalties for literature, plays, and musical or artistic works. Under the Germany treaty, royalties for films and recordings for television qualify for the lower rate. Under the Canada treaty, such royalties do not qualify for the lower rate. Under the Mexico treaty, royalties for films and recordings for television and radio do not qualify for the lower rate.
- (m) The lower rate applies to royalties paid for literary, artistic or scientific works and for films and recordings for radio or television.
- (n) The lower rate applies to patents, trademarks, trade names or other intellectual property.
- (o) The lower rate applies to royalties from the use of copyrights on literary, artistic or scientific works (excluding cinema and television films).
- (p) The lower rate applies to royalties paid for the use of, or the right to use, copyrights for literary, artistic or scientific works, including cinematographic films and recordings for radio and television broadcasts.
- (q) The lower rate applies to royalties paid for literary and artistic works, including films and recordings for radio and television.
- (r) In the case of royalties for the use of trademarks, films and industrial, commercial or scientific equipment, the withholding tax rate is 16%; for the use of copyrights for artistic, literary and scientific works, the rate is 5%. In all other cases, the rate is 12%.

- (s) The 0% rate applies to royalties for copyrights of literary, artistic or scientific works (excluding royalties for computer software, motion pictures, films, tapes or other means of reproduction used for radio or television broadcasting). The 5% rate applies to royalties for the use of, or the right to use, computer software or industrial, commercial, or scientific equipment. In all other cases, the 8% rate is imposed on the gross amount of the royalties.
- (t) The 18% rate applies if the dividends are paid by a company that is resident in Côte d'Ivoire and that is exempt from tax on its income or not subject to that tax at the normal rate. The 15% rate applies in all other cases.
- (u) The treaty with the former USSR remains applicable with respect to Kyrgyzstan, Tajikistan and Turkmenistan.
- (v) The treaty with the former Yugoslavia applies to Bosnia and Herzegovina, Montenegro and Serbia.
- (w) An exemption applies to the following:
- Interest on loans that are not in the form of bearer securities if the interest is paid to the following: the other contracting state; its political or administrative subdivisions; or its local authorities
  - Interest paid to credit institutions of the other contracting state if the interest is paid on loans that are not in the form of bearer securities and if the loans are permitted under an agreement between the governments of the contracting states
- (x) The 10% rate applies to royalties and commissions paid for the use of or right to use the following: industrial, commercial or scientific equipment; or information concerning industrial, business or scientific know-how. The 15% rate applies to other royalties.
- (y) The 10% rate applies to interest paid by banks and other financial entities (that is, insurance companies). The 15% rate applies to other interest.
- (z) Interest paid on loans made in accordance with an agreement between the governments of the contracting states is exempt. Under the Mexico treaty, the loan must have a term of at least three years.
- (aa) Interest withholding tax is not imposed if any of the following circumstances exist:
- The interest is beneficially owned by a resident of the other contracting state that is a qualified governmental entity and that holds, directly or indirectly, less than 25% of the capital of the person paying the interest.
  - The interest is paid with respect to debt obligations guaranteed or insured by a qualified governmental entity of that contracting state or the other contracting state and is beneficially owned by a resident of the other contracting state.
  - The interest is paid or accrued with respect to a sale on credit of goods, merchandise, or services provided by one enterprise to another enterprise.
  - The interest is paid or accrued in connection with the sale on credit of industrial, commercial, or scientific equipment.
- (bb) The lower rate applies to royalties for literature, musical and artistic works.
- (cc) The 26% rate is the rate under Italian domestic law for dividends paid to nonresidents.
- (dd) These are the rates under Italian domestic law. Under the treaty, the rate is 0% if the interest is paid to a Mauritian public body or bank resident in Mauritius.
- (ee) Exemption is provided for interest paid in connection with the following:
- Credit sales of industrial, commercial or scientific equipment
  - Credit sales of goods delivered from one enterprise to another enterprise
- (ff) A 15% rate, which is contained in the dividend article, applies to payments on profit-sharing loans and to silent partners. The 10% rate applies in other circumstances.
- (gg) A refund may be available for the underlying tax credit with respect to business profits attached to the dividends.
- (hh) If a resident of a contracting state receives payments for the use of, or the right to use, industrial, commercial or scientific equipment from sources in the other contracting state, the resident may elect to be taxed in the contracting state in which the royalties arise as if the property or right for which the royalties are paid is effectively connected with a PE or fixed base in that contracting state. If such election is made, no withholding tax is imposed on the payments.
- (ii) The treaty exempts the following types of interest:
- Interest on bank credits and loans
  - Interest on current accounts and deposits with banks or other credit institutions
- The 26% rate is the withholding tax rate under Italian domestic law.

- (jj) The lower rate applies to fees paid for technical assistance services. The higher rate applies to royalties paid for the use of the intangibles.
- (kk) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
- (ll) The treaty provides the following exemptions:
- Interest paid by the government or its local authorities
  - Interest paid to the government of the other contracting state or its local authorities or other entities and organizations (including credit institutions) wholly owned by the other contracting state or its local authorities
  - Interest paid to other entities and organizations (including credit institutions) if the interest is paid on loans permitted under an agreement between the governments of the contracting states
- (mm) The treaty provides the following exemptions:
- Interest paid by the state of source, its political or administrative subdivisions or its local authorities
  - Interest paid on loans granted, guaranteed or secured by the government of the other contracting state, by its central bank or by other entities and organizations (including credit institutions) wholly owned by the other contracting state or under its control
- (nn) The lower rate applies to royalties paid for the use of, or the right to use, copyrights for literary, artistic or scientific works, excluding cinematographic films and other audio and visual recordings.
- (oo) The treaty provides the following exemptions:
- Interest paid by the government or a local authority thereof
  - Interest paid to the government, a local authority thereof or an agency or instrumentality (including a financial institution) wholly owned by the other contracting state or a local authority thereof
  - Interest paid to any other agency or instrumentality (including a financial institution) with respect to loans made under agreement entered into between the governments of the contracting states
- (pp) The 5% rate applies to companies (other than partnerships) that hold directly at least 15% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (qq) The treaty provides the following exemptions:
- Interest paid to a contracting state, a local authority thereof, or a corporation having a public status, including the central bank of that state
  - Interest paid by a contracting state or local authority thereof, or any corporation having a public status
  - Interest paid to a resident of a contracting state with respect to debt obligations guaranteed or insured by that contracting state or by another person acting on behalf of the contracting state
  - Interest paid with respect to sales on credit of industrial, commercial or scientific equipment or of goods or services between enterprises
  - Interest paid on bank loans
- (rr) Effective from 1 July 2005 a 0% rate may apply under the agreement between Switzerland and the EU. The rates shown in the table are the withholding tax rates under the Italy-Switzerland double tax treaty. Subject to fulfillment of the respective requirements, the taxpayers may apply either the Switzerland-EU agreement or the Italy-Switzerland double tax treaty.
- (ss) See Section A.
- (tt) The exemption applies to interest paid to a resident of the other contracting state with respect to debt claims indirectly financed by the government of that other contracting state, a local authority, the central bank thereof or a financial institution wholly owned by the government of the other contracting state.
- (uu) The lower rate applies to interest related to loans that are guaranteed by the government or a local authority. Under the Korea treaty, the guarantee must be evidenced by an agreement contained in an exchange of letters between the competent authorities of the contracting states.
- (vv) The 15% rate applies to dividends paid by a company established in Italy to a Cyprus resident beneficiary. Dividends paid by a company established in Cyprus to an Italian resident beneficiary are exempt from withholding tax in Cyprus.
- (ww) The 10% rate applies to dividends paid by an Italian company to a Malaysian resident. Dividends paid by a Malaysian company to an effective beneficiary resident in Italy are exempt from tax in Malaysia if the beneficiary is subject to tax on the dividends in Italy.
- (xx) The 5% rate applies to royalties for the use of, or the right to use, computer software or industrial, commercial, or scientific equipment. In all other cases, the rate for royalties is 10%.

- (yy) The treaty provides an exemption from withholding tax for the following types of interest payments:
- Interest paid by the state of source, its political or administrative subdivisions or its local authorities
  - Interest paid on loans granted, guaranteed or secured by the government of the other contracting state, by its central bank or by other entities and organizations (including credit institutions) wholly owned by the other contracting state or under its control
  - Interest paid or accrued in connection with the sale on credit of industrial, commercial, or scientific equipment
- (zz) The 15% rate applies if the royalties are paid by an enterprise registered with the Philippine Board of Investments and engaged in preferred areas of activities and to royalties with respect to cinematographic films or tapes for television or broadcasting. The 25% rate applies in all other cases.
- (aaa) The 5% rate applies if the recipient company has owned at least 10% of the capital in the Italian company for at least 12 months.
- (bbb) The 5% rate applies to royalties paid for the following:
- The use of, or the right to use, patents, trademarks, designs or models, plans, and secret formulas or processes
  - The use of, or the right to use, industrial, commercial or scientific equipment that does not constitute immovable property, as defined in Article 6 of the treaty
  - Information concerning experience of an industrial, commercial or scientific nature
- (ccc) The treaty contains a specific anti-abuse provision. If the main purpose or one of the main purposes of the transaction is to benefit from the lower treaty rates, the lower rates may be denied.
- (ddd) On 10 August 2015, the income tax treaty between Italy and the Hong Kong Special Administrative Region (SAR) entered into force. The treaty is in effect with respect to Italian tax for years of assessment beginning on or after 1 January 2016. Under the treaty, the Hong Kong SAR has been removed from the Italian blacklists (for both cost deductions and for CFC purposes).
- (eee) On 23 February 2015, Italy and Switzerland signed a protocol to their double tax treaty as well as a road map for the continued dialogue in tax and financial matters.
- (fff) The 8% rate applies if the beneficial owner (different from a partnership or similar body) holds a minimum shareholding of 10% in the entity paying the dividends.

# Jamaica

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## Kingston

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## A. At a glance

Corporate Income Tax Rate (%)	25/33 1/3 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	25/33 1/3 (a)
Withholding Tax (%)	
Dividends	15/33 1/3 (b)
Interest	33 1/3 (c)
Royalties	33 1/3 (d)
Management Fees	33 1/3 (d)
Insurance Premiums	15 (e)
Branch Remittance Tax	33 1/3
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (f)

- (a) Unregulated companies are taxed at a rate of 25%, and regulated companies (excluding life insurance companies) are taxed at a rate of 33 1/3%. An unregulated company is a company that is not a regulated company. A regulated company is a company that is regulated by any of the following:
- Financial Services Commission
  - Office of Utilities Regulation
  - Bank of Jamaica
  - The minister with responsibility for finance
- Building societies are taxed at a rate of 30%.
- (b) The dividend withholding tax is a tax imposed on payments to nonresidents (the rate may be reduced by double tax treaties). Tax is required to be deducted from dividend payments made by a Jamaican resident to a Jamaican resident shareholder at a rate of 15%, unless the Jamaican shareholder is a company that holds more than 25% of the voting rights of the distributing company. In such cases, the dividends may be paid without deduction of tax.
- (c) This rate applies to interest paid to nonresident companies. Special rules apply to interest paid by prescribed persons (as defined). The withholding tax rates may be reduced under tax treaties. The recipients of the payments include the payments in taxable income reported on their annual income tax returns, and they may credit the tax against their annual income tax.
- (d) This is a final tax imposed on payments to both residents and nonresidents. The withholding tax rate may be reduced under tax treaties.
- (e) This withholding tax applies to all insurance premiums paid by residents to nonresidents. However, the withholding tax does not apply if a Jamaican resident insurance company pays the premium to an entity that meets all of the following conditions:
- It is not a connected company.
  - It is in the business of writing contracts of reinsurance in the international market.
  - It is not acting on behalf of a captive insurance company.
- (f) See Section C regarding a restriction on the loss carryforward.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies are resident in Jamaica if the control and management of their affairs are exercised in Jamaica. Nonresident companies operating a branch on the island are taxed on profits derived from their Jamaican operations.

**Tax rates.** The standard rates of the tax on profits are 33 1/3% for regulated entities (excluding life insurance companies) and 25% for unregulated entities. Building societies are taxed at a rate of 30%. Life insurance companies are taxed at a rate of 25%.

Under the Betting, Gaming and Lotteries Act, the following are the amounts of the lottery tax payable:

- 25% of the gross weekly revenue derived from sales of lottery tickets with respect to a declared lottery
- 20% of the gross weekly revenue derived from promotion of a daily numbers game or instant lottery

Remittances overseas by branches of foreign companies are subject to branch remittance tax at a rate of 33 1/3%. This rate may be different if a double tax treaty is in place.

The Special Economic Zones Act (SEZ Act) replaced the Free Zones Act (which provided certain tax benefits to companies that operated under that legislation; the act was repealed in 2015). However, under grandfathering provisions, companies that operated under the Free Zones Act are given a four-year period to transition to the new SEZ regime. Under the SEZ Act, chargeable income from a trade, vocation or profession of approved developers or occupants is subject to income tax at a rate of 12.5%. The income tax rate for approved developers or occupants may be reduced by a Promotional Tax Credit, which may be claimed for expenditure on research, development and trading.

Developers and occupants are exempt from income tax on profits derived from the rental of property in the SEZ, subject to certain restrictions. Dividend income is subject to income tax at a rate of 0%. Withholding tax of 0% applies to dividends paid out of profits from a profession or vocation in the SEZ.

Under the Urban Renewal Act, which was introduced to promote the improvement of depressed areas, approved entities may obtain various types of tax relief for development carried out in areas designated by the Jamaican government as special development areas. The tax relief relates to income tax, stamp duty and transfer tax.

**Minimum business tax.** All entities other than registered charitable organizations are subject to a minimum business tax of JMD60,000 (approximately USD469), for each tax year. The tax is payable in two equal instalments of JMD30,000 (approximately USD235) on or before 15 June and 15 September of each year.

**Withholding tax on specified services.** Recipients of specified services (as defined in the legislation) are required to withhold a 3% tax from payments made to suppliers of these services. The tax must be withheld if either of the following circumstances exist:

- The gross payment relates to a single transaction with an invoice value of JMD50,000 (approximately USD391) or more

(before application of the General Consumption Tax [GCT; see Section D]).

- A series of gross payments of less than JMD50,000 (before GCT) is made to the same service provider in a 30-day period, and these payments total JMD100,000 (approximately USD782) or more.

The service provider from whom the tax is withheld may claim, in the tax year of the withholding, a tax credit for the amount withheld against any quarterly income tax obligation or the tax due in the annual income tax return. Any excess credit for that tax year may be claimed as a refund or carried forward to be used in a future tax year.

**Capital gains.** No tax is imposed on capital gains. However, a transfer tax of 5% is imposed on transfers of certain Jamaican property, including land and securities (see Section D). Stamp duty may also apply.

Capital allowances are subject to recapture on the disposal of assets (see Section C).

**Administration.** The tax year is the calendar year. The Commissioner General may allow companies with an accounting year-end other than 31 December to pay tax based on income earned in that accounting year.

Income tax returns must be filed and payments made by 15 March of the year following the tax year to which the income tax return relates. Quarterly advance payments of tax must be made.

Interest of 20% per year is levied on late income (corporation) tax payments, and a penalty of 50% per year may also be imposed.

**Dividends.** In general, dividends paid to nonresidents are subject to a final withholding tax, and the tax withheld must be paid to the tax authorities in Jamaica. In general, withholding tax at a rate of 15% is imposed on dividends paid by Jamaican resident companies to Jamaican resident shareholders. However, if the company receiving the dividend holds more than 25% of the voting rights, the rate of income tax payable on such dividend is nil. Preference dividends that are deductible for income tax purposes are fully taxable in the hands of the shareholder, regardless of whether the shareholder is resident or nonresident. Dividends paid out of capital are not subject to income tax, but they are generally subject to a transfer tax of 5%.

**Foreign tax relief.** For income derived from treaty countries, the tax rate is the treaty rate applicable to the direct corporate investor. The regular Jamaican corporate tax rate of 25% or 33 1/3% is applied to income derived from non-treaty countries.

### C. Determination of trading income

**General.** Taxable income is based on accounting income with appropriate adjustments. To be deductible, expenses must be incurred wholly and exclusively in earning income.

Nondeductible expenses include capital expenditures, incorporation expenses and interest accrued but not paid. Contributions or donations made to charities approved under the Charities Act by

the Department of Cooperatives and Friendly Societies are deductible, up to a maximum of 5% of taxable income.

**Inventories.** The first-in, first-out (FIFO) and weighted average methods of inventory valuation are allowed.

**Provisions.** To be deductible, bad debts must be specific. General provisions are not allowed.

**Tax depreciation (capital allowances).** The capital allowances are described below.

*Initial allowance.* An initial allowance of 25% of the cost of an asset is granted for certain types of assets, including office equipment, computers, and plant and machinery, as defined in the Income Tax Act. However, some office equipment and plant and machinery are not entitled to the initial allowance. Initial allowances are granted in the year of purchase and are deducted from the depreciable value of the asset.

*Investment allowance.* A 20% investment allowance is granted instead of the initial allowance for buildings and plant and machinery used in the electricity and steam industries. Plant and machinery purchased in Jamaica must be new to qualify for the investment allowance. However, both new and used plant and machinery purchased overseas qualify for the allowance. The initial allowance is substituted for the investment allowance if the asset is disposed of within three years after its purchase. The investment allowance does not reduce the depreciable value of an asset.

*Annual allowance.* Plant and machinery qualify for an annual allowance of 12.5%, calculated using the straight-line method. A 20% annual allowance, calculated using the straight-line method, is granted to motor vehicles. However, the maximum depreciable cost for vehicles that are not trade vehicles is an amount in Jamaican dollars that is equivalent to USD35,000. Office equipment qualifies for an annual allowance of 20%, calculated using the straight-line method. Nonresidential and industrial buildings generally qualify for annual allowances, calculated using the straight-line method, at rates that range from 4% to 12.5%, depending on the type of structure.

*Disposal of depreciable assets.* Initial and annual allowances are generally subject to recapture on the sale of an asset, to the extent the sales proceeds exceed the tax value after depreciation. The amount recaptured may not exceed the total of the initial and annual allowances granted. Any amounts recaptured are subject to tax at the regular corporate tax rate. If the proceeds are less than the tax-depreciated value, an additional allowance is granted.

**Relief for losses.** Losses may be carried forward indefinitely. However, each year, a loss carryforward may offset only 50% of the aggregate amount of income of the taxpayer from all sources after allowing the appropriate tax deductions and tax exemptions. However, the limitation does not apply in the following circumstances:

- For the first five years of trade
- If the taxpayer's gross revenue from all sources for the relevant tax year is less than JMD3 million

A carryback of losses is not permitted.



**Groups of companies.** The law does not contain any group loss relief or consolidated return provisions.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Customs Administrative Fee; rates vary depending on the product	Various
Environmental levy; imposed on the Cost, Insurance and Freight (CIF) value of all imported goods with a few exceptions	0.5%
General Consumption Tax, on the value added to goods and services; certain items are exempt	
Standard rate	16.5%
Telephone services, cards and instruments	25%
Tourism sector	
Hotels previously operating under the Hotel Incentives Act (HIA), but which now operate under the Fiscal Incentives Act	10%
Hotels remaining under the HIA	16.5%
Electricity for residential premises	16.5%
Electricity for commercial and industrial premises	16.5%
Certain commercial imports	16.5%
	(advance rate of 5%)
Group health insurance	16.5%
Exports, government supplies and services of diplomats and international agents	0%
Assets tax; on taxable value of assets	
General	JMD5,000 to JMD200,000
Life insurance companies	0.25%
Regulated entities other than life insurance companies	0.25%
Property tax; on gross asset	
First JMD400,000 of asset	JMD1,000
Asset in excess of JMD400,000 up to JMD800,000; rate on excess	0.50%
Asset in excess of JMD800,000 up to JMD1,500,000; rate on excess	0.55%
Asset in excess of JMD1,500,000 up to JMD3 million; rate on excess	0.60%
Asset in excess of JMD3 million up to JMD4,500,000; rate on excess	0.65%
Asset in excess of JMD4,500,000 up to JMD7million; rate on excess	0.70%
Asset in excess of JMD7 million up to JMD12 million; rate on excess	0.75%
Asset in excess of JMD12 million up to JMD30 million; rate on excess	0.80%
Asset that exceeds JMD30 million; rate on excess	0.90%

Nature of tax	Rate
Transfer tax, on transfers of certain Jamaican property, including land and securities	5%
Transfer tax on death for estates	1.5%
Stamp duty	Various
Social security contributions	
National insurance scheme (NIS); imposed on annual earnings (income for self-employed individuals) up to JMD1,500,000; paid by	
Employer	2.5%
Employee	2.5%
Self-employed individual	5%
National Housing Trust (NHT); paid by	
Employer, on payroll	3%
Employee, on salary	2%
Self-employed individual, on income	3%
Human Employment and Resource Training program (HEART), on total payroll if it exceeds JMD173,328 a year; paid by employer	3%
Education tax, on taxable salary; paid by	
Employer, on payroll	3.5%
Employee, on salary	2.25%
Self-employed individual, on net earnings	2.25%

## E. Miscellaneous matters

**Foreign-exchange controls.** Jamaica does not impose foreign-exchange controls.

**Debt-to-equity rules.** No debt-to-equity restrictions are imposed.

**Foreign-controlled companies.** Subsidiaries of nonresident corporations are subject to income tax on their profits at a rate of 25% for unregulated companies or 33 1/3% for regulated companies. Withholding tax at a rate of 33 1/3% is generally imposed on dividends remitted, unless a treaty provides a different rate.

**Anti-avoidance legislation.** Several anti-avoidance measures are in force. These measures generally apply to transactions between related parties that were not made at arm's length.

**Employment tax credit.** A person other than a regulated company may be eligible to claim a nonrefundable tax credit (referred to as an employment tax credit [ETC]), up to a maximum amount of 30% of the income tax payable for each year. The amount eligible for the ETC is the total of education tax, NHT, NIS and HEART payments made by an eligible person that are declared and paid on a timely basis during the year. The ETC that may be claimed is therefore the lower of the total statutory payments during the year and 30% of the tax payable. The application of this ETC is subject to certain additional criteria. It may not be claimed against income tax chargeable on non-trading income, such as interest and dividend income.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends	Interest	Royalties	Management fees
	%	%	%	%
Antigua and Barbuda (h)	0	15	15	15
Barbados (h)	0	15	15	15
Belize (h)	0	15	15	15
Canada	15/22.5 (a)	15	10	12.5
China (mainland)	5	7.5	10	0
Denmark	10/15 (b)	12.5	10	10
Dominica (h)	0	15	15	15
France	10/15 (e)	10	10	10
Germany	10/15 (c)	10/12.5 (d)	10	33.3
Grenada (h)	0	15	15	15
Guyana (h)	0	15	15	15
Israel	15/22.5 (e)	15	10	33.3
Montserrat (h)	0	15	15	15
Norway	15	12.5	10	10
St. Kitts and Nevis (h)	0	15	15	15
St. Lucia (h)	0	15	15	15
St. Vincent and the Grenadines (h)	0	15	15	15
Spain	5/10 (b)	10	10	10
Sweden	10/22.5 (f)	12.5	10	10
Switzerland	10/15 (e)	10	10	10
Trinidad and Tobago (h)	0	15	15	15
United Kingdom	15/22.5 (a)	12.5	10	12.5
United States	10/15 (e)	12.5	10	0 (g)
Non-treaty jurisdictions	33 1/3	33 1/3	33 1/3	33 1/3

- (a) Higher rate applies if payment is made to a company owning 10% or more of the voting stock of the payer.
- (b) Lower rate applies if payment is made to a company owning 25% or more of the capital or voting stock of the payer.
- (c) Lower rate applies if payment is made to a company owning 25% or more of the shares of the payer.
- (d) Lower rate applies to interest received by a bank recognized as a banking institution under the laws of the state from which the payment is made.
- (e) Lower rate applies if payment is made to a company owning 10% or more of the voting stock of the payer.
- (f) Lower rate applies if payment is made to a company owning 25% or more of the voting stock of the payer.
- (g) Management fees are not subject to withholding tax, but they are included in business profits. Consequently, net management fees are subject to tax in Jamaica only if the recipient has a permanent establishment there.
- (h) These are the rates under the Caribbean Community and Common Market (CARICOM) tax treaty, which the listed country has ratified.

# Japan

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**A. At a glance**

Corporate Income Tax Rate (%)	23.4 (a)
Capital Gains Tax Rate (%)	23.4 (a)
Branch Tax Rate (%)	23.4 (a)
Withholding Tax (%) (b)	
Dividends	20 (c)
Interest	15/20 (c)(d)
Royalties from Patents, Know-how, etc.	20 (c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1 (e)
Carryforward	9 (f)

- (a) Local income taxes (see Section D) are also imposed. The resulting effective corporate income tax rate is approximately 31% (34% for corporations with stated capital of JPY100 million or less).
- (b) Except for the withholding taxes on royalties and certain interest (see footnote [d] below), these withholding taxes are imposed on both residents and non-residents. For nonresidents, these are final taxes, unless the income is effectively connected with a permanent establishment in Japan. Royalties paid to residents are not subject to withholding tax.
- (c) Under the special law to secure funds for reconstruction related to the 11 March 2011 disasters, a special additional income tax (2.1% of the normal withholding tax due) is imposed for a 25-year period running from 1 January 2013 through 31 December 2037. As a result, the 20% withholding tax rate is increased to 20.42%, and the 15% rate is increased to 15.315%. However, this special additional income tax does not affect reduced withholding taxes under existing income tax treaties.
- (d) Interest paid to residents on bonds, debentures or bank deposits is subject to a 20% withholding tax, which consists of a national tax of 15% and a local tax of 5%. Other interest paid to residents is not subject to a withholding tax. Interest paid to nonresidents on bonds, debentures or bank deposits is subject to a 15% withholding tax. Interest paid to nonresidents on national and local government bonds under the Book-Entry Transfer System is exempt from withholding tax if certain requirements are met.
- (e) The loss carryback is temporarily suspended (see Section C).
- (f) The carryforward period of losses arising in fiscal years beginning on or after 1 April 2018 will be extended to 10 years (see Section C).

## B. Taxes on corporate income and gains

**Corporate tax.** Japanese domestic companies are subject to tax on their worldwide income, but nonresident companies pay taxes only on Japanese-source income. A domestic corporation is a corporation that is incorporated or has its head office in Japan. Japan does not use the “central management and control” criteria for determining the residence of a company.

**Rates of corporate tax.** The basic rate of national corporation tax is 23.4% for fiscal years beginning on or after 1 April 2016. For corporations with stated capital of JPY100 million or less, a tax rate of 15% applies to the first JPY8 million of taxable income. The tax rate of 15% applies for fiscal years beginning between 1 April 2012 and 31 March 2019.

Local income taxes, which are local inhabitant tax and enterprise tax, are also imposed on corporate income (see Section D). The resulting effective corporate income tax rate for companies subject to the 23.4% rate is approximately 34%. Under Business Scale Taxation (Gaikei Hyojun Kazei; see Section D), for certain corporations, the effective rate is reduced to approximately 30%.

**Capital gains.** In general, for Japanese corporate tax purposes, capital gains are not taxed separately. Such gains are treated as ordinary income to which normal tax rates apply. Transferor corporations in qualified reorganizations may defer the recognition of capital gains and losses arising in such transactions. Mergers, corporate spin-offs, share exchanges and contributions in kind are considered qualified reorganizations if they satisfy certain conditions.

A special surplus tax is imposed on capital gains from the sale of land located in Japan. However, this tax is suspended for sales conducted through 31 March 2020. The tax is calculated by applying the following rates, which vary depending on the length of time the property was held, to the capital gains.



Number of years held		Rate
Exceeding	Not exceeding	%
0	5	10
5	—	5

The 2009 tax reform introduced two temporary capital gains reliefs with respect to the holding of land investments. Under one of these measures, a special deduction of JPY10 million may be claimed with respect to capital gains arising from the sale of land acquired during the period from 1 January 2009 to 31 December 2010 and held for a period of five years or more, subject to certain conditions. The other measure is a capital gain deferral mechanism applicable to qualifying land acquired in the period from 1 January 2009 through 31 December 2010. This measure provides a deferral of 80% or 60% of the amount of capital gains arising from land disposed within a certain time period after the date on which the land is acquired, subject to certain conditions and filing obligations.

**Administration.** The tax year for a corporation is its fiscal year. A corporation must file a tax return within two months of the end of its fiscal year, paying the tax at that time. A one-month extension is normally available on application to the tax authorities. The 2017 tax reform introduced a four-month extension if certain conditions are met. Except for newly established corporations, and corporations with a tax amount of JPY100,000 or less in the preceding year, if the fiscal year is longer than six months, the corporation must file an interim return within two months of the end of the first six months and make an advance payment at the time of filing the interim return equal to either 50% of its prior year's tax liability or 100% of its estimated tax liability for the first six months of the current year.

**Dividends received/paid.** Dividends received from another domestic corporation, net of any related interest expense incurred for acquisition of the shares, are generally excluded from gross income. However, if the recipient corporation owns more than 5% and up to 33 $\frac{1}{3}$ % of the domestic corporation distributing the dividends, 50% of the net dividend income is includible in gross income. If the recipient corporation owns 5% or less of the domestic corporation distributing the dividends, 80% of the net dividend income is includable in gross income. Dividends distributed by a domestic corporation are subject to a 20% (20.42%, inclusive of the 2.1% special additional income tax) withholding tax.

A foreign dividend exemption system is available for Japanese companies holding a minimum interest of 25% for a period of at least six months before the date on which the decision to distribute the dividend is made. Under certain tax treaties, the minimum holding interest can be lower than 25%, subject to certain conditions. Under the foreign dividend exemption, 95% of foreign dividends received is excluded from taxable income. No credit for withholding tax or underlying tax on the foreign dividends is available.

For fiscal years beginning on or after 1 April 2016, if foreign dividends received by a domestic corporation are wholly or partially included as deductible expenses under the laws of the country where the headquarters of the foreign subsidiary is located,

such foreign dividends are excluded from the foreign dividend exemption system. If a portion of the dividends that a domestic corporation receives from its foreign subsidiary are included as deductible expenses, the domestic corporation may elect to exclude only such portion from the foreign dividend exemption system (the domestic corporation is required to attach prescribed statements to the tax return and preserve certain documents). Foreign tax credits are available for the amount of withholding taxes imposed on dividends that are excluded from the foreign dividend exemption system. This new rule will not apply to dividends received from a foreign subsidiary during fiscal years beginning on or after 1 April 2016 and on or before 31 March 2018 if the dividends are paid with respect to shares of the foreign subsidiary held by the domestic corporation as of 1 April 2016.

**Foreign tax credit.** A Japanese company may be entitled to claim a foreign tax credit against both Japanese corporation tax and local inhabitant tax (see Section D). Creditable foreign income taxes for a Japanese company include foreign income taxes paid directly by a Japanese company and its foreign branches (direct tax credit). In addition, under tax treaties, a tax-sparing credit may be available to domestic companies with a branch or subsidiary in a developing country.

### C. Determination of trading income

**General.** The tax law prescribes which adjustments to accounting income are required in computing taxable income. Expenditures incurred in the conduct of the business, except as otherwise provided by the law, are allowed as deductions from gross income.

Remuneration paid to directors cannot be deducted as an expense unless it is fixed compensation, remuneration determined and reported in advance or performance-based remuneration. The deductibility of entertainment expenses incurred by a corporation in fiscal years beginning during the period of 1 April 2006 through 31 March 2018 is restricted according to the size (capitalization) of the corporation (see *Entertainment expenses*). Deductions of donations, except for those to national or local governments or similar organizations, are limited.

**Entertainment expenses.** Entertainment expenses cannot be deducted from taxable income. However, all corporations may deduct 50% of entertainment expenses related to meal and drink from taxable income for fiscal years beginning on or after 1 April 2014. Small or medium-sized corporations can choose the 50% deduction or the fixed deduction of up to JPY8 million.

**Inventories.** A corporation may value inventory at cost under methods such as the following:

- Actual cost
- First-in, first-out (FIFO)
- Weighted average
- Moving average
- Most recent purchase
- Retail

Alternatively, inventory may be valued at the lower of cost or market value. If a corporation fails to report the valuation method

to the tax office, it is deemed to have adopted the most recent purchase price method.

**Depreciation.** The cost of tangible fixed assets, excluding land, may be recovered using statutory depreciation methods, such as straight-line or declining-balance. Depreciation rates are stipulated in the Japanese tax law, which provides a range of rates for each asset category based on the useful life. Depreciation for tax purposes may not exceed the amount of depreciation recorded for accounting purposes. Revised depreciation rates apply to assets acquired on or after 1 April 2007. In addition, statutory salvage value and limit of depreciation are abolished in conjunction with the introduction of the revised depreciation rates. The following are the ranges of the revised depreciation rates for the straight-line and declining-balance methods for selected asset categories.

Asset category	Straight-line		Declining-balance	
	From	To	From	To
Buildings	0.143	0.020	—	—
Building improvements	0.334	0.056	—	—
Other structures	0.334	0.013	0.667	0.025
Motor vehicles	0.500	0.050	1.000	0.100
Machinery and equipment	0.500	0.046	1.000	0.091

In the year of acquisition of specified machinery or equipment, a corporation may take additional depreciation. A corporation has the option of taking such additional depreciation or claiming the investment tax credit (see *Investment tax credit*).

Intangible assets, including goodwill, are amortized using the straight-line method over their useful lives. The useful life of goodwill is five years.

**Investment tax credit.** A specified small or medium-sized corporation that acquires or produces certain qualifying machinery or equipment (for use in its business within one year of acquisition) during the period of 1 June 1998 through 31 March 2017 may receive a credit against its corporate tax liability. The credit generally equals 7% of the cost or 20% of the corporate tax, whichever is less, and acts as a substitute for additional depreciation (see *Depreciation*).

For fiscal years beginning on or after 1 April 2017, a corporation may claim a credit equal to 6% to 14% (12% to 17% for a small or medium-sized corporation) of total current research and development (R&D) expenditure, up to a maximum amount equal to 25% (in principle) of the corporate tax due for the relevant fiscal year.

For fiscal years beginning during the period of 1 April 2008 through 31 March 2019, corporations may also claim an additional credit up to 10% of the corporate tax due for certain incremental R&D expenditure or R&D expenditure in excess of specified recent average sales figures.

Tax credits for other investments in certain fields, such as job development and environmental operation, or specific facilities are also available for certain periods. Some of these credits apply to small or medium-sized corporations only.

**Net operating losses.** Net operating losses of certain corporations may be carried forward for 9 years (10 years for losses arising in fiscal years beginning on or after 1 April 2018), and may be carried back 1 year. The deductible amount is limited to 55% (50% for fiscal years beginning on or after 1 April 2018) of taxable income. The loss carryback is suspended for fiscal years ending from 1 April 1992 through 31 March 2018. However, this suspension does not apply to net operating losses generated in fiscal years ending on or after 1 February 2009 for specified small or medium-sized corporations.

**Groups of companies.** The Consolidated Tax Return System (CTRS) applies to a domestic parent corporation and its 100% domestic subsidiaries. A consolidated group must elect the application of the CTRS, subject to the approval of the National Tax Agency (NTA). If a consolidated group wants to terminate its CTRS election, it must obtain the approval of the NTA.

Corporate tax law contains special taxation for intra-group transactions in 100% groups, under which certain gains and losses are tax deferred. This taxation is separate from the CTRS.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Consumption tax; on a broad range of goods and services	
Rate until 30 September 2019	8%
Rate beginning 1 October 2019	10%
Enterprise tax	
Companies that are subject to Business Scale Taxation; Business Scale Taxation (Gaikei Hyojun Kazei) applies to companies with stated capital of more than JPY100 million; under Business Scale Taxation, a company is subject to tax on the basis of its added value, its capital amount and its taxable income	
Rates on added value for fiscal years beginning on or after 1 April 2016	1.20% to 1.26%
Rates on capital amount for fiscal years beginning on or after 1 April 2016	0.50% to 0.525%
Rates on taxable income for fiscal years beginning on or after 1 April 2016 through 30 September 2019	0.3% to 0.88%
Companies that are not subject to Business Scale Taxation; rates applied to taxable income; rates for fiscal years beginning on or after 1 October 2014 through 30 September 2019	3.4% to 7.18%
Special local corporate tax; a national tax, which is levied on companies that are subject to enterprise tax; imposed on local enterprise tax liability with respect to taxable income	

Nature of tax	Rate
(special local corporate tax will be abolished for the fiscal years beginning on or after 1 October 2019; the percentages of special local corporate tax will be included in local enterprise tax for the fiscal years beginning on or after 1 October 2019)	
Companies subject to business scale enterprise tax; rate for fiscal years beginning on or after 1 April 2016 through 30 September 2019	414.2%
Companies not subject to business scale enterprise tax; rate for fiscal years beginning on or after 1 October 2014 through 30 September 2019	43.2%
Local inhabitant tax, which consists of an income levy and a capital levy	
Income levy; computed as a percentage of national income tax; rate depends on the company's capitalization and amount of national income tax	
Fiscal years beginning on or after 1 October 2014 through 30 September 2019	12.9% to 16.3%
Fiscal years beginning on or after 1 October 2019	7.0% to 10.4%
Capital levy; based on the company's capitalization and number of employees; annual assessments vary depending on the cities and prefectures in which the company's offices are located	JPY70,000 to JPY4,400,000
Local corporate tax; a national tax, imposed on standard corporate tax liability	
Fiscal years beginning on or after 1 October 2014 through 30 September 2019	4.4%
Fiscal years beginning on or after 1 October 2019	10.3%
Social insurance contributions, on monthly standard remuneration and bonuses	
Basic contribution, paid by	
Employer	14.344%
Employee	14.108%
Nursing insurance premium for employees who are age 40 or older, paid by	
Employer	0.825%
Employee	0.825%

## E. Miscellaneous matters

**Foreign-exchange controls.** The Bank of Japan controls inbound and outbound investments and transfers of money. Effective from 1 April 1998, the reporting requirements were simplified.

**Transfer pricing.** The transfer-pricing law stipulates that pricing between internationally affiliated entities should be determined at arm's length. Entities are considered to be internationally affiliated entities if a direct or indirect relationship involving 50% or more ownership or substantial control exists. The law provides

that the burden of proof as to the reasonableness of the pricing is passed to the taxpayer, and if the taxpayer fails to provide proof or to disclose pertinent information to the tax authorities, taxable income is increased at the discretion of the tax authorities. The 2011 revision of the law eliminated the hierarchy-based selection of transfer-pricing methods and allows the selection of the most appropriate transfer-pricing method in each specific case.

It is possible to apply for advance-pricing arrangements with the tax authorities. In cases in which a taxpayer has received a transfer-pricing assessment as a result of an examination, a taxpayer applying for a Mutual Agreement Procedure between Japan and the relevant treaty partner country may be granted a grace period for the payment of taxes due by assessment, including penalty taxes. The length of the grace period depends on the specific circumstances of the assessment.

**Anti-tax-haven legislation.** The Japanese tax law has tax-haven rules. If a Japanese domestic company (including individuals who have a special relationship with such Japanese domestic company) owns 10% or more of the issued shares of a tax-haven subsidiary of which more than 50% is owned directly or indirectly by Japanese domestic companies and Japanese resident individuals (including nonresident individuals who have a special relationship with such Japanese domestic companies or such Japanese resident individuals), the income of the subsidiary must be included in the Japanese parent company's taxable income in proportion to the equity held. A foreign subsidiary is considered a tax-haven subsidiary if its head office is located in a country that does not impose income tax or if the subsidiary is subject to tax at an effective rate of less than 20% (the trigger rate). The effective rate is calculated on a company-by-company basis. Losses of a tax-haven subsidiary may not offset the taxable income of the Japanese parent company.

Dividends distributed by a tax-haven subsidiary cannot generally be excluded from tax-haven income added back to the parent company's taxable income. However, the following dividends received by a tax-haven subsidiary can be excluded from the apportionment to a parent company's income:

- Dividends from a foreign subsidiary in which the tax-haven subsidiary has held 25% or more of the total issued shares or the total voting shares for a period of at least six months
- Dividends that have already been added to the Japanese parent company's taxable income as another tax-haven subsidiary's income under the tax-haven rules

The 2017 tax reform introduced fundamental changes to the anti-tax-haven rules, including the following:

- Elimination of the trigger rate
- Introduction of paper companies, cashbox companies and blacklist territory companies
- New substantial control criteria and revision of the shareholding calculation method
- New definition of passive income

The revised rules will enter into effect for accounting periods of foreign subsidiaries beginning on or after 1 April 2018.

**Debt-to-equity rules.** Thin-capitalization rules limit the deduction for interest expense for companies with foreign related-party debt if the debt-to-equity ratio exceeds 3:1.

**Earnings-stripping rules.** Earnings-stripping rules limit the deductibility of interest paid by corporations to foreign related persons. Net interest paid to foreign related persons by a corporation in excess of 50% of its adjusted taxable income is disallowed as a tax deduction. Interest deductions disallowed under this new provision are carried forward for up to seven years. If earnings-stripping rules and thin-capitalization rules both apply, the rule that results in a larger disallowance is applied.

## F. Treaty withholding tax rates

For treaty countries, the rates reflect the lower of the treaty rate and the rate under domestic tax laws on outbound payments.

	Dividends %	Interest %	Royalties %
Australia	0/5/10 (m)	0/10 (c)	5
Austria (ff)	10/20 (a)	10	10
Bangladesh	10/15 (a)	10 (c)	10
Belgium (ee)	10/15 (a)	10	10
Brazil	12.5	12.5 (c)	12.5/15/20 (f)
Brunei			
Darussalam	5/10 (l)	10 (c)	10
Bulgaria	10/15 (a)	10 (c)	10
Canada	5/15 (a)	10 (c)	10
Chile	0/5/15 (ii)	4/10 (jj)	2/10 (kk)
China (mainland)	10	10 (c)	10
Czechoslovakia (n)	10/15 (a)	10 (c)	0/10 (i)
Denmark (hh)	10/15 (a)	10	10
Egypt	15	15/20 (q)	15
Finland	10/15 (a)	10	10
France	0/5/10 (u)	10 (c)	0
Germany	0/5/15 (d)	0	0
Hong Kong SAR	5/10 (l)	10 (c)	5
Hungary	10	10 (c)	0/10 (i)
India	10	10 (c)	10
Indonesia	10/15 (a)	10 (c)	10
Ireland	10/15 (a)	10	10
Israel	5/15 (a)	10 (c)	10
Italy	10/15 (a)	10	10
Kazakhstan	5/15 (a)	10 (c)	5 (w)
Korea (South)	5/15 (a)	10 (c)	10
Kuwait	5/10 (l)	10 (c)	10
Latvia	0/10 (ll)	0/10 (ll)	0
Luxembourg	5/15 (a)	10 (c)	10
Malaysia	5/15 (a)	10 (c)	10
Mexico	0/5/15 (o)	10/15 (c)(p)	10
Netherlands	0/5/10 (y)	10 (z)	0 (aa)
New Zealand	0/15 (x)	10 (c)	5
Norway	5/15 (a)	10 (c)	10
Oman	5/10 (l)	10 (c)	10
Pakistan	5/7.5/10 (v)	10 (c)	10
Philippines	10/15 (l)	10 (c)	10 (g)
Poland	10	10 (c)	0/10 (i)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Portugal	5/10 (l)	10 (cc)	5
Qatar	5/10 (l)	10 (c)	5
Romania	10	10 (c)	10/15 (i)
Saudi Arabia	5/10 (l)	10 (c)	5/10 (r)
Singapore	5/15 (a)	10 (c)	10
Slovenia	5	0/5 (c)	5
South Africa	5/15 (a)	10 (c)	10
Spain	10/15 (a)	10	10
Sri Lanka	20	15/20 (c)(q)	0/10 (h)
Sweden	0/10 (t)	0 (dd)	0 (aa)
Switzerland	0/5/10 (y)	10 (z)	0 (aa)
Thailand	15/20 (s)	10/15/20 (c)(j)(q)	15
Turkey	10/15 (a)	10/15 (c)(j)	10
USSR (k)(gg)	15	10 (c)	0/10 (i)
United Arab Emirates	5/10 (l)	10 (c)	10
United Kingdom	0/10 (t)	0 (dd)	0 (aa)
United States (bb)	0/5/10 (b)	10 (c)	0
Vietnam	10	10 (c)	10
Zambia	0	10 (c)	10
Non-treaty jurisdictions	20	15/20 (q)	20

- (a) The treaty withholding rate is increased to 15% or 20% if the recipient is not a corporation owning at least 25% (Austria, more than 50%; Kazakhstan, 10%; Spain, directly 25%) of the distributing corporation for 6 months (Austria, Denmark and Indonesia, 12 months).
- (b) Dividends are exempt from withholding tax if the beneficial owner of the dividends owns directly, or indirectly through one or more residents of either contracting state, more than 50% of the voting shares of the company paying the dividends for a period of 12 months ending on the date on which entitlement to the dividends is determined and if certain other conditions are met. The 5% rate applies to dividends paid to a company owning directly or indirectly at least 10% of the voting shares of the payer. The 10% rate applies to other dividends.
- (c) Interest paid to a contracting state, subdivision or certain financial institutions is exempt.
- (d) Dividends are exempt from withholding tax if the beneficial owner of the dividends owns at least 25% of the voting shares of the company paying the dividends for a period of 18 months ending on the date on which entitlement to the dividends is determined and if certain other conditions are met. The withholding tax rate of 5% applies to dividends paid to a company owning at least 10% of the voting shares of the company paying the dividends for a period of six months ending on the date on which entitlement to the dividends is determined. The 15% rate applies to other dividends.
- (e) Interest paid to a Swiss resident pursuant to debt claims guaranteed or insured by Switzerland is exempt.
- (f) The withholding rate for trademark royalties is 20%; for motion picture films and videotapes, the rate is 15%. The 12.5% rate applies to other royalties.
- (g) The withholding rate for motion picture films is 15%.
- (h) The withholding rate for motion picture films is 0% and for patent royalties is 10%.
- (i) The withholding tax on cultural royalties is exempt (Romania, 10%) and on industrial royalties is 10% (Romania, 15%).
- (j) The rate is generally 15% (Thailand, or 20%), except it is reduced to 10% for interest paid to banks.
- (k) The USSR treaty applies to Armenia, Belarus, Georgia, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
- (l) The withholding rate is increased to 10% (Philippines, 15%) if the recipient is not a corporation owning at least 10% of the voting shares (Philippines and Saudi Arabia, or the total shares) of the distributing corporation during the six-month (Saudi Arabia, 183-day, Portugal, 12-month) period ending on the



- date on which entitlement to the dividends is determined (Philippines, the day immediately preceding the date of payment of the dividends).
- (m) Dividends are exempt from withholding tax if the beneficial owner of the dividends owns directly at least 80% of the voting shares of the company paying the dividends for a period of 12 months ending on the date on which entitlement to the dividends is determined and if certain other conditions are met. The 5% rate applies to dividends paid to a company owning directly at least 10% of the voting shares of the payer. The 10% rate applies to other dividends.
  - (n) The Czechoslovakia treaty applies to the Czech and Slovak Republics.
  - (o) The 5% rate applies if the recipient of the dividends is a corporation owning at least 25% of the payer during the 6-month period immediately before the end of the accounting period for which the distribution of profits takes place. The 0% rate applies if the recipient of the dividends is a "specified parent company," as defined in the treaty. The 15% rate applies to other dividends.
  - (p) The general rate is 15%. The 10% rate applies to certain types of interest payments such as interest paid to or by banks.
  - (q) Loan interest paid to nonresidents is subject to a 20% withholding tax. Interest paid to nonresidents on bonds, debentures or bank deposits is subject to a 15% withholding tax.
  - (r) The withholding rate for the use of, or the right to use, industrial, commercial or scientific equipment is 5%.
  - (s) The 15% rate applies if the dividends are paid by a company engaged in an industrial undertaking to a company owning at least 25% of the payer of the dividends. The 20% rate applies to other dividends.
  - (t) Dividends are exempt from withholding tax if the company receiving the dividends owns at least 10% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined and if certain other conditions are met. The 10% rate applies in other cases.
  - (u) The 0% rate applies if the beneficial owner of the dividends owns directly at least 15%, or owns at least 25% (regardless of whether ownership is direct or indirect), of the voting shares of the payer of the dividends for the six-month period ending on the date on which the entitlement to dividends is determined and if certain other conditions are met. The 5% rate applies to dividends paid to a company owning directly or indirectly at least 10% of the voting shares of the payer for the six-month period ending on the date on which the entitlement to dividends is determined. The 10% rate applies to other dividends.
  - (v) The 5% rate applies if the beneficial owner of dividends owns directly or indirectly at least 50% of the voting shares of the payer of the dividends for the 6-month period ending on the date on which the entitlement to dividends is determined. The 7.5% rate applies to dividends paid to a company owning directly or indirectly at least 25% of the voting shares of the payer for the 6-month period ending on the date on which the entitlement to dividends is determined. The 10% rate applies to other dividends.
  - (w) The withholding tax rate on royalties is 10% under the treaty. However, the reduced rate of 5% provided in the protocol dated 19 December 2008 applies.
  - (x) Dividends are exempt from withholding tax if the company receiving the dividends owns at least 10% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined and if certain other conditions are met.
  - (y) Dividends are exempt from withholding tax if the company receiving the dividends owns at least 50% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined and if certain other conditions are met. The 5% rate applies to dividends paid to a company owning at least 10% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined. The 10% rate applies to other dividends.
  - (z) Interest paid to a contracting state, subdivision or certain financial institutions are exempt. The 10% rate applies to other interest payments.
  - (aa) Royalties are exempt from withholding tax if certain conditions are met.
  - (bb) In January 2013, Japan signed a protocol to revise its double tax treaty with the United States. The protocol has not yet entered into force. Under the protocol, dividends will be exempt from withholding tax if the company receiving the dividends owns at least 50% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined and if certain other conditions are met. The same rates under the current treaty will apply to other dividends. Interest will be exempt from withholding tax if certain conditions are met.
  - (cc) Interest paid to a contracting state or subdivision is exempt. A 5% rate applies to interest paid to banks. The 10% rate applies to other interest payments.
  - (dd) Interest is exempt from withholding tax if certain conditions are met.

- (ee) In October 2016, Japan signed a revised double tax treaty with Belgium. The agreement has not yet entered into force. Under the agreement, dividends will be exempt from withholding tax if the company receiving the dividends owns at least 10% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined or if the beneficial owner of the dividends is a pension fund. A 10% rate will apply to other dividends. Interest will be exempt from withholding tax if certain conditions are met, and the same rate under the current treaty will apply to other interest payments. Royalties will be exempt from withholding tax.
- (ff) In January 2017, Japan signed a revised double tax treaty with Austria. The agreement has not yet entered into force. Under the agreement, dividends will be exempt from withholding tax if the company receiving the dividends owns directly or indirectly at least 10% of voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined or if the beneficial owner of the dividends is a pension fund. A 10% rate will apply to other dividends. In principle, interest will be exempt from withholding tax. Royalties will be exempt from withholding tax.
- (gg) In September 2017, Japan signed a revised double tax treaty with the Russian Federation. This revised treaty will not have any impact on the current USSR treaty applicable to certain countries (see footnote [k]) except for the Russian Federation. The agreement has not yet entered into force. Under the agreement, dividends will be exempt from withholding tax if the beneficial owner of the dividends is a pension fund. A 5% rate will apply to dividends paid to a company owning directly at least 15% of the voting shares of the payer for 365-day period ending on the date on which entitlement to the dividends is determined. A 15% rate will apply to dividends on shares of a company that derive at least 50% of their value directly or indirectly from immovable property. A 10% rate will apply to other dividends. In principle, interest will be exempt from withholding tax. Royalties will be exempt from withholding tax.
- (hh) In October 2017, Japan signed a revised double tax treaty with Denmark. The agreement has not yet entered into force. Under the agreement, dividends will be exempt from withholding tax if any of the following circumstances exist:
- The company receiving the dividends owns directly at least 10% of the voting shares of the payer for a six-month period if the payer is a resident of Japan.
  - The company receiving the dividends owns 10% of the capital of the payer for a six-month period if the payer is a resident of Denmark.
  - The beneficial owner of the dividends is a pension fund.
- A 15% rate will apply to other dividends. In principle, interest will be exempt from withholding tax. Royalties will be exempt from withholding tax.
- (ii) Dividends are exempt from withholding tax if the beneficial owner of the dividends is a pension fund and if such dividends are not derived from the carrying on of a business by such pension fund. A 5% rate applies to dividends paid to a company owning at least 25% of the voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined. A 15% rate applies to other dividends. The above provisions do not limit the application of the additional tax payable in Chile.
- (jj) A 4% withholding tax rate applies to interest paid to the following:
- A bank.
  - An insurance company.
  - An enterprise substantially deriving its gross income from the active and regular conduct of a “lending or finance business” involving transactions with unrelated persons, if the enterprise is unrelated to the payer of the interest. For purposes of this clause, “lending or finance business” includes the business of issuing letters of credit, providing guarantees or providing credit card services.
  - An enterprise that sold machinery or equipment, if the interest is paid with respect to indebtedness arising as part of the sale on credit of such machinery or equipment.
  - Any other enterprise, provided that in the three tax years preceding the tax year in which the interest is paid, the enterprise derives more than 50% of its liabilities from the issuance of bonds in the financial markets or from taking deposits at interest, and more than 50% of the assets of the enterprise consist of debt claims against unrelated persons.
- A 10% rate applies to other interest payments. However, a 15% rate replaces this rate for the two-year period beginning on 28 December 2016.
- (kk) Royalties for the use of, or the right to use, industrial, commercial or scientific equipment are subject to withholding tax at a rate of 2%. A 10% rate applies to other royalties.
- (ll) Dividends and interest are exempt from withholding tax if the beneficial owner is a person other than an individual. A 10% rate applies to other dividend and interest payments.

In June 2017, Japan signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. The deposit of the instruments of ratification, acceptance or approval by five jurisdictions is required for the Convention to enter into force, and the Convention will enter into force with respect to the five jurisdictions on the expiration of a specified period after the deposit of the fifth instrument. With respect to each of jurisdictions depositing the instrument of ratification, acceptance or approval thereafter, the Convention will enter into force on the expiration of a specified period after its deposit. The Convention will enter into effect with respect to a tax agreement covered by the Convention on the expiration of a specified period after the Convention has entered into force with respect to all of the parties to the tax agreement. In Japan, the approval of the Convention by the Diet is necessary in order for Japan to deposit such an instrument.

In July 2017, Japan signed a double tax treaty with Lithuania. The agreement has not yet entered into force. Under the agreement, dividends and interest will be exempt from withholding tax if the beneficial owner is a person other than an individual. A 10% rate will apply to other dividend and interest payments. Royalties will be exempt from withholding tax.

In August 2017, Japan signed a double tax treaty with Estonia. The agreement has not yet entered into force. Under the agreement, dividends will be exempt from withholding tax if the company receiving the dividends owns directly or indirectly at least 10% of voting shares of the payer for the six-month period ending on the date on which entitlement to the dividends is determined. A 10% rate will apply to other dividends. Interest paid to a contracting state, subdivision or certain financial institutions will be exempt from withholding tax. A 10% rate will apply to other interest payments. Royalties will be subject to withholding tax at a rate of 5%.

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### Business Tax Advisory

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## A. At a glance

Corporate Income Tax Rate (%)	0/10/20 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0/10/20 (a)
Withholding Tax (%)	
Dividends	0 (b)
Interest (c)	
On Bank Deposits and Short-Term Debt	0 (d)
Other Interest	0 (e)
Royalties from Patents	0/20 (f)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	– (g)
Carryforward	Unlimited

- (a) The general rate is 0%. The 10% rate applies to certain regulated financial services companies. The 20% rate applies to utility companies, companies in the business of importation and supply of hydrocarbon oil to Jersey, and rental income, development profits and certain income derived from Jersey land.
- (b) See Section B.
- (c) Jersey legislation, which took effect on 1 July 2005 and is amended, effective from 1 January 2015, implements withholding tax and exchange-of-information measures similar to the measures included in the European Council Directive 2003/48/EC on the Taxation of Savings Income. For details, see Section B.
- (d) Debt is considered short-term if it cannot exceed 364 days.
- (e) A 20% rate applies to certain interest on long-term debt if the loan agreement was entered into before 1 January 2004 by a Jersey individual and if no election is made to pay the interest gross. This rate is unlikely to be applied except in rare cases.
- (f) The 20% rate applies to patent royalties paid to individuals resident in Jersey.
- (g) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their worldwide profits excluding capital gains.

In general, all companies incorporated in Jersey are considered resident. However, a company incorporated in Jersey is considered nonresident if the company's business is centrally managed and controlled outside Jersey in a country or territory where the highest rate at which any company may be subject to tax on any part of its income is 10% or higher and if the company is tax resident in that country or territory. A company incorporated outside Jersey is regarded as Jersey resident if its business is managed and controlled in Jersey.

**Rates of corporate income tax.** Jersey has a general corporate income tax rate of 0% and a rate for certain regulated entities of 10%. Utility companies, companies in the business of importation and supply of oil to Jersey, and rental income, development profits and certain profits derived from Jersey land are subject to income tax at a rate of 20%.

Effective from the 2018 year of assessment, large corporate retailers (as defined) are subject to tax at a rate of 20% on their assessable profits if their annual taxable profits are above GBP500,000, with tapering relief on profits between GBP500,000 and GBP750,000.

Regulated entities subject to the 10% tax rate are certain financial services companies that are registered or hold a permit in accordance with various laws administered by the Jersey Financial Services Commission and operate through a permanent establishment in Jersey. These companies include the following:

- Entities carrying out banking business, trust business or investment business
- Fund administrators or custodians

The definition of a "financial services company" is widened from 2018 and includes the following:

- Companies registered under the Financial Services (Jersey) Law 1998 to carry out general insurance mediation business.
- Companies registered as a registrar of companies with the Jersey Financial Services Commission.
- Companies holding a permit under the Insurance Business (Jersey) Law 1996.
- "Finance companies," which are companies engaged in the provision of credit or financing to customers. In this context, customers do not include related parties and, as a result, intra-group finance companies are not generally subject to tax at 10%.

The 10% rate applies to such financial services business conducted through a Jersey company or a branch.

Unless certain conditions are met, an agent or tenant must deduct tax at a rate of 20% before paying rent on a Jersey property to a nonresident landlord.

**International Business Companies.** The International Business Company status was abolished, effective from 1 January 2012.

**Exempt companies.** Jersey's former exempt company status was abolished, effective from the 2009 year of assessment. An alternative exemption regime for eligible investment schemes was introduced from 2010. However, because of the existence of the 0% tax rate, this regime is rarely used.

**Capital gains.** Jersey does not impose a tax on capital gains.

**Administration.** Corporate income tax returns must be filed by 6:00 p.m. on 31 December in the year following the year of assessment. A GBP250 penalty is imposed for a failure to file or the late filing of tax returns. Assessments are normally issued to taxpayers in the year following the income year (the Jersey fiscal year coincides with the calendar year), and tax is payable on the day following the date of the issuance of the assessment. A 10% surcharge is imposed if tax remains unpaid as of the deadline, which is 6:00 p.m. on the Friday following the first Monday in December in the year following the year of assessment.

The basis of assessment for trading is profits arising in the current accounting period.

Although no statutory clearance mechanism exists, on specific request, the tax authorities provide advance rulings on the Jersey tax treatment of transactions.

**Dividends.** Dividends paid by Jersey resident companies may be deemed to be paid net of tax. The rate depends on the tax rate applicable to the profits from which the dividend was paid.

Effective from 1 January 2013, Jersey resident individuals who own more than 2% of a Jersey resident company whose profits are taxed at less than 20% are subject to tax on any value taken by them out of the company that is less than or equal to their share of specified profits. This applies to any distributions made on or after 1 January 2013. The definition of a distribution is quite broad. Before 2012, a deemed distribution regime applied.

**European Union Savings Directive.** From 1 January 2016, most European Union (EU) countries stopped exchanging information under the EU Savings Directive (EUSD). Jersey has notified the countries with which EUSD agreements were in place that the agreements have been suspended in preparation for the agreements to be terminated from 1 January 2017. The only exception is Austria, which continued to apply the EUSD in 2016.

**Automatic exchange of information.** Jersey has entered into inter-governmental agreements (IGAs) with the United Kingdom and the United States, and has also adopted the Common Reporting Standard (CRS). The UK IGA has been replaced by the CRS, but transitional rules were introduced. These transitional rules ensure that certain requirements set out under the UK IGA remain applicable.

**Foreign tax relief.** Jersey has entered into full double tax treaties with Cyprus, Estonia, Guernsey, the Hong Kong Special Administrative Region (SAR), Isle of Man, Luxembourg, Malta, Qatar, Rwanda, Seychelles, Singapore, the United Arab Emirates and the United Kingdom. It has entered into limited treaties with Australia, Denmark, the Faroe Islands, Finland, France, Germany,

Greenland, Iceland, New Zealand, Norway, Poland and Sweden. The arrangements with Guernsey and the United Kingdom give credit for tax on all sources of income, except that the treaty with the United Kingdom specifically excludes dividends and debenture interest.

Unilateral relief is granted for income not covered by a treaty in certain circumstances. Unilateral relief in the form of a tax credit may also be granted if income tax is charged on the full amount of the foreign income and foreign tax is payable with respect to the foreign income, under the law of an overseas jurisdiction. Relief may be granted for underlying tax and withholding tax on dividends received from overseas companies, subject to certain conditions.

Jersey has entered into various tax information exchange agreements (TIEAs) and some limited double tax agreements (see above). The TIEAs provide for the exchange of information between tax authorities, on request, with respect to the tax position of resident persons. The limited double agreements provide for the allocation of taxing rights with respect to certain income derived by individuals and enterprises operating ships and aircraft in international traffic.

### **C. Determination of trading income**

**General.** The amount assessable is based on the accounting profit, adjusted for tax purposes.

Revenue expenses incurred wholly and exclusively for the purposes of a trade or the managing of investments are deductible.

**Inventories.** No statutory rules prescribe which methods of stock valuation are acceptable. Under International Financial Reporting Standards, inventory is normally valued at the lower of cost or net realizable value.

**Provisions.** Only provisions relating to specific expenses are allowed as deductions.

**Tax depreciation (capital allowances).** Capital allowances, normally at 25% of the declining balance, are given on capital expenditure incurred to acquire machinery or plant to be used wholly and exclusively for the purposes of the trade.

Capital allowances are calculated on a pool of assets. A balancing charge is imposed if the proceeds from the sale of an asset (limited to the cost of the asset) exceed the written-down tax value of the pool or if the business is terminated.

**Groups of companies.** A qualifying company that suffers a loss may surrender the loss to another qualifying company in the same group. The company receiving the loss can then offset the loss against its profits or gains. The loss can be offset only against profits or gains determined for an accounting period that is the same as, or overlaps with, the financial period in which the loss arises. For these purposes, a qualifying company is a regulated entity that is taxed at a rate of 10% (see Section B).

Companies taxed at 0% that are part of a group may also surrender losses to offset the profits of another company taxed at 0% in the group.

**Relief for losses.** Companies subject to tax at the 0% or 10% rates can relieve losses by carrying the losses forward and offsetting them against future profits or by surrendering losses under the group relief measures (see *Groups of companies*).

Losses incurred by companies subject to tax at a rate of 20% may be used to offset either income for the year in which the losses were incurred or profits derived from the same trade in the immediately preceding year of assessment. Unused losses may be carried forward, without time limit, to offset income from the same trade for any subsequent year of assessment.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Social security contributions; on salaries of employees resident in Jersey (the 2018 amounts are shown); payable by Employer (maximum monthly contribution for each employee of GBP278.85) (Employers are required to pay an additional contribution of 2% on the earnings of employees above GBP51,480 and up to GBP170,256 per year.) Employee (maximum monthly contribution of GBP257.40)	6.5 6
Goods and services tax; on domestic supplies of goods and services; an exception applies to certain entities that are able to elect for a fee to have International Services Entity status	5
Land transaction tax; applies to the sale of shares in a company that give the owner of the shares the right to occupy a dwelling; the tax is the equivalent to the stamp duty levied on the sale of freehold property; a GBP80 charge also applies; the rate is reduced for reduced rate properties (below GBP450,000) and first-time buyers; other charges may also apply	0.5 to 9

#### E. Miscellaneous matters

**Anti-avoidance legislation.** The Income Tax (Jersey) Law contains a general anti-avoidance provision. The Comptroller may make assessments or additional assessments to counteract transactions if the primary purpose is the avoidance or reduction of income tax.

**Foreign-exchange controls.** Jersey does not apply any form of exchange controls, and capital can be freely repatriated.

**Related-party transactions.** No special legislation applies to related-party transactions.



**Debt-to-equity rules.** Jersey does not impose debt-to-equity requirements.

**Transfer pricing.** Jersey's law does not include transfer-pricing rules. However, see *Anti-avoidance legislation*.

**F. Treaty withholding tax rates**

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Estonia	0*	0	0
Guernsey	0*	0	0
Hong Kong SAR	0*	0	0
Isle of Man	0*	0	0
Luxembourg	0*	0	0
Malta	0*	0	0
Qatar	0*	0	0
Singapore	0*	0	0
United Kingdom	0*	0	0
Non-treaty jurisdictions	0*	0	0

\* See Section B.

# Jordan

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## A. At a glance

Corporate Income Tax Rate (%)	35 (a)
Capital Gains Tax Rate (%)	35 (a)
Branch Tax Rate (%)	35 (a)
Withholding Tax (%)	
Dividends	0 (b)
Interest	5 (c)
Other Payments to Nonresidents	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) This is the maximum rate. For a listing of rates and further details, see Section B.

(b) See Section B.

(c) This withholding tax is imposed on interest paid by banks to depositors (excluding interest paid on local interbank deposits). For further details, see Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** In general, income tax is levied on corporate entities and foreign branches with respect to all income earned in, or derived from, Jordan, regardless of where the

payment is made, and on income generated from investing Jordanian capital outside Jordan.

**Rates of corporate tax.** Corporate income tax in Jordan is imposed at flat rates. Rates for resident corporations vary from 14% to 35%, depending on the type of sector. The following are the corporate income tax rates for the various sectors.

Sector	Rate (%)
Banking	35
Finance, telecommunication, insurance and reinsurance, brokerage, financial leasing, electricity generation, distribution and mining	24
Industrial	14
Other	20

In addition, a tax rate of 10% applies to the net income of Jordanian companies' foreign branches and net income realized by residents of Jordan from foreign sources, if such income is generated from Jordanian monies or deposits.

**Capital gains.** Banks, telecommunications companies, mining companies, insurance companies, reinsurance companies, financial brokerage companies, finance companies, and financial leasing companies are subject to tax on their capital gains realized from sales of shares, stocks, bonds, Islamic financial instruments, treasury bonds, mutual investments funds, futures contracts and options in Jordan. In addition, capital gains realized from the sale of depreciable assets are subject to the applicable corporate income tax rate depending on the type of activity in which the company engages.

For other companies, capital gains realized from transactions other than the sale of depreciable assets in Jordan are exempt from tax (except for goodwill). However, a formula is used to calculate the disallowed part of the relevant cost related to the exempt income. This formula is the ratio of exempt income to total income, multiplied by total allowable cost. Capital gains derived from sales of shares in foreign markets that arise from Jordanian funds are subject to income tax.

**Administration.** The tax year for corporations is their accounting (financial) year. Tax returns must be filed on a prescribed form in Arabic within four months after the tax year-end.

The tax return includes a payroll listing and information pertaining to goods and services supplied for the year, including details related to the corporation's income, expenses, exemptions and tax due.

The total amount of tax due must be paid at the time of filing to avoid penalties.

The Jordanian tax authorities may conduct an income tax audit for up to four previous years and may assess the taxpayer additional taxes during these audits.

Taxpayers whose gross income equaled or exceeded JOD1 million in the preceding financial year are required to make an advance tax payment within 30 days following the end of the first

half of the tax year and another advance tax payment within 30 days following the end of the tax year. Each advance payment is equal to 40% of the preceding year's tax if the current year's interim financial statements are not available.

**Dividends.** Dividends received from companies located in Jordan are exempt from tax except for the following:

- Dividends received by banks from mutual investment funds, which are subject to a 35% corporate income tax rate
- Dividends received by telecommunications companies, mining companies, insurance companies, reinsurance companies, financial brokerage companies, finance companies, and financial leasing companies from mutual investment funds, which are subject to 24% corporate income tax rate

Twenty-five percent (subject to change) of dividend income must be added back to income if it does not exceed the total allowable costs; that is, the cap for disallowed expenses is the lower of 25% of dividends or reported costs.

**Interest.** Interest paid by banks to depositors, except for interest on local interbank deposits, is subject to a 5% withholding tax. The withholding tax is considered to be a payment on account for resident companies and a final tax for individuals and nonresident companies. Interest paid from Jordan to nonresident banks and nonresident finance companies for deposits that are held in Jordan is not subject to withholding tax in Jordan. Any other type of interest (non-depository) paid to nonresidents is subject to a 10% withholding tax. Interest payments on loans from nonresidents are subject to withholding tax and general sales tax at 10% and 16%, respectively.

**Foreign tax relief.** Foreign tax relief is granted in accordance with tax treaties signed with other countries.

### C. Determination of trading income

**General.** All income earned in Jordan from trading or other sources, except for income exempt under Jordanian legislation, is taxable.

Business expenses incurred to generate income are generally allowable, with limitations on certain items, such as entertainment and donations. A certain percentage of entertainment expenses is deductible. Head office charges are limited to 5% of the branch's net taxable income.

**Provisions and reserves.** Provisions and reserves are not allowed as tax deductions, except for insurance companies' reserves and doubtful debts' provisions for banks.

**Tax depreciation.** The Jordanian tax authorities' Regulation No. 55 of 2015 sets out the maximum depreciation rates applicable to various fixed assets for corporate income tax purposes. If the rates used for accounting purposes are greater than the prescribed tax depreciation rates, the excess is disallowed, but may be used for tax purposes at a later date. The following are some of the maximum straight-line depreciation rates.

<b>Asset</b>	<b>Rate (%)</b>
Industrial, ordinary and temporary buildings	2/4/10
Furniture for dwelling, sleeping and work purposes, manufactured from iron, wood and fixed plastics	5
Furniture for hospitals, tourist services, hotels and restaurants	15
Other furniture	20
Means of transport	15
Computers, appliances, machinery used in production and medical equipment	35
Others machinery and equipment	20

A taxpayer is entitled to benefit from an accelerated depreciation method up to three times the straight-line amount if the taxpayer uses the accelerated-depreciation method until the asset is fully depreciated.

Machinery, equipment and other fixed assets that are imported on a temporary-entry basis (equipment that the government allows foreign contractors to import on a temporary basis for the purpose of carrying out certain contractual work in Jordan) do not qualify for the accelerated depreciation method.

Used assets are depreciated at the above statutory rates, which are applied to the purchase price.

The following are some straight-line amortization rates:

<b>Intangible assets</b>	<b>Rate (%)</b>
Key franchising (in practice, money paid to a business owner to vacate the premises so that the payer can take over the lease)	25
Computer software and programs	50
Other intangible assets, such as goodwill, trademarks and publishing rights	10

**Relief for losses.** Taxpayers can carry forward unabsorbed losses up to five years to offset profits of subsequent periods. Losses may not be carried back.

**Groups of companies.** The Jordanian income tax law does not contain any provisions for filing consolidated returns or for relieving losses within a group of companies. Companies must file separate tax returns and financial statements for Jordanian tax purposes.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
General sales tax (similar to value-added tax)	16
Social security contributions, on salaries and all benefits except overtime; the maximum salary subject to social security contributions is JOD3,084 for individuals joining the social security system on or after 1 March 2014; the maximum amount is subject to change at the beginning of each year according to the average of social security salaries (but should not exceed JOD3,084 in future years); different	

<b>Nature of tax</b>	<b>Rate (%)</b>
rules regarding maximum salary apply to individuals who joined the social security system before 1 March 2014; the amount of the social security contribution is based on the employee's January salary; the employee's salary is subject to revision in January of each subsequent year; changes to the salary made during the year are not reflected in the employee's social security contribution until the following January; contribution paid by	
Employer	14.25
Employee	7.50
Withholding tax on imports; imposed on the value of goods imported for resale; paid on account against the taxpayer's final tax liability	2
Withholding tax on payments to nonresident service providers	10

### **E. Miscellaneous matters**

**Foreign-exchange controls.** Jordan does not currently impose any foreign-exchange controls.

**Debt-to-equity rules.** Jordan does not currently have debt-to-equity rules.

### **F. Tax treaties**

Jordan has entered into double tax treaties with Algeria, Azerbaijan, Bahrain, Bulgaria, Canada, Croatia, the Czech Republic, Egypt, France, India, Indonesia, Iran, Iraq, Italy, Korea (South), Kuwait, Lebanon, Libya, Malaysia, Malta, Morocco, the Netherlands, Pakistan, the Palestinian Authority, Poland, Qatar, Romania, Sudan, Syria, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, Uzbekistan and Yemen.

In addition, Jordan has entered into tax treaties, which primarily relate to transportation, with Austria, Belgium, Cyprus, Denmark, Italy, Pakistan, Spain and the United States.

The following is a table of treaty withholding tax rates.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Algeria	15	15	15
Azerbaijan	8	8	10
Bahrain	10	10	10
Bulgaria	10	10	10
Canada	10/15	10	10
Croatia	10	10	10
Czech Republic	10	10	10
Egypt	15	15	20
France	5/15	0/15	5/15/25
India	10	10	20
Indonesia	10	10	10
Iran	5/7.5	5	10
Iraq	— *	— *	— *
Italy	10	10	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Korea (South)	10	10	10
Kuwait	5/10	5	30
Lebanon	10	10	10
Libya	— *	— *	— *
Malaysia	10	15	15
Malta	10	10	10
Morocco	10	10	10
Netherlands	15	5	10
Pakistan	10	10	10
Palestinian Authority	— *	— *	— *
Poland	10	10	10
Qatar	10	5	10
Romania	15	12.5	15
Saudi Arabia	5	5	7
Sudan	15	15	15
Syria	10	10	18
Tunisia	— *	— *	— *
Turkey	10/15	10	12
Ukraine	10	10	10
United Arab Emirates	7	7	10
United Kingdom	10	10	10
Uzbekistan	7/10	10	20
Yemen	10	10	10

\* The treaty does not provide for a maximum withholding tax rate.

# Kazakhstan

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## A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Permanent Establishment Tax Rate (%)	20
Branch Profits Tax Rate (Additional Tax) (%)	15 (a)
Withholding Tax (%)	
Dividends	15 (b)(c)
Interest	15 (c)
Royalties from Patents, Know-how, etc.	15 (c)
Capital Gains	15 (c)
Other Income	20
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

- (a) This tax is imposed on the taxable profits of permanent establishments after deduction of corporate income tax.
- (b) This withholding tax applies to dividends paid to nonresident legal entities. Dividends paid to resident legal entities are generally exempt from tax (with some exceptions).
- (c) A 20% withholding tax rate applies to Kazakh-source income paid to entities registered in tax havens.



## B. Taxes on corporate income and gains

**Corporate income tax.** Kazakhstan legal entities and foreign legal entities operating through a permanent establishment are subject to tax. The definition of “permanent establishment” is generally similar to the definition in the model treaty of the Organisation for Economic Co-operation and Development, without the standard exemptions but with certain peculiarities. Kazakhstan tax-resident legal entities are subject to tax on their worldwide income. Non-resident legal entities are subject to tax on income from Kazakh sources that are earned through a permanent establishment.

**Rates of corporate tax.** The regular corporate income tax rate is 20%. This rate applies to Kazakhstan companies, including enterprises with foreign participation (joint ventures) and companies with 100% foreign participation, and permanent establishments of foreign companies.

Permanent establishments are also subject to a 15% branch profits tax on their profits after deduction of corporate income tax. The 15% branch profits tax is imposed regardless of whether the profits are remitted to the home country of the permanent establishment. The branch profits tax rate may be reduced by an applicable double tax treaty.

Payments to foreign or nonresident legal entities without a permanent establishment are subject to withholding tax. The rate is 15% for dividends, interest, royalties, capital gains and insurance premiums. For reinsurance premiums and international transportation services, the rate is 5%. For all other payments, the rate is 20%. The rate is 20% for payments of any type of Kazakh-source income to tax-haven entities. The withholding tax rates may be reduced by an applicable tax treaty.

*Taxation of subsurface users.* Businesses engaging in the exploration and extraction of mineral resources in Kazakhstan (usually referred to as subsurface users under Kazakhstan law) operate under subsurface use contracts. The taxation under such contracts differs from the standard regime.

**Tax incentives.** Expenditure on certain qualifying fixed assets can be deducted in the first three years after commissioning, with each deduction equaling one-third of the initial value of the asset. Alternatively, it can be deducted in full in the tax year in which the expenditure is incurred.

*Special-Economic Zones.* Currently, the following 10 special-economic zones exist in Kazakhstan:

- Astana-New City
- National Industrial Petrochemical Technopark
- Innovation Technology Park
- Sea Port Aktau
- Ontustyk
- Burabai
- Saryarka
- Khorgos-East Gate
- Pavlodar
- Chemical Park Taraz

The Kazakhstan Tax Code provides certain tax benefits for entities carrying out their activities in a special-economic zone. These tax benefits generally include a reduction of the corporate income tax payable by 100% and exemptions from land and property taxes and payments for the use of land plots. In addition, an exemption from social tax may be applied by entities carrying out their activities in the Innovation Technology Park special-economic zone. The tax benefits may be claimed by entities that meet certain requirements established by the Tax Code.

*Other incentives.* Tax benefits that are similar to the special-economic-zone benefits are provided to entities outside special-economic zones that carry out priority investment projects based on investment agreements concluded with the government. Certain requirements and conditions must be met.

**Capital gains.** Capital gains are included in taxable profit and subject to tax at the regular corporate income tax rates. For non-residents, certain capital gains are taxed by withholding tax.

**Administration.** The tax year is the calendar year.

Legal entities must make advance payments of tax on or before the 25th day of each month. These payments are generally based on the estimated income and corporate income tax due for the current year. Annual tax returns must be filed by 31 March of the year following the tax year. Corporate income tax due must be paid within 10 calendar days after the deadline for filing annual tax returns. The following legal entities are not required to make advance payments of tax:

- Taxpayers that had adjusted aggregate annual income not exceeding 325,000 monthly calculation indices (this index is established annually) in their antepenultimate tax year
- Taxpayers in their year of registration and in the following year

**Dividends.** Dividends paid to nonresident legal entities are subject to withholding tax at a rate of 15% (for legal entities from tax-haven countries, a 20% rate applies). Dividends paid to resident legal entities are generally exempt from withholding tax (with some exceptions). Dividends received by resident legal entities are generally exempt from corporate income tax (with some exemptions).

For purposes of the Tax Code, resident legal entities are legal entities created in accordance with Kazakhstan legislation and legal entities with their place of effective management (actual management body) located in Kazakhstan.

**Foreign tax relief.** A foreign tax credit is available for foreign tax paid on income earned abroad, unless such income is exempt from tax in Kazakhstan. The amounts that may be offset are determined for each country separately and equal the lowest amount of the following:

- The amount actually paid in a foreign state on income received by a taxpayer outside of Kazakhstan
- The amount of income tax on income received by a taxpayer outside Kazakhstan, calculated in accordance with the Tax Code and the provisions of an international treaty

### C. Determination of taxable income

**General.** Under accounting legislation, large business entities, financial institutions, joint stock companies and certain other companies must prepare their financial reporting in accordance with International Financial Reporting Standards (IFRS). Other entities may choose to prepare their financial reporting in accordance with IFRS. Entities that do not choose to follow IFRS must prepare their financial reporting in accordance with National Accounting Standards.

In general, taxable profit equals the difference between annual aggregate income and allowable deductions. Income and expenses in accounting records generally serve as the basis for the calculation with adjustments.

In general, under the Tax Code, all actually incurred and properly documented expenses related to activity aimed at generation of revenues are deductible, unless the Tax Code explicitly indicates that a certain expense is nondeductible.

Interest (in certain cases, the amount actually paid within the amount of accrued interest expense) is deductible up to an amount calculated on the basis of the following formula:

$$(A + E) + \left(\frac{OC}{AL}\right) \times (MC) \times (B + C + D)$$

The following are descriptions of the items contained in the above formula:

- “A” is the amount of the interest, excluding amounts included in values B, C, D and E.
- “B” is the amount of interest payable to a related party, excluding amounts included in value E.
- “C” is the amount of remuneration payable to persons registered in a state with a preferential tax regime (tax haven), excluding amounts included in value B.
- “D” is the amount of interest payable to an independent party with respect to loans granted against a deposit of a related party (D1) or against a secured guarantee, surety bond or other form of security provided by a related party in the event of the enforcement of the guarantee, surety bond or other form of security in the reporting period (D2), excluding amounts included in value C.
- “E” is the amount of remuneration for credits (loans) issued by a credit partnership established in Kazakhstan.
- “MC” is the marginal coefficient – seven for financial institutions and four for others.
- “OC” is the average annual amount of owners’ capital.
- “AL” is the average annual amount of liabilities.

The amount of interest in excess of the amount calculated under this formula is not deductible.

Subsurface users (see Section B) may deduct in the form of depreciation deductions expenses incurred during the exploration period on geological studies, exploration and preparation work for the extraction of mineral resources, including expenses for assessment, expenses for equipping, general administrative expenses and expenses connected with the payment of bonuses. Subsurface user operations are works related to geological studies and to the

exploration and production of natural resources. Enterprises begin to calculate depreciation when the extraction of mineral resources begins after commercial discovery. They may set the annual depreciation rate at their discretion, but the rate may not exceed 25%.

**Provisions.** Banks and insurance companies may deduct provisions for doubtful and bad debts created in accordance with IFRS in the order established by the National Bank of Kazakhstan and agreed to by the authorized state body. Other entities may generally deduct actual bad debts that are three years past due if certain other conditions are met.

**Tax depreciation.** Buildings may be depreciated using an annual declining-balance rate of up to 10%. The maximum annual declining-balance depreciation rate for machinery and equipment (with the exception of machinery used in the oil and gas extraction industry) is 25%. The maximum depreciation rate for computers and software is 40%. Other fixed assets not included in the above categories are depreciated at a rate of up to 15%. Depreciation rates for subsurface users may be doubled in the tax year in which fixed assets are first placed into service in Kazakhstan if these fixed assets are used in the business for at least three years.

**Relief for losses.** Enterprises may generally carry forward tax losses from business activities to offset annual taxable profits in the following 10 tax years. Loss carrybacks are not allowed.

**Groups of companies.** The Tax Code does not include any measures permitting related enterprises to offset profits and losses among group members.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; imposed on supplies of goods, work and services that are considered to be supplied in Kazakhstan, as well as on imports of goods	
Standard rate	12
Exports of goods	0
Export duties on certain types of goods (for example, crude oil and specified oil products); the duty is calculated as a specific percentage of the customs value, with a minimum duty of a specified amount of euros or US dollars per unit of measurement	Various
Import duty on certain goods; the duty is calculated as a specific percentage of the customs value, with a minimum duty of a specified amount of euros or US dollars per unit of measurement	
Percentage rates	Various
Excise taxes on certain goods; the tax is calculated as a specified amount of tenge per unit or a specified percentage of the customs value	
Percentage rates	Various

Nature of tax	Rate (%)
Property tax; imposed on annual average balance-sheet value of immovable property	1.5
Payroll taxes	
Personal income tax, payable by employee; calculated at a flat general rate	10
Social tax, paid by employer; calculated at a flat rate	9.5
Pension fund contributions; withheld from employees' salaries; the maximum base used to calculate the monthly contributions is KZT2,121,300 (approximately USD6,400)	
Standard rate	10
Additional professional pension fund contributions; paid by employers for employees working in hazardous health conditions (according to a list of professions); calculated at a flat rate	5
Social insurance contributions paid by employers and self-employed individuals; the base used to calculate the monthly contributions may not exceed KZT282,840 (approximately USD855)	
Percentage rate	3.5
Medical insurance contributions paid by employers and self-employed individuals; the base used to calculate the monthly contributions may not exceed KZT424,260 (approximately USD1,280)	
Percentage rate	1.5
Rent tax on crude oil and gas condensate for export	
Percentage rates	0 to 32

Other taxes include land tax and vehicle owners' tax.

### E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Kazakhstan is the tenge (KZT).

The principal measures governing foreign-exchange controls in Kazakhstan are the Law on Currency Regulations and Currency Control and the resolutions of the National Bank of Kazakhstan. The foreign-exchange control system operates largely through the following two sets of rules:

- Rules for residents (that is, Kazakhstan citizens, Kazakhstan legal entities, representative offices and branches of Kazakhstan legal entities in and outside Kazakhstan, diplomatic, trade and other official representative offices of Kazakhstan, located outside Kazakhstan, and foreign citizens having a Kazakh residency permit)
- Rules for nonresidents (that is, foreign citizens, foreign companies, representative offices and branches of foreign legal entities, international organizations, and diplomatic and other official representative offices of foreign countries)

In general, payments between residents may only be made in tenge.

Under the Civil Code, an obligation between two residents may not be denominated in foreign currency, with certain exceptions. This rule does not apply to contracts between residents and non-residents.

**Transfer pricing.** The Transfer Pricing Law strengthens controls over prices used by taxpayers in cross-border transactions and certain domestic transactions related to cross-border transactions. The law does not differentiate between related and unrelated parties in applying transfer-pricing controls (for example, no price deviation allowed for unrelated parties). The law contains extensive transfer-pricing documentary and monitoring requirements that include, among other items, industry, market, functional and risk analysis. Under the law, the following methods may be used to determine the market price:

- Comparable uncontrolled price method
- Cost-plus method
- Subsequent resale price method
- Profit-split method
- Net margin method

## F. Treaty withholding tax rates

The following table lists the withholding tax rates under Kazakhstan's tax treaties.

	Dividends %	Interest %	Royalties %
Armenia	10	10	10
Austria	5/15 (a)	10	10
Azerbaijan	10	10	10
Belarus	15	10	15
Belgium	5/15 (a)	10	10
Bulgaria	10	10	10
Canada	5/15 (a)	10	10
China (mainland)	10	10	10
Czech Republic	10	10	10
Estonia	5/15 (b)	10	15
Finland	5/15 (a)	10	10
France	5/15 (a)	10	10
Georgia	15	10	10
Germany	5/15 (b)	10	10
Hungary	5/15 (b)	10	10
India	10	10	10
Iran	5/15 (c)	10	10
Italy	5/15 (a)	10	10
Japan	5/15 (a)	10	10
Korea (South)	5/15 (a)	10	10
Kyrgyzstan	10	10	10
Latvia	5/15 (b)	10	10
Lithuania	5/15 (b)	10	10
Luxembourg	5/15 (d)	10	10
Macedonia	5/15 (b)	10	10
Malaysia	10	10	10
Moldova	10/15 (b)	10	10
Mongolia	10	10	10
Netherlands	5/15 (a)	10	10
Norway	5/15 (a)	10	10
Pakistan	12.5/15 (a)	12.5	15

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Poland	10/15 (c)	10	10
Romania	10	10	10
Russian Federation	10	10	10
Saudi Arabia	5	10	10
Serbia	10/15 (b)	10	10
Singapore	5/10 (b)	10	10
Slovak Republic	10/15 (e)	10	10
Slovenia	5/15 (b)	10	10
Spain	5/15 (a)	10	10
Sweden	5/15 (a)	10	10
Switzerland	5/15 (a)	10	10
Tajikistan	10/15 (e)	10	10
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	5/15 (b)	10	10
United Arab Emirates	5/15 (a)	10	10
United Kingdom	5/15 (a)	10	10
United States	5/15 (a)	10	10
Uzbekistan	10	10	10
Vietnam	5/15 (f)	10	10
Non-treaty jurisdictions	15 (g)	15 (g)	15 (g)

- (a) The lower rate applies to dividends paid to companies owning at least 10% of the payer. The 15% rate applies to other dividends.
- (b) The lower rate applies to dividends paid to companies owning at least 25% of the payer. The 15% rate applies to other dividends.
- (c) The lower rate applies to dividends paid to companies owning at least 20% of the payer. The 15% rate applies to other dividends.
- (d) The lower rate applies to dividends paid to companies owning at least 15% of the payer. The 15% rate applies to other dividends.
- (e) The lower rate applies to dividends paid to companies owning at least 30% of the payer. The 15% rate applies to other dividends.
- (f) The lower rate applies to dividends paid to companies owning at least 70% of the payer. The 15% rate applies to other dividends.
- (g) For payments to entities registered in tax havens (according to a list), the rate is 20%.

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## A. At a glance

Corporate Income Tax Rate (%)	30
Turnover Tax Rate (%)	3 (a)
Capital Gains Tax Rate (%)	5 (b)
Branch Tax Rate (%)	37.5
Withholding Tax (%)	
Dividends	10 (c)
Interest	15 (d)
Royalties	20 (e)
Commissions	20 (f)
Management, Professional and Training Fees	20 (g)
Sports and Entertainment Fees	20 (h)
Telecommunication Service Fees	5
Rent	
Real Estate (Immovable Property)	30 (i)
Equipment	15 (j)
Sales of Immovable Property or Shares of Stock by Companies in the Oil and Mining Sector	0 (k)



Natural Resource Income	20 (l)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	9 (m)

- (a) This tax applies to taxpayers with annual gross turnover of more than KES500,000 but not exceeding KES5 million in a tax year.
- (b) A gain on the transfer of securities traded on any securities exchange licensed by the Capital Markets Authority is exempt from capital gains tax.
- (c) This rate applies to dividends paid to nonresidents. A 5% rate applies to dividends paid to residents or citizens of other states in the East African Community.
- (d) This rate applies to payments to residents and nonresidents. However, a 25% withholding tax rate applies to interest arising from bearer instruments.
- (e) This rate applies to payments to nonresidents. A 5% withholding tax is imposed on royalties paid to residents.
- (f) This rate applies to payments to nonresidents. For insurance commissions paid to residents, a 5% withholding tax rate applies to payments to brokers and a 10% rate applies to payments to others. The following commissions are exempt from withholding tax:
  - Commissions paid to nonresident agents with respect to flower, fruit or vegetable auctions
  - Commissions paid by resident air transport operators to nonresident agents to secure tickets for international travel
  - Commissions or fees paid or credited by insurance companies to other insurance companies
- (g) This rate applies to management, professional and training fees paid to nonresidents. However, for consultancy fees, payments to citizens of other East African Community countries are subject to a reduced withholding tax rate of 15%. For residents, management, professional and training fees are subject to a withholding tax rate of 5%. The resident withholding tax rate for contractual fee payments is 3%. For management, training or professional fees paid by contractors in the petroleum industry to nonresident persons, the rate is 12.5%.
- (h) Payments made by film agents and film producers approved by the Kenya Film Commission to approved actors and crew members are exempt from withholding tax.
- (i) This withholding tax applies only to payments to nonresidents. The withholding tax rate applicable to payments made to resident persons as rent, premium or similar consideration for the use or occupation of immovable property is 10%.
- (j) This rate applies to rent paid to nonresidents under leases of machinery and equipment. Rent paid to residents under leases of machinery and equipment is exempt from withholding tax. In addition, leasing of aircrafts, aircraft engines, locomotives or rolling stock is exempt from withholding tax.
- (k) The net gain derived on the disposal of an interest in a person is taxable if the interest derives 20% or more of its value directly or indirectly from immovable property in Kenya.
- (l) This rate applies to payments to nonresidents. A 5% withholding tax is imposed on natural resource royalties paid to residents.
- (m) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Kenya income tax is payable by companies and by unincorporated organizations and associations (excluding partnerships). Taxable trading income consists of income arising or deemed to arise in Kenya.

**Rates of corporate tax.** The corporate tax rate is 30% for resident companies and 37.5% for nonresident companies. The corporate tax rate for companies newly listed on a securities exchange approved under the Capital Markets Act is reduced to the following:

- 20% for companies with at least 40% of their issued share capital listed. The rate applies for a period of five years.
- 25% for companies with a least 30% of their issued share capital listed. The rate applies for a period of five years.

- 27% for companies with at least 20% of their issued share capital listed. The rate applies for a period of three years.
- 25% for a company introducing its shares through a listing on any securities exchange, for a period of five years, beginning immediately with the tax year following the date of such listing.

For a company that constructs at least 400 residential units in the tax year, the tax rate is 15% for that tax year, subject to the approval of the cabinet secretary responsible for housing.

Lower corporate income tax rates apply to companies licensed under the Special Economic Zones. The rate for the first 10 years is 10%; the rate for the next 10 years is 15%; and thereafter, normal rates apply.

**Turnover tax.** Turnover tax is imposed on taxpayers with annual gross turnover that is greater than KES500,000 but not exceeding KES5 million. The tax rate is 3% of annual gross turnover. The tax is a final tax. Turnover tax does not apply to rental income, management or professional or training fees, income of incorporated companies or income that is subject to a final withholding tax.

**Administration.** A company's year of assessment (tax year) coincides with its financial accounting year. A change in a financial accounting year must be approved by the Commissioner of Income Tax.

A company must make payments, each equal to 25% of its estimated tax for the year, by the 20th day of the 4th, 6th, 9th and 12th months of its financial accounting year. The estimated tax must equal either 110% of the previous year's tax or 100% of the tax estimated to be due for the current year.

A company must file a self-assessment return within six months after the end of its financial year. It must also file financial statements within six months after the end of its financial year. Late filing of a return is subject to a penalty of 5% of the tax balance. The minimum penalty is KES20,000. The tax on the self-assessment, reduced by installment tax paid, is due within four months after a company's financial year-end. Late payments are subject to a penalty of 20% plus 2% per month (or part of a month) of the tax balance.

**Capital gains.** Capital gains tax applies to gains realized by companies and individuals on the transfer of property located in Kenya. The general tax rate is 5%. The gain equals the amount by which the transfer value exceeds the adjusted cost of the property. The adjusted cost is the sum of the cost of acquisition of the property and other costs incurred subsequently to enhance or preserve the property, provided that such costs had not been previously allowed for tax purposes. A gain on the transfer of securities traded on any securities exchange licensed by the Capital Markets Authority is exempt from capital gains tax.

**Dividends.** Dividends paid to resident companies are exempt if the recipient controls at least 12.5% of the distributing company's voting power. Taxable dividend income is subject to a final withholding tax of 10% for nonresidents and 5% for residents.

Compensating tax at a rate of 42.86% is levied on dividends paid out of untaxed profits.

**Foreign tax relief.** Relief for foreign taxes paid is granted in accordance with tax treaties with other countries. Foreign tax paid to a country that does not have a tax treaty with Kenya does not qualify as a tax-deductible expense in Kenya.

### C. Determination of trading income

**General.** Taxable income is accounting income adjusted for non-taxable income, such as dividends and capital gains, and for non-deductible expenses such as depreciation. Expenses are deductible if incurred wholly and exclusively in the production of income.

To encourage industrial growth and attract foreign investment, certain special deductions are allowed.

**Inventories.** The normal accounting basis of the lower of cost or net realizable value is generally accepted for tax purposes. In certain circumstances, obsolescence provisions may be challenged.

**Provisions.** Provisions included in computing financial accounting income are generally not deductible for tax purposes.

**Tax depreciation.** Depreciation charged in the financial statements is not deductible for tax purposes. It is replaced by the following tax depreciation allowances.

Asset class	Method	
	Declining-balance (%)	Straight-line (%)
Heavy machinery such as tractors and combines	37.5	—
Other vehicles such as automobiles, trucks and airplanes	25	—
All other machinery including ships	12.5	—
Specified office equipment such as computers	30	—
Other office equipment	12.5	—
Petroleum pipeline	12.5	—
Telecommunication equipment	—	20
Computer software	—	20
Irrevocable right to use fiber-optic cable	—	5
Industrial buildings	—	10 (a)
Hotel buildings	—	10 (a)
Hostel, educational and training buildings	—	50 (a)
Commercial and rental residential buildings	—	25 (b)
Farming operations	—	100

- (a) The rate for the buildings is applied to the capital cost, which is generally the lower of the construction cost or the purchase price, unless purchased from the business entity that constructed the building. The rate is 100% for buildings used for the training of film producers, actors or crews.
- (b) To qualify for the above deduction, rental residential buildings must be constructed in a planned developed area approved by the minister responsible for matters relating to housing.

Deduction on capital expenditure incurred under concessionaire arrangements is claimed in equal proportions over the period of the concession.

A 100% investment allowance is granted for capital expenditure on industrial buildings and hotels and on machinery installed on such structures. Licensed local film producers also qualify for a 100% investment allowance with respect to the purchase of film equipment. An investment deduction may be claimed at a rate of 150% if an investment for manufacturing purposes is made outside the city of Nairobi and the municipalities of Mombasa or Kisumu and if the investment value is KES200 million or more.

Capital allowances are subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. Amounts recaptured are treated as ordinary income and subject to tax at the regular corporate income tax rate.

**Relief for losses.** Tax deficits (losses) are allowable deductions in the year in which they arise and in the following nine years of income. However, companies operating in the extractive industry may carry forward losses indefinitely. Profits and losses arising from specified sources (rental income, income from agriculture and similar activities, and other profits from business) are computed separately. If a company has a loss in a year from one of the specified sources, the loss may be offset only against subsequent profits derived from the same specified source.

**Groups of companies.** The income tax law does not permit consolidated returns combining the profits and losses of affiliated companies or the transfer of losses from loss companies to profitable members of the same group of companies.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on the supply of goods and services in Kenya and on imported goods and services	0/16
Railway Development Levy; imposed on the import value of all imported goods; import value is the Cost, Insurance and Freight value	1.5
Contributions to the National Social Security Fund (NSSF); expatriates who are members of social security schemes in their home countries and those expected to be in Kenya for not more than three years are exempt; contributions are payable monthly by	
Employer (maximum contribution of KES200)	5
Employee (maximum contribution of KES200)	5
(A new NSSF Act was enacted on 24 December 2013. Under the new act, both the employer and employee are required to contribute 6% of the employee's monthly pensionable pay subject to an upper earnings limit based on the national average earnings provided by the Kenya Bureau of Statistics. The contributions are categorized	

<b>Nature of tax</b>	<b>Rate (%)</b>
into Tier I and Tier II contributions. Tier I contributions must be remitted to the NSSF, while Tier II contributions may be remitted to a contracted-out (private) scheme. However, these contributions are not yet operational because of an Industrial Court ruling blocking the implementation of the new act.)	

## E. Miscellaneous matters

**Foreign-exchange controls.** The Central Bank of Kenya imposes certain foreign-exchange regulations.

**Transfer pricing.** The transfer-pricing rules include measures regarding the following matters:

- Entities and transactions to which the rules apply
- Methods that may be used to determine arm's-length prices
- Records regarding transactions that must be maintained

The methods for determining arm's-length prices are consistent with those approved by the Organisation for Economic Co-operation and Development.

**Debt-to-equity rules.** The deductibility of interest on loans and foreign-exchange losses is restricted for a foreign-controlled company with a debt-to-equity ratio exceeding 3:1 (except for companies operating in the extractive industry for which the ratio is 2:1). For purposes of the ratio, debt includes any form of indebtedness for which the company is incurring interest, a financial charge, a discount or a premium. Interest-free loans provided or secured by nonresidents are deemed to accrue interest at a rate equal to the average 91-day Treasury Bill rate.

## F. Treaty withholding tax rates

The withholding tax rates under Kenya's tax treaties are listed below. If the treaty rate is higher than the non-treaty rate, the non-treaty rate applies.

<b>Payee resident in</b>	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties/ management and professional fees %</b>
Canada	15	15	15
Denmark	20	20 (a)	20
France	10	12	20 (e)
Germany	15	15 (a)	15
India (h)	10	10	10
Korea (South) (h)	10 (f)	12	20 (e)
Norway	15	20 (a)	20
Qatar (h)	10 (g)	10	20 (e)
South Africa	10	10	20 (e)
Sweden	15	15	20
United Kingdom	15	15 (a)	15 (b)
Zambia	0 (c)	15	20
Non-treaty jurisdictions	10	15	20 (d)

- (a) Interest paid by the government and the Central Bank of Kenya is tax-exempt.
- (b) The rate is 12.5% for management and professional fees.
- (c) No Kenya tax is due if the dividend is subject to tax in Zambia.
- (d) The withholding tax rate is 15% for consultancy fees paid to residents of other East African Community countries.
- (e) The rate is 10% for royalties.
- (f) The rate is 8% for beneficial owners with a shareholding of at least 25%.
- (g) The rate is 5% for beneficial owners with a shareholding of at least 10%.
- (h) The India, Korea (South) and Qatar double tax treaties are effective from 1 January 2018.

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)(b)
Capital Gains Tax Rate (%)	25 (a)(b)(c)
Branch Income Tax Rate (%)	25 (a)(b)
Branch Profits Tax Rate (Additional Tax) (%)	— (d)
Withholding Tax (%)	
Dividends	0 (e)
Interest	14 (b)(e)
Royalties from Patents, Know-how, etc.	0 (e)
Net Operating Losses (Years)	
Carryback	1 (f)
Carryforward	10 (g)



- (a) This is the maximum rate (see Section B).
- (b) Local income tax (formerly referred to as resident surtax) is also imposed at a rate of 10% of corporate income tax payable before offsetting tax credits and exemptions (see Section D).
- (c) Capital gains are included in ordinary taxable income for corporate tax purposes.
- (d) This tax is imposed on income that is remitted or deemed to be remitted by a Korean branch of a foreign corporation. The branch profits tax may be payable if the foreign company is resident in a country with which Korea has entered into a tax treaty and if the treaty requires the imposition of a branch profits tax. For a list of these countries and the rates of the tax, see Section B. The branch profits tax is imposed in addition to the income tax imposed on branches.
- (e) For payments to domestic corporations and foreign corporations with a place of business in Korea. For withholding rates applicable to payments to foreign corporations that do not have a place of business in Korea, see Section B.
- (f) Only small and medium-sized enterprises are entitled to carry back losses.
- (g) Except for small and medium-sized enterprises and certain other companies (for example, companies under court receivership), the annual deductibility limit for loss carryforwards is 70% of taxable income for domestic corporations. The limit is reduced to 60% for fiscal years beginning on or after 1 January 2019. The annual deductibility limit for loss carryforwards is 80% of taxable income for a foreign corporation's domestic place of business (for example, a branch) in Korea.

## B. Taxes on corporate income and gains

**Corporate income tax.** Korean domestic corporations are taxed on their worldwide income, including income earned by their foreign branches. A domestic corporation is one that has its head or main office or place of effective management in Korea. Foreign corporations are taxed on Korean-source income only.

**Rates of corporate income tax.** The rates are indicated below.

*Domestic corporations.* Corporate income tax is imposed at a rate of 10% on taxable income up to KRW200 million, at a rate of 20% on taxable income in excess of KRW200 million up to KRW20 billion, at a rate of 22% on taxable income in excess of KRW20 billion up to KRW300 billion and at a rate of 25% on taxable income exceeding KRW300 billion. Local income tax (formerly referred to as resident surtax), equal to 10% of corporate income tax payable before offsetting tax credits and exemptions, is also imposed (see Section D), resulting in an effective tax rate of 27.5% on taxable income exceeding KRW300 billion if no tax credits and exemptions are available.

*Accumulated earnings tax.* Korean domestic large corporations with equity capital (total assets minus total liabilities) of KRW50 billion or more and Korean corporations that are members of an enterprise group with restrictions on cross shareholding are taxed on their excess earnings at a rate of 22% (including local income tax) in addition to the above corporate income tax.

Excess earnings are calculated by applying one of two methods. Under Method A, excess earnings equal 65% of adjusted taxable income less amounts spent on investments (excluding investments in land), salary and wage increases of employees whose annual salaries and wages are less than KRW70 million, and certain other items. If the number of regular employees increased during the year, 50% of the existing regular employees' increases and 100% of the new regular employees' increases are also included in computing the deduction amount. Under Method B, the calculation is the same except that a 15% percentage is applied,

and the amount spent on the investment is not deducted from the excess earnings. The computation of adjusted taxable income under the two methods are the same, except that Method A includes the add-back of depreciation and amortization expenses relating to the amount spent on the investment. The amount of adjusted taxable income considered for purposes of computing accumulated earnings tax is capped at KRW300 billion.

*Foreign corporations with a domestic business operation.* The same tax rates as those for domestic corporations apply.

A Korean branch of a foreign corporation is also subject to a branch profits tax, which may be imposed if the foreign company is resident in a country with which Korea has entered into a tax treaty and if the treaty requires the imposition of a branch profits tax. Companies resident in the following countries are subject to the branch profits tax at the rates indicated, which include the resident surtax.

Country	Rate (%)
Australia	15
Brazil	15
Canada	5
France	5
Indonesia	10
Kazakhstan	5
Morocco	5
Panama	2
Peru	10
Philippines	11
Thailand	10

*Foreign corporations without a domestic business operation.* A foreign corporation that does not have a domestic business place (that is, a “permanent establishment”) in Korea is subject to the following withholding tax rates on its Korean-source income (unless other rates apply under a tax treaty).

Type of income	Rate
Leasing income from vessels, aircraft, heavy equipment and other assets, and business income	2%
Personal services income	3%/20%*
Interest on bonds	14%
Interest on items other than bonds, dividends, royalties and other income	20%
Gain from transfer of securities or shares	Lesser of 10% of the gross sales price and 20% of net gain

\* The 20% tax rate applies to income accrued from services performed in Korea. Income accrued from services performed outside Korea are subject to withholding tax at a rate of 3% if the income is deemed to have been accrued in Korea under the relevant tax treaty.

Local income surtax (formerly referred to as resident surtax) at a rate of 10% is imposed in addition to the above rates.

*Domestic place of business.* A foreign corporation that has any of the following fixed operations in Korea is deemed to have a domestic place of business:

- A branch, office or any other business office
- A store or any other fixed sales place
- A workshop, factory or warehouse
- A construction site or place of installation or assembly, which exists for more than six months
- A place where services are rendered through employees for more than six months during a consecutive 12-month period or a place where services are rendered recurrently or repeatedly through employees over a period of two years or more
- A mine, quarry or other location for natural resources exploitation

A fixed place of business does not include the following:

- A purchasing office
- A storage or custody area for property that cannot be sold
- An office involved in advertising, public relations, collecting and furnishing information, market survey, and other preparatory or auxiliary activities
- The place to maintain an asset belonging to the enterprise solely for the purpose of processing by another enterprise

A foreign corporation that does not have a fixed place of business in Korea may be considered to have a domestic place of business if it operates a business through a person in Korea authorized to conclude contracts or perform similar activities on its behalf.

*Tax Incentives Limitation Law.* The Tax Incentives Limitation Law (TILL) grants tax incentives to foreign investors approved by the Ministry of Strategy and Finance. The following are the most commonly applied incentives among foreign-invested companies:

- High technology tax incentive
- Individual-type Foreign Investment Zone (FIZ) tax incentive
- Free Economic Zone (FEZ) tax incentives

Under the high technology tax incentive, individual-type FIZ tax incentive and FEZ tax incentive with resolution by certain committees on examination, beginning with their first profitable year, companies are exempt from corporate income tax on their qualified income for five years and benefit from a 50% tax reduction on such income for the following two years, subject to certain limitation. For companies that do not earn a profit in the first five years, the tax exemption begins in the sixth year. For other FEZ tax incentives, a tax exemption applies for the first three years and a 50% tax reduction applies for the following two years, subject to certain limitation.

The percentage of income qualifying for the above tax incentives corresponds to the percentage of shares owned by foreign investors in the company.

Depending on the type of investment, exemptions or reductions may apply to other taxes, including acquisition tax, property tax, and value-added tax, special excise tax and customs duty on imported capital goods.

**Capital gains.** Capital gains are included in ordinary taxable income for corporate tax purposes.

**Administration.** A corporation must file a tax return within three months after the end of its fiscal year. In general, tax due must be paid at the time of submitting the tax return. However, if tax

liability exceeds KRW10 million, the tax due may be paid in installments.

**Dividends.** A corporation must include dividends received in taxable income. However, a certain portion of dividends received by a domestic corporation from another domestic corporation are deductible from taxable income according to a formula provided in the measure entitled “Dividends Received Deduction.”

**Foreign tax relief.** A tax credit is allowed for corporate taxes paid to a foreign government. The foreign tax credit relief is limited to the lesser of the tax paid abroad or the Korean tax amount multiplied by the ratio of income from foreign sources to total taxable income. If a company has places of business abroad in two or more countries, it can only determine the foreign tax credit limitation on a country-by-country basis for each country individually. If the amount of the foreign tax credit is limited by this rule, the excess foreign tax paid over the limitation may be carried forward for up to five tax years. Alternatively, the corporate tax paid to a foreign government may be claimed as a tax deduction (the deduction method).

### C. Determination of taxable income

**General.** The tax law defines the specific adjustments that are required in computing taxable income. If not specified by law, the accrual basis is applied.

**Inventories.** A corporation must select and notify the tax office of its basis for the valuation of inventories on its first annual income tax return. It may select the cost method or the lower of cost or market value method. The cost method may be applied using any of the following methods:

- First-in, first-out (FIFO)
- Last-in, first-out (LIFO)
- Moving average
- Total average
- Individual costing (specific identification)
- Retail

If a corporation fails to notify the tax office, it must use FIFO for tax purposes.

#### Reserves

*Reserves for employee retirement allowance.* Under the Korea Labor Standards Act, employees with one year or more of service are entitled to a retirement allowance equal to 30 days’ salary or more for each year of service on termination of employment. However, effective for companies’ fiscal years beginning on or after 1 January 2016, a tax deduction for the reserves for employee retirement allowance is no longer permitted.

A company may claim a tax deduction for the remainder of the estimated retirement allowances by funding the portion of the reserve in excess of the tax-deductible limit. The permitted funding methods specified by the tax law include the depositing of an amount equal to the excess portion in a retirement pension account with qualified institutions, such as insurance companies, banks, and the Korea Workers’ Compensation and Welfare Service.

**Bad debt reserve.** A corporation is allowed to set up a reserve for bad debts. The maximum amount of the reserve is the greater of the following:

- 1% of the book value of receivables at the end of the accounting period
- Historical bad-debt ratio multiplied by the book value of receivables at the end of the accounting period

However, for financial institutions, the maximum amount of the reserves is the greatest of the following:

- The amount to be accumulated based on reserve guidelines issued by the Financial Services Commission in consultation with the Ministry of Strategy and Finance
- 1% of the book value of the receivables at the end of the accounting period
- Historical bad-debt ratio multiplied by the book value of receivables at the end of the accounting period

**Depreciation and amortization.** In general, corporations may depreciate tangible fixed assets using the straight-line, declining-balance or unit-of-production (output) depreciation methods. However, buildings and structures must be depreciated using the straight-line method. Intangible assets must be amortized using the straight-line method. A corporation must select from among the depreciation methods and useful lives specified in the tax law and notify the tax office of its selections in its first annual income tax return. Otherwise, the depreciation method and useful life designated in the tax law for the respective class of asset are applied. The following are the statutory rates of depreciation under the declining-balance method and useful lives for certain types of assets.

Asset	Annual depreciation rate under declining-balance method (%)	Years of useful life
Commercial buildings	–	20 or 40
Industrial buildings	–	20 or 40
Office equipment	45.1	5
Motor vehicles	45.1	5
Plant and machinery	45.1 to 14	5 to 20

**Relief for losses.** Tax losses can be carried forward for 10 years. The carryforward of tax losses is subject to an annual deductibility limitation of 70% of taxable income for domestic corporations. The limitation is reduced to 60% for fiscal years beginning on or after 1 January 2019. The annual deductibility limitation does not apply to small and medium-sized enterprises and certain other companies (for example, companies under court receivership). The annual deductibility limitation is 80% of taxable income for a foreign corporation's domestic place of business (for example, a branch) in Korea. Small and medium-sized enterprises may carry back losses one year.

**Groups of companies.** A consolidated tax return is available for a group containing a parent company and its 100%-owned subsidiaries. The consolidated tax return allows losses of group companies to be offset against profits of other group companies. After the parent company elects tax consolidation, it must maintain the consolidation for five fiscal years (including the first fiscal year of tax consolidation) and apply the consolidation to all 100%-owned subsidiaries.

**D. Other significant taxes**

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Local income tax; levied on corporate taxable income	
Taxable income up to KRW200 million	1
Taxable income in excess of KRW200 million up to KRW20 billion	2
Taxable income in excess of KRW20 billion up to KRW300 billion	2.2
Taxable income exceeding KRW300 billion	2.5
(The above rates result in a local income tax rate of 10% of corporate income tax payable before offsetting tax credits and exemptions.)	
Value-added tax	
Standard rate	10
Acquisition tax, including surtax, on land, buildings, ships, automobiles and heavy equipment	Various
Registration license tax, including local education surtax	
Normal rate on registration of incorporation	0.48
Registration of incorporation in the Seoul metropolitan area	1.44
Withholding of payroll taxes, including local income surtax, on salaries and wages	6.6 to 46.2

**E. Transfer pricing**

Korea has transfer-pricing rules. The acceptable transfer-pricing methods include comparable uncontrolled price, resale price, cost-plus, profit-split, the transactional net margin method (TNMM) and other reasonable methods designated by the tax law. It is possible to reach transfer-pricing agreements in advance with the tax authorities.

**F. Treaty withholding tax rates**

	Dividends		Interest	Royalties	
	A	B		C	D
	%	%	%	%	%
Albania	5	10	10	10	10
Algeria	5	15	10	2	10
Australia	15	15	15	15	15
Austria	5	15	10	2	10
Azerbaijan	7	7	10	5	10
Bahrain	5	10	5	10	10
Bangladesh	10	15	10	10	10
Belarus	5	15	10	5	5
Belgium	15	15	10	10	10
Brazil	10	10	15 (c)	10	10 (d)
Brunei					
Darussalam	5	10	10	10	10
Bulgaria	5	10	10	5	5
Canada	5	15	10	10	10
Chile	5	10	15 (f)	5	10
China (mainland)	5	10	10	10	10
Colombia	5.5	11	11 (p)	11	11

	Dividends		Interest	Royalties	
	A	B		C	D
	%	%	%	%	%
Croatia	5	10	5	0	0
Czech Republic	5	10	10	10	0
Denmark	15	15	15	10	15
Ecuador	5	10	12 (p)	5	12
Egypt	10	15	15 (e)	15	15
Estonia (b)	5.5	11	11	5.5	11
Ethiopia	5	8	7.5 (p)	5	5
Fiji	10	15	10	10	10
Finland	10	15	10	10	10
France	10	15	10	10	10
Gabon	5	15	10	10	10
Georgia	5	10	10	10	10
Germany	5	15	10	2	10
Greece	5	15	8	10	10
Hong Kong					
SAR	10	15	10	10	10
Hungary	5	10	0	0	0
Iceland	5	15	10	10	10
India	16.5	16.5	11	11	11
Indonesia	10	15	10	15	15
Iran (b)	11	11	11	11	11
Ireland	10	15	0	0	0
Israel	5	15	10 (h)	2	5
Italy	10	15	10	10	10
Japan	5	15	10	10	10
Jordan	10	10	10	10	10
Kazakhstan	5	15	10	2	10
Kenya	8	10	12 (p)	10	10
Kuwait	5	5	5	15	15
Kyrgyzstan	5	10	10	5	10
Laos	5	10	10	5	5
Latvia	5	10	10	5	10
Lithuania	5	10	10	5	10
Luxembourg	10	15	10 (j)(p)	5	10
Malaysia	10	15	15	10	15
Malta	5	15	10	0	0
Mexico	0	15	15 (j)	10	10
Mongolia	5	5	5	10	10
Morocco	5	10	10	10	5
Myanmar	10	10	10	10	15
Nepal	5/10	15	10	15	15
Netherlands	10	15	15 (c)	10	15
New Zealand	15	15	10	10	10
Norway	15	15	15	10	15
Oman	5	10	5	8	8
Pakistan	10	12.5	12.5	10	10
Panama	5	15	5	3	10
Papua New Guinea	15	15	10	10	10
Peru	10	10	15	10	15
Philippines (b)	11	27.5 (q)	16.5 (o)	16.5	16.5(d)
Poland	5	10	10	10	10
Portugal	10	15	15	10	10
Qatar (b)	11	11	11	5.5	5.5
Romania	7	10	10	7	10
Russian Federation	5	10	0	5	5

	Dividends		Interest	Royalties	
	A	B		C	D
	%	%	%	%	%
Saudi Arabia	5	10	5	5	10
Serbia	5	10	10	10	5
Singapore	10	15	10	15	15
Slovak Republic	5	10	10	10	10 (i)
Slovenia	5	15	5	5	5
South Africa (b)	5.5	16.5	11	11	11
Spain	10	15	10	10	10
Sri Lanka	10	15	10	10	10
Sweden	10	15	15 (c)	10	15
Switzerland	5	15	10 (j)	5	5
Tajikistan	5	10	8	10	10
Thailand	10	10	15 (m)	15	10 (n)
Tunisia	15	15	12	15	15
Turkey	15	20	15 (a)	10	10
Turkmenistan	10	10	10	10	10
Ukraine	5	15	5	5	5
United Arab Emirates	5	10	10	0	0
United Kingdom	5	15	10	2	10
United States (b)	11	16.5	13.2	16.5	11
Uruguay	5	15	10	10	10
Uzbekistan	5	15	5	2	5
Venezuela (b)	5.5	11	11 (k)	5.5	11
Vietnam	10	10	10	5	15
Non-treaty jurisdictions (b)(g)(l)	22	22	22	22	22

A Controlling parent.

B Other shareholders.

C Industrial royalties.

D Other royalties.

(a) Reduced to 10% if repayment period is over two years.

(b) Local income surtax, which equals 10% of the corporate income tax, is included.

(c) Reduced to 10% if repayment period is over seven years.

(d) For royalties for trademarks, the rate is increased to 25%.

(e) Reduced to 10% if the repayment period is more than three years.

(f) Reduced to 10% for interest paid to banks.

(g) Applicable to the income of foreign corporations that do not have a place of business in Korea and to income that is not attributed to a place of business in Korea.

(h) Reduced to 7.5% for interest paid to banks or financial institutions.

(i) Royalties for the right to use copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for television or radio broadcasting, are exempt from withholding tax.

(j) Reduced to 5% for interest paid to banks.

(k) Reduced to 5.5% for interest paid to banks or financial institutions.

(l) See Section B.

(m) Reduced to 10% for interest beneficially owned by a financial institution (including an insurance company).

(n) Reduced to 5% for royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including software, motion pictures and works on film, tape or other means of reproduction for use in connection with radio or television broadcasting.

(o) Reduced to 11% for interest paid on public issues of bonds or debentures.

(p) Reduced to 0% for interest paid to the central bank or financial institutions performing functions of a governmental nature.

(q) Under Korean tax law, the statutory withholding tax rate on dividends paid to nonresidents is 22% (inclusive of local income tax). Because the statutory withholding tax rate is less than the treaty withholding tax rate of 27.5% provided in the Korea-Philippines tax treaty, Korean-source dividends paid to residents of the Philippines are taxed at the statutory withholding tax rate of 22%.



# Kosovo

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## A. At a glance

Corporate Income Tax Rate (%)	10 (a)
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	10 (a)
Withholding Tax (%)	
Dividends	0
Interest	0/10 (b)(c)
Royalties from Patents, Know-how, etc.	10 (c)
Rent	9 (c)
Gambling Gains	10 (c)
Payments to Nonbusiness Natural Persons, Farmers, Agriculturists, Collectors of Recycling Materials, and Payments for Forest Fruits and Healing Plants	3 (c)(d)
Payments for Entertainment, Artistic or Sporting Events	5 (e)
Income Earned from Agreements with Kosovo Persons for Services Performed in Kosovo	5 (e)(f)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

- (a) Insurance institutions operating in Kosovo are subject to tax at a rate of 5% on the gross premiums accrued during the tax period.
- (b) Interest on financial instruments issued or guaranteed by a public authority of Kosovo are exempt from tax.
- (c) This withholding tax applies to payments to residents and nonresidents.

- (d) Under the corporate income tax law, a “nonbusiness natural person” is a natural person without a registered business activity.
- (e) This withholding tax applies to payments to nonresidents.
- (f) If the percentage of services performed in Kosovo does not exceed 10% of the total amount of the services, the services are not subject to withholding tax.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Companies resident in Kosovo are companies that are established in Kosovo or have their place of effective management in Kosovo. Kosovo-resident companies are subject to corporate income tax on their worldwide income. Foreign companies are subject to tax on profits generated from activities performed through a permanent establishment in Kosovo and on income from Kosovo sources.

**Rate of corporate income tax.** The rate of corporate income tax in Kosovo is 10%.

Insurance institutions operating in Kosovo are subject to tax at a rate of 5% on the gross premiums accrued during the tax period.

**Capital gains and losses.** Capital gains derived from the disposal of capital assets, including real estate and securities, are subject to tax at the standard rate of 10%, together with operating income. Capital losses are deductible for tax purposes. Capital gains derived by a foreign company that does not have a permanent establishment in Kosovo to which such capital gains are attributable are not subject to tax in Kosovo.

**Administration.** The tax year is the calendar year.

Taxpayers must make quarterly advance payments of corporate income tax no later than 15 days after the close of each calendar quarter.

Taxpayers with annual gross income from business activities of up to EUR50,000 that do not keep books and records must make the following quarterly payments:

- Three percent of each quarter’s gross income from trade, transport, agriculture and similar economic activities, but not less than EUR37.50 per quarter
- Nine percent of each quarter’s gross income from professional, vocational and entertainment services and similar activities, but not less than EUR37.50 per quarter
- Ten percent of gross rental income for the quarter reduced by any amount withheld during the quarter

Taxpayers with annual gross income from business activities in excess of EUR50,000 and taxpayers that keep books and records (including partnerships and groups of persons) must make the following advance payments for each calendar quarter:

- One-fourth of the total tax liability for the current tax period based on estimated taxable income reduced by any amount withheld during the quarter with respect to that income in accordance with the relevant legislation on corporate income tax
- For the second and subsequent tax periods, one-fourth of 110% of the total tax liability for the tax period immediately preceding the current tax period, reduced by any amount of tax withheld

By 31 March, taxpayers with annual turnover in excess of EUR50,000 and taxpayers that keep books and records must file

an annual tax return and pay the corporate tax due for the tax year, less advance payments made.

Taxpayers not complying with the filing and payment deadlines described above are subject to interest and penalties.

For the second year of making quarterly advance payments and future years, no interest and penalties apply to taxpayers that calculate the advance payments based on the prior year tax liability increased by 10%.

For the first year of taxation on real income, if a taxpayer's advance payments are insufficient (below 80% of the total tax liability, including the fourth quarter instalment) compared to the total tax liability at year-end, sanctions are applied only in the last quarter of the first year, based on the cumulative installment amounts compared with annual liability, as opposed to considering the last installment as an isolated payment.

For the second year of the business and the following years, taxpayers can pay tax without incurring interest and penalties by paying advance installments based on the prior year tax liability increased by 10%. As a result, taxpayers who make insufficient payments during the year are subject to penalties applied for each quarterly installment until the submission of the annual declaration or the deadline for submission of the annual declaration.

Late filing of the corporate income tax return is subject to a penalty of 5% of the tax due for each month of delay, capped at 25% of the unpaid tax liability.

Late payment of a tax liability results in a penalty amounting to 1% of tax due for each month or part of the month in delay, up to a maximum of 12 months.

The penalties do not apply cumulatively. Instead, the late payment penalty begins to apply to the extent that the unpaid liability is not paid by the time the late filing penalty reaches its ceiling.

In addition, interest may apply on such penalties if the underlying tax liability remains unpaid for more than 120 days. Such interest accrues at a rate that is 0.5 percentage point higher than the inter-bank lending interest rate in Kosovo after a notice is issued to the taxpayer, starting from the first day of the month following the 120-day period.

Erroneous completion of a tax filing or of a tax refund claim is subject to a penalty of 15% of the undeclared tax liability or the excess tax refund claimed if such understatement or overstatement is 10% or less of such tax, or to a 25% penalty if the understatement or overstatements is more than 10% of such tax.

**Dividends.** Dividends received by resident and nonresident companies are exempt from corporate income tax.

**Foreign tax relief.** Foreign direct tax on income and gains of a Kosovo resident company may be credited against the corporate tax on the same profits. The foreign tax relief cannot exceed the Kosovo corporate income tax charged on the same profits. If a company receives income from a country with which Kosovo has entered into a double tax treaty, other forms of foreign tax relief may apply, as stipulated in the provisions of the treaty.

### C. Determination of trading income

**General.** For taxpayers with an annual turnover exceeding EUR50,000 and taxpayers that keep books and records, the assessment of trading income is based on the financial statements prepared in accordance with the generally accepted accounting principles; International Financial Reporting Standards for large, medium and small business organizations; and Kosovo Accounting Standards for microenterprises, subject to certain adjustments for tax purposes.

All necessary and reasonable expenses incurred wholly and exclusively for the business activity that are properly documented are deductible, including health insurance premiums paid on behalf of employees and their dependents, training expenses paid by employers related to employees' work, and advertising and promotion costs, but excluding, among others, the following:

- Fines and penalties and interest related to them
- Tax losses from sales or exchanges of property between related persons
- Voluntary pension contributions made by employers above a maximum amount of 15% of an employee's gross salary
- Costs regarding acquisitions of and improvements to land
- Expenses for presents (however, presents with the name and logo of the business are part of the expenses of representation and are allowed as tax-deductible expenses)
- Losses in specific weight or substance, damages, remains (leftovers or remnants) or surplus, and destruction or demolition during production, transport or storage, beyond certain norms
- Rent for apartments serving as accommodation and lodging of resident and nonresident employees, regardless of the terms of the contract of employment or service
- Benefits in kind in the form of meals and transport tickets, unless it is organized by the business
- Expenditure covered by grants, subsidies and donations, in compliance with regulations and earning criteria (regulations related to conditions for benefiting from the grant and criteria determined by the documents of the grant, subsidy or donations documents)

Other types of expenses may be deducted up to a ceiling. These expenses include, but are not limited to, the following:

- Representation costs are deductible up to a maximum of 1% of gross annual income.
- Contributions made for humanitarian, health, education, religious, scientific, cultural, environmental protection and sports purposes are deductible up to a maximum of 10% of taxable income before deducting such contributions.

**Inventories.** The inventory valuation rules stipulated in the accounting law also apply for tax purposes. Inventory is valued at historical cost, which is determined by using the weighted average, first-in, first-out (FIFO) or other specified methods. The method must be applied in the year in which it has been selected and for at least three additional tax periods. Changes in the method after such period are subject to an ad hoc ruling from the Kosovo tax administration.

**Provisions.** Companies may not deduct provisions, except for certain levels of provisions and special reserve funds of financial institutions as specified by the Central Bank of Kosovo.

**Tax depreciation.** Tangible property is depreciated separately for tax purposes using the straight-line method at the rates mentioned below.

Buildings and other constructed structures are depreciated at a rate of 5%.

Vehicles, computers and information systems, office furniture and equipment, instruments and livestock are depreciated at a rate of 20%.

Plant and machinery, trains, airplanes, ships, trees and all other tangible assets are depreciated at a rate of 10%.

Acquisition costs for assets amounting up to EUR1,000 are deducted in full from business income in the current year, unless the asset functions as part of one entirety and the value of the entirety is over EUR1,000.

Intangible assets, including patents, copyrights, licenses for drawings and models, contracts, and franchises, are amortized for tax purposes using the straight-line method over the useful life of the asset. If the useful life cannot be determined, the amortization expenses are allowed for 20 years.

Exploration and development costs incurred for the extraction of natural resources and interest attributable to such costs are capitalized and amortized at the following coefficient:

$$\text{Amortization coefficient} = \frac{\text{Quantity of minerals extracted during the year}}{\text{Total estimated quantity in deposit}}$$

**Relief for losses.** Losses may be carried forward for six consecutive years. However, if a change in the type of business organization occurs or a change in the ownership of the company of more than 50% occurs, the remaining losses are forfeited. Loss carry-backs are not allowed.

**Groups of companies.** Each company forming part of a group must file a separate return. The law does not provide for consolidated tax returns or other group relief.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; exempt supplies include supply of land, welfare, financial services and insurance	
Standard rate	18
Reduced rate	8
Exports of goods and international transport	0
Real estate property tax; imposed on the taxable value of the property; for residential properties, the taxable value is the appraised value of property after the principal residence deduction amounting to EUR10,000	0.15 to 1

Nature of tax	Rate (%)
Mandatory social security contributions on monthly salary paid by	
Employer	5
Employee	5
Excise duties imposed on specified goods (tobacco products, natural mineral and non-carbonated water, alcoholic beverages, petrol, diesel, kerosene, fuels, lubricants, gas, cars and other motor vehicles, used tires, electric bulbs, and plastic bags); the tax is calculated as a specific amount per unit	Various

## E. Miscellaneous matters

**Foreign-exchange controls.** Kosovo has a free foreign-exchange market. Since 2002, the euro (EUR) has been the official currency in Kosovo. All entities must properly document all of their money transfers to comply with the regulations of the Central Bank of Kosovo. No limits are imposed on the amount of foreign currency that may be brought into Kosovo. Hard-currency earnings may be repatriated after the deduction of any withholding tax.

**Transfer pricing.** New transfer-pricing rules, which are aligned with the Organisation for Economic Co-operation and Development (OECD) transfer-pricing guidelines, entered into force through Administrative Instruction MF – No. 02/2017 on Transfer Pricing, which was issued by the Ministry of Finance on 28 July 2017. The preferred method is the uncontrolled price method. If this method cannot be used, taxpayers may use the resale price method, cost-plus method and, in certain circumstances, the transactional net margin method and profit-split method. The acceptance of the transfer-pricing method by the tax authorities depends on whether the method is supported by appropriate transfer-pricing documentation.

Only cross-border controlled transactions are subject to the transfer-pricing rules. Consequently, domestic transactions are not subject to the rules. Controlled transactions are considered to be transactions between related parties, dealings between a permanent establishment and its head office, and transactions with entities resident in tax-haven jurisdictions. Two persons are considered related parties if any of the following circumstances exist:

- One person holds or controls 50% or more of the shares or voting rights in the other person's company
- One person directly or indirectly controls the other person
- Both persons are directly or indirectly controlled by a third person
- Persons are relatives of the first, second and third row, as specified by the Law on Heritage of Kosovo

Taxpayers are required to submit by 31 March of the following year a Controlled Transaction Notice, which lists the intercompany transactions and the transfer-pricing methods applied to these transactions, if their controlled transactions exceed in aggregate EUR300,000. For the 2016 financial year, the deadline for the submission of the Annual Controlled Transaction Notice was 30 November 2017.

Taxpayers must maintain sufficient supporting documentation to show that the prices applied in transactions with related parties are in line with the arm's-length principle and to justify the transfer-pricing method used in determining such prices. The documentation must be made available within 30 days after it is requested by the Tax Administration of Kosovo.

Failure to timely submit transfer-pricing documentation or to submit the Annual Transaction Notice is subject to a penalty ranging from EUR125 to EUR2,500 for each failure to comply.

## F. Treaty withholding tax rates

The withholding tax rates in Kosovo's tax treaties are shown in the following table.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Albania	0	10	10
Belgium (b)	10/15 (a)	15	10
Finland (b)	5/15 (a)	10	10
Germany (b)	15	10	10
Hungary	0/5 (a)	10	10
Macedonia	0/5 (a)	10	10
Netherlands (b)	5/15 (a)	10	10
Slovenia	5/10 (a)	5	5
Turkey	5/15 (a)	10	10
United Arab Emirates	5	5	10
United Kingdom (b)	0/15 (c)	10	10
Non-treaty jurisdictions	0	10	10

- (a) The lower rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer. The higher rate applies to other dividends.
- (b) Kosovo honors the treaties entered into by the former Republic of Yugoslavia with respect to these countries.
- (c) The higher rate applies if the beneficial owner of the dividends is a pension scheme and if the dividends are paid out of income directly or indirectly from immovable property.

Kosovo has signed a tax treaty with Croatia, which entered into effect on 1 January 2018.

Kosovo has signed tax treaties with Czech Republic, Luxembourg and Switzerland, but these treaties have not yet been ratified by the respective countries and are therefore not yet effective.

Kosovo is negotiating a double tax treaty with Ireland.

# Kuwait

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## A. At a glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%)	
Dividends	15 (b)
Interest	0 (c)
Royalties	0 (d)
Management Fees	0 (d)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (e)

- (a) Under Law No. 2 of 2008, for fiscal years beginning after 3 February 2008, the tax rate is a flat 15%. Before the approval of this new law, Amiri Decree No. 3 of 1955 had provided that the maximum tax rate was 55%. The maximum rate under Law No. 23 of 1961, which applies to profits derived from the operations in the Divided Neutral Zone, is 57%. For further details, see Section B.
- (b) This rate applies only to dividends distributed from profits pertaining to the period before 10 November 2015 by companies listed on the Kuwait Stock Exchange (see Section B).
- (c) Under Article 2 of the Bylaws, income derived from the granting of loans by foreign entities in Kuwait is considered to be taxable income in Kuwait, which is subject to tax at a rate of 15%. Previously, foreign banks that solely granted loans in Kuwait were not taxed on the interest income received with respect to these loans.
- (d) This income is treated as ordinary business income and is normally assessed on a deemed profit ranging from 98.5% to 100%.
- (e) Article 7 of the Bylaws provides that losses can be carried forward for a maximum of three years (as opposed to an unlimited period under the prior tax law) if the entity has not ceased its operations in Kuwait.



## B. Taxes on corporate income and gains

**Corporate income tax.** Foreign “bodies corporate” are subject to tax in Kuwait if they carry on a trade or business in Kuwait, directly or through an “agent” (see below), in the islands of Kubr, Qaru, and Umm Al Maradim or in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia. Kuwaiti-registered companies wholly owned by Kuwaitis and companies incorporated in Gulf Cooperation Council (GCC) countries that are wholly owned by GCC citizens (GCC entities) are not currently subject to income tax. The members of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

However, the Kuwait Ministry of Finance (MOF) is working closely with the International Monetary Fund (IMF) on implementing a new business profits tax law in Kuwait, which may apply to both foreign companies and GCC entities. A draft business profits tax law with a proposed 10% business profits tax is currently with the Kuwait Parliament for review.

The term “body corporate” refers to an association that is formed and registered under the laws of any country or state and is recognized as having a legal existence entirely separate from that of its individual members. Partnerships fall within this definition.

Law No. 2 of 2008 includes a definition of an “agent.” Under this definition, an “agent” is a person authorized by the principal to carry out business, trade or any activities stipulated in Article 1 of the law or to enter into binding agreements with third parties on behalf and for the account of the person’s principal. A foreign principal carrying on business in Kuwait through an agent (as defined in the preceding sentence) is subject to tax in Kuwait.

Foreign companies carrying on a trade or business in Kuwait are subject to income tax under Amiri Decree No. 3 of 1955 and its amendments contained in Law No. 2 of 2008.

Foreign companies carrying on a trade or business in the islands of Kubr, Qaru and Umm Al Maradim are subject to tax in Kuwait under Law No. 23 of 1961.

Foreign companies carrying on a trade or business in the offshore area of the partitioned neutral zone under the control and administration of Saudi Arabia are subject to tax in Kuwait on 50% of the taxable profit under Law No. 23 of 1961. In practice, the tax department computes the tax on the total income of the taxpayer and expects that 50% of such tax should be settled in Kuwait. Many taxpayers are currently contesting this practice. Law No. 2 of 2008 and Law No. 23 of 1961 differ primarily with respect to tax rates.

Foreign companies can operate in Kuwait either through an agent or as a minority shareholder in a locally registered company. In principle, the method of calculating tax is the same for companies operating through an agent and for minority shareholders. For minority shareholders, tax is levied on the foreign company’s share of the profits (whether or not distributed by the Kuwaiti company) plus any amounts receivable for interest, royalties, technical services and management fees.

*Virtual permanent establishment.* Kuwait's tax authorities have recently changed their approach to the interpretation of the permanent establishment (PE) concept with respect to services rendered by nonresidents in Kuwait. The tax authorities have now introduced the concept of a Virtual Service PE, which may result in the denial of income tax relief claimed by nonresidents under the applicable double tax treaties of Kuwait.

The tax authorities' approach does not consider the physical presence of employees or contractors of a nonresident service provider for establishing the nexus to the source country, even though such threshold condition is clearly provided by both the Organisation for Economic Co-operation and Development and United Nations Model Conventions, and applied in many countries.

**Tax rates.** Under Law No. 2 of 2008, the tax rate is 15%.

The following are the tax rates under Law No. 23 of 1961.

Taxable profits		Rate (%)
Exceeding (KWD)	Not exceeding (KWD)	
0	500,000	20
500,000	—	57

**Investment incentives.** Kuwait offers the investment incentives described below.

*Industry Law.* To encourage investments in local industrial undertakings, Industry Law No. 56 of 1996 offers the following incentives:

- Reduced import duties on equipment and raw materials
- Protective tariffs against competing imported goods
- Low-interest loans from local banks
- Export assistance
- Preferential treatment on government supply contracts

*Law for the Promotion of Direct Investment in the State of Kuwait.* The Law for the Promotion of Direct Investment in the State of Kuwait (PDISK; Law No. 116 of 2013) was published in the Kuwait *Official Gazette* on 16 June 2013 and took effect six months from the date of issuance (that is, in December 2013). PDISK replaced the Direct Foreign Capital Investment Law (DFCIL; Law No. 8 of 2011). Under PDISK, the Kuwait Direct Investment Promotion Authority (KDIPA) is established. The KDIPA took over from its predecessor, the Kuwait Foreign Investment Bureau. The new authority is a part of the Ministry of Commerce and Industry.

The Executive Regulations to PDISK were issued on 14 December 2014 through Ministerial Decision No. 502 of 2014.

PDISK adopts a negative-list approach to determine the applicability of the law. Under this approach, PDISK provides a list of business activities and sectors that are not eligible for benefits under it. All business sectors and activities not on the negative list are entitled to the benefits of PDISK. PDISK maintains the current incentives for investors including, but not limited to, the following:

- Tax incentives for a maximum period of 10 years from the date of commencement of the licensed entity

- Customs duty exemptions for the importation of materials and equipment if the material and equipment is held for a period of five years from the date of obtaining the incentive
- Protection from Kuwaitization requirements
- Allocation of land and real estate to investors

In addition, PDISK provides that all foreign investors may take advantage of double tax treaties and other bilateral treaty benefits.

The value, type and duration of incentives and exemptions granted for investments, each according to its type and nature, are connected to all or some of the following criteria:

- Creation of job opportunities for, and training of, the national workforce
- The amount and quality of the products and services offered
- The need of the local and Gulf market for direct investment and the investment's contribution to economic diversification
- Increase in national exports
- Contribution to the development of areas that lack similar projects or activities
- Favorable environmental impact

In addition to a 100% foreign-owned Kuwaiti company, PDISK introduced two new types of investment entities, which are a licensed branch of a foreign entity and a representative office. The representative office may only prepare marketing studies and may not engage in any commercial activity.

The KDIPA issued Decision No. 313 of 2016, which provides the Points Scoring Mechanism for deciding on an investment application. The decision is based on the total points gained in fulfillment of the criteria stipulated above.

The tax incentives, if granted in the license by KDIPA, are not blanket incentives but are linked with actual performance of the investment entity. The performance is evaluated on an annual basis through a mechanism set out by the KDIPA. Ministerial Order No. 16 of 2016 regarding the mechanism for granting a tax exemption provides the following evaluation criteria:

- Total points are 59% or less: both the applications for the investment license and the granting of incentives are not accepted.
- Total points are 60% to 69%: only the application for the investment license is approved (without incentives).
- Total points are 70% to 79%: the investment license is granted with one selected incentive.
- Total points are 80% or higher: the investment license is granted with all the incentives stipulated in the law.

After the application for the license is approved by the KDIPA, the investor needs to establish a legal entity, legal branch or representative office (as requested in the application). The process of establishment is facilitated by the KDIPA through the one-stop shop in Kuwait. The investment entity must submit a tax-exemption report from an auditor on an annual basis. Based on a review of the tax-exemption report (including underlying documents), the KDIPA issues a tax-exemption certificate approving the tax credit for the year. The tax credit varies by category of criteria, as shown below.

Category Serial Number 1 relates to technology transfers. The measure is the cost of advanced equipment (over and above contractual obligations). The amount of the credit equals 20% of the value of the advanced equipment.

Category Serial Number 2 relates to the creating of jobs and training opportunities for Kuwaiti nationals. Nationals are defined as Kuwaiti employees in excess of the ratio prescribed in the Council of Ministers' Decision No. 1028 of 2014, regarding the determination of national labor. The following are the calculations for the credits in this category:

- 2.1: The measure is the total expenditure on salaries paid to Kuwaiti nationals. The credit equals five times the annual salaries paid to Kuwaiti national labor.
- 2.2: The measure is the total number of Kuwaiti national labor. The credit equals KWD60,000 per Kuwaiti national labor.
- 2.3: The measure is the expenditure on the training of Kuwaiti national labor. The credit equals 10 times the annual expenditure on the training of Kuwaiti national labor.

Category Serial Number 3 relates to the expanding of local content. The following are calculations for the credits in this category:

- 3.1: The measure is the rental of the premises of the investment entity. The credit equals double the amount of the annual rental value.
- 3.2: The measure is dealings with local suppliers (especially small and medium-sized enterprises). The credit equals double the value of the annual contracts with local suppliers.
- 3.3: The measure is the use of inputs from local sources, such as raw materials. The credit equals double the annual value of inputs from local sources.

*Kuwait Free Trade Zone.* To encourage exporting and re-exporting, the government has established the Kuwait Free Trade Zone (KFTZ) in the vicinity of the Shuwaikh port. The KFTZ offers the following benefits:

- Up to 100% foreign ownership is allowed and encouraged.
- All corporate and personal income is exempt from tax.
- All imports into and exports from the KFTZ are exempt from tax.
- Capital and profits are freely transferable outside the KFTZ and are not subject to any foreign-exchange controls.

*Public Private Partnership Law.* The Public Private Partnership Law (Law No. 116 of 2014), which was published in the *Official Gazette* on 17 August 2014, provides incentives for investors in private public partnership projects including exemptions from income tax and other taxes, customs duties and other fees. The new law also improves corporate governance and investment security by providing protection for the intellectual property rights of a concept or idea originator. The Executive Regulations to the Public Private Partnership Law were issued on 29 March 2015.

**Capital gains.** Capital gains on the sale of assets and shares by foreign shareholders are treated as normal business profits and are subject to tax at the rates stated above.

Article 1 of Law No. 2 of 2008 and Article 8 of the Bylaws provide for a possible tax exemption for profits generated from

dealing in securities on the Kuwait Stock Exchange (KSE), whether directly or through investment portfolios. However, no further clarifications have been provided regarding the definitions of “profits” and “dealing.” On 3 January 2016, the Kuwait MOF issued Administrative Resolution No. 2028 of 2015, which amended certain executive regulations. It includes an amendment with respect to the tax exemption on listed securities. This amendment reconfirms the tax exemption for capital gains on the disposal of Kuwaiti listed securities.

**Administration.** The calendar year is generally used for Kuwaiti tax purposes, but a taxpayer may request in writing for permission to prepare financial statements for a year ending on a date other than 31 December. For the first or last period of trading or carrying on a business, a taxpayer may be allowed to file a tax declaration covering up to 18 months.

Accounting records should be kept in Kuwait, and it is normal practice for the tax authorities to insist on inspecting the books of account (which may be in English) and supporting documentation before agreeing to the tax liability.

The tax authorities have issued notifications restating the requirement that taxpayers comply with Article 13 and Article 15 of the Bylaws, which relate to the preparation of books and accounting records and the submission of information together with the tax declaration.

Article 13 requires that taxpayers enclose the prescribed documents, such as the trial balance, list of subcontractors, list of fixed assets and inventory register, together with the tax declaration.

Article 15 requires that taxpayers prepare the prescribed books of accounts, such as the general ledger and the stock list.

The tax authorities issued Executive Rules for 2013, which are effective for fiscal years ending on or after 31 December 2013. These rules require analyses of contract revenues, tax retentions, expenses, depreciation rates and provisions included in the tax declaration. In addition, they require that these analyses and the financial statements contain comparative figures for the preceding year.

In the event of non-compliance with the above regulations, the Department of Income Taxes (DIT) may finalize an assessment on a basis deemed reasonable by the DIT. The Bylaws provide that a taxpayer must register with the DIT within 30 days after signing its first contract in Kuwait. The prior tax law did not specify a period. In addition, a taxpayer is required to inform the MOF of any changes that may affect its tax status within 30 days after the date of the change. The taxpayer must also inform the MOF of the cessation of activity within 30 days after the date of cessation.

Under the Bylaws, a new system of tax cards is introduced. The information required to be included in the tax card application form is generally the information that is provided to the MOF at the time of registration. Currently, applications for tax cards are being accepted and the MOF is updating its database. However, as of the time of writing, the DIT had not yet issued any tax cards.

However, the Kuwait tax authorities recently issued unique Tax Registration Numbers (TRNs) to all taxpayers in Kuwait. The tax authorities are using the TRNs in all matters and correspondence relating to taxpayers. The taxpayers must also use their TRNs in all correspondence with the tax authorities.

A tax declaration must be filed on or before the 15th day of the 4th month following the end of the tax period (for example, 15 April in the case of a 31 December year-end). Tax is payable in 4 equal installments on the 15th day of the 4th, 6th, 9th and 12th months following the end of the tax period, provided that the tax declaration is submitted on or before the due date for filing. The Bylaws provide that a request for extension of time for the filing of the tax declaration must be submitted to the DIT by the 15th day of the 2nd month (the 3rd month under the prior law) after the fiscal year-end. The maximum extension of time that may be granted is 60 days (75 days under the prior law).

In the event of a failure to file a tax declaration by the due date, a penalty that equals 1% of the tax for each 30 days or fraction thereof during which the failure continues is imposed. In addition, in the event of a failure to pay tax by the due date, a penalty that equals 1% of the tax payment for each period of 30 days or fraction thereof from the due date to the date of the settlement of the tax due is imposed.

The tax authorities have also issued Circular No. 1 of 2014. This Circular applies to all taxpayers filing tax declarations after the issuance of the Circular.

If tax declarations are prepared on an actual-accounts basis, the Circular requires that they be prepared in accordance with the tax laws and the Executive Rules issued by the tax authorities. For these types of declarations, the Circular also requires the submission of a draft income and expense adjustment (self-assessment) computed in accordance with the last assessment finalized by the tax authorities within three months after the date of submission of the tax declaration.

If tax declarations are prepared on a deemed-profit basis, the Circular requires that the percentage applied in the tax declaration be the same as the percentage that was applied in the last assessment. It also requires that details regarding all subcontractors and certain supporting documents be provided together with the tax declaration.

Articles 24 to 27 of the Bylaws provide for the filing of objections and appeals against tax assessments.

Article 24 of the Bylaws provides that an objection may be filed against an assessment within 60 days after the date of the assessment. The tax department must consider and issue a revised assessment within 90 days from the date of filing of the objection. If the department fails to issue a revised assessment during this period, the objection is considered to be rejected.

The Bylaws allow companies to submit a revised tax declaration if a tax assessment has not yet been issued by the DIT.

If the DIT accepts the amended tax declaration, the date of filing of the revised tax declaration is considered to be the actual date of filing the declaration for the purpose of imposing delay fines.

Law No. 2 of 2008 introduced a statute of limitation period of five years into the tax law. The prior Kuwait tax law did not provide a statute of limitations for tax. However, under Article No. 441 of the Kuwait Civil Law, any claims for taxes due to Kuwait or applications for tax refunds may not be made after the lapse of five years from the date on which the taxpayer is notified that tax or a refund is due.

Article 13 of the Bylaws provides that companies that may not be subject to tax based on the application of any tax laws or other statutes or based on double tax treaties must submit tax declarations in Kuwait.

**Dividends.** Under the prior tax law, no tax was imposed on dividends paid to foreign shareholders by Kuwaiti companies. However, tax was assessed on the share of profits attributable to foreign shareholders according to the audited financial statements of the company, adjusted for tax purposes.

Under Law No. 2 of 2008, dividends received by the investors in companies listed on the KSE are subject to a 15% withholding tax. However, recently issued Administrative Resolution No. 2028 of 2015 provides an exemption on any returns from securities listed on the KSE exchange, bonds and other similar securities, regardless of whether the listed company is a Kuwaiti or non-Kuwaiti company. This amendment confirms the tax benefits approved by the Capital Market Authority through Law No. 22 of 2015, effective from 10 November 2015. As a result, dividends related to profits earned on or after 10 November 2015 are not subject to withholding tax. Dividends that are declared out of profits pertaining to the period before 10 November 2015 are still subject to the withholding tax.

The obligations with respect to dividends declared out of profits pertaining to the period before 10 November 2015 are described below.

The tax was required to be withheld by the foreign investor's custodian or broker in Kuwait. The MOF required the local custodian or broker of the foreign investor to provide information about the foreign investor, deduct 15% tax on payments of dividends to the foreign investor and deposit the tax with the MOF.

One hundred percent GCC-owned investors were also subject to withholding tax in Kuwait by local custodians or brokers until they were able to obtain a tax-clearance certificate indicating that they were not subject to tax in Kuwait.

The MOF had issued forms to allow 100% GCC-owned investors and investors from countries with which Kuwait has a double tax treaty to obtain a tax-clearance certificate for exemption or reduction of withholding tax on dividends received from companies listed on the KSE.

An entity that wanted to claim a lower withholding tax rate in accordance with a tax treaty was required to approach the MOF and apply for a refund.

Article 46 of the Bylaws provides that investment companies or banks that manage portfolios or funds or act as custodians of listed shares for foreign entities must withhold corporate tax due from amounts paid to such foreign entities. The amount withheld must be deposited within 30 days after the date of withholding, together with a list showing the names of the foreign entities and the amounts of corporate tax withheld. The DIT requires investment companies or banks that manage portfolios or funds to comply with this rule with respect to dividends distributed from profits pertaining to the period before 10 November 2015.

Foreign shareholders in unlisted Kuwaiti companies continue to be assessed on the share of profits attributable to foreign shareholders according to the audited financial statements of the company, adjusted for tax purposes.

### C. Determination of trading income

**General.** Tax liabilities are generally computed on the basis of profits disclosed in audited financial statements, adjusted for tax depreciation and any items disallowed by the tax inspector on review.

The tax declaration, supporting schedules and financial statements, all of which must be in Arabic, are to be certified by an accountant in practice in Kuwait who is registered with the Ministry of Commerce and Industry.

**Foreign-currency exchange gains and losses.** Under Executive Rule No. 37 of 2013, gains and losses on foreign currency conversion are classified into realized gains and losses and unrealized gains and losses.

Realized gains and losses resulting from the fluctuation of exchange rates are considered taxable gains and allowable losses if the taxpayer can substantiate the basis of the calculations and provides documents in support of such transactions.

Unrealized gains are not considered to be taxable income, and unrealized losses are not allowed as deductible expenses.

**Design expenses.** Under Executive Rule No. 26 of 2013 (applicable for fiscal years ending on or after 31 December 2013), costs incurred for engineering and design services provided are restricted to the following percentages:

- If design work is carried out in the head office, 75% (previously 75% to 80%) of the design revenue is allowed as costs.
- If design work is carried out by an associated company, 80% (previously 80% to 85%) of the design revenue is allowed as costs, provided the company complies with the regulations for retention of 5% and submission of the contract with the associated company to the DIT.
- If design work is carried out by a third party, 85% (previously 85% to 90%) of the design revenue is allowed as costs, provided the company complies with the regulations for retention of 5% and submission of the contract with the third company to the DIT.



- If the design revenue is not specified in the contract, but design work needs to be executed outside Kuwait, tax authorities may use the following formula to determine the revenue:

$$\text{Design revenue for the year} = \frac{\text{Design costs for the year} \times \text{annual contract revenue}}{\text{Total direct costs for the year}}$$

**Consultancy costs.** Under Executive Rule No. 26 of 2013, costs incurred for consultancy costs incurred outside Kuwait are restricted to the following percentages:

- If consultancy work is carried out in the head office, 70% (previously 75% to 80%) of the consultancy revenue is allowed as costs.
- If consultancy work is carried out by an associated company, 75% (previously 75% to 80%) of the consultancy revenue is allowed as costs if the company complies with the regulations for the 5% retention on payments and the submission of the contract with the associated company to the DIT.
- If consultancy work is carried out by a third party, 80% (previously 80% to 85%) of the consultancy revenue is allowed as costs if the company complies with the regulations relating to the 5% retention and the submission of the contract with the third party to the DIT.
- If the consultancy revenue is not specified in the contract, but consultancy work needs to be executed outside Kuwait, the tax authorities may use following formula to determine the revenue:

$$\text{Consultancy revenue for the year} = \frac{\text{Consultancy costs for the year} \times \text{annual contract revenue}}{\text{Total direct costs for the year}}$$

**Imported material costs.** Under Executive Rule No. 25 of 2013, the Kuwaiti tax authorities deem the following profit margins for imported materials and equipment:

- Imports from head office: 15% of related revenue (previously 10% to 15%)
- Imports from related parties: 10% of related revenue (previously 6.5% to 10%)
- Imports from third parties: 6.5% of related revenue (previously 3.5% to 6.5%)

The imputed profit described above is normally subtracted from the cost of materials and equipment claimed in the tax declaration. If the revenue from the materials and equipment supplied is identifiable, the DIT normally reduces the cost of such items to show a profit on such materials and equipment in accordance with the percentages described above. If the related revenue from the materials and equipment supplied is not identifiable or not stated in the contract, the following formula may be applied to determine the related revenue:

$$\text{Material and equipment revenue for the year} = \frac{\text{Material \& equipment costs for the year} \times \text{annual contract revenue}}{\text{Total direct costs for the year}}$$

**Interest paid to banks.** Interest paid to local banks relating to amounts borrowed for operations (working capital) in Kuwait may

normally be deducted. Interest paid to banks or financial institutions outside Kuwait is disallowed unless it is proven that the funds were specifically borrowed to finance the working capital needs of operations in Kuwait. In practice, it is difficult to claim deductions for interest expenses incurred outside Kuwait. Interest paid to the head office or agent is disallowed. Interest that is directly attributable to the acquisition, construction or production of an asset is capitalized as part of the cost of the asset if it is paid to a local bank.

**Leasing expenses.** The Kuwait tax authorities may allow the deduction of rents paid under leases after inspection of the supporting documents. The deduction of rent for assets leased from related parties is restricted to the amount of depreciation charged on those assets, as specified in the Kuwait Income Tax Law. The asset value for the purpose of determining depreciation is based upon the supplier's invoices and customs documents. If the asset value cannot be determined based on these items, the value is determined by reference to the amounts recorded in the books of the related party.

**Agency commissions.** The tax deduction for commissions paid to a local agent is limited to 2% of revenue, net of any subcontractors' costs paid to the agent and reimbursed costs.

**Head office overhead.** Article 5 of the Bylaws provides that the following head office expenses are allowed as deductions:

- Companies operating through an agent: 1.5% (previously 3.5%) of the direct revenue
- Companies participating with Kuwaiti companies: 1% (previously 2%) of the foreign company's portion of the direct revenue generated from its participation in a Kuwaiti company
- Insurance companies: 1.5% (previously 2%) of the company's direct revenue
- Banks: 1.5% (previously 2%) of the foreign company's portion of the bank's direct revenue

Article 5 of the Bylaws also provides that for the purpose of computation of head office overheads, direct revenue equals the following:

- For companies operating through an agent, companies participating with Kuwaiti companies and banks: gross revenue less subcontract costs, reimbursed expenses and design cost (except for design cost carried out by the head office)
- For insurance companies: direct premium net of share of reinsurance premium, plus insurance commission collected

**Reimbursed costs.** For deemed profit filings, reimbursed costs are allowed as a deductible expense if the following conditions are satisfied:

- Such costs are necessary and explicitly mentioned in the contract.
- Such costs do not exceed 30% of gross revenues.
- Supporting documentation is available for such costs.

In addition, if reimbursable costs exceed 30% of gross revenues, the taxpayer must file its tax declaration on an accounts basis instead of on a deemed-profit basis.

**Inventory.** Inventory is normally valued at the lower of cost or net realizable value, on a first-in, first-out (FIFO) or average basis.

**Provisions.** Provisions, as opposed to accruals, are not accepted for tax purposes.

**Tax depreciation.** Tax depreciation is calculated using the straight-line method. The following are some of the permissible annual depreciation rates.

Asset	Rate (%)
Buildings	4
Prefabricated buildings	15
Furniture and office equipment	15
Drilling equipment	25
Electrical equipment and electronics	15
Plant and equipment	20
Computer and its accessories	33.3
Software	25
Trucks and trailers	15
Cars and buses	20

**Relief for losses.** Article 7 of the Bylaws provides that approved losses can be carried forward for a maximum of three years (as opposed to an unlimited period under the prior tax law) if the entity has not ceased its operations in Kuwait.

**Aggregation of income.** If a foreign company has more than one activity in Kuwait, one tax declaration aggregating the income from all activities is required.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Social security contributions; levied only with respect to Kuwaiti employees and employees who are citizens of other GCC countries; payable monthly by employers and employees; for Kuwaiti employees, social security is payable on monthly salary up to KWD2,750 at the following rates	
Employer (payable on monthly salary up to KWD2,750)	11.5%
Employee	
If monthly salary does not exceed KWD1,500	10.5%
If monthly salary exceeds KWD 1,500 but does not exceed KWD2,750	2.5% of KWD1,500 plus 8% of total salary
If monthly salary exceeds KWD2,750	2.5% of KWD1,500 plus 8% of KWD2,750

(Different monetary ceilings and percentages are prescribed for citizens of other GCC countries who are employed in Kuwait.)

Nature of tax	Rate
Contribution to the Kuwait Foundation for the Advancement of Sciences (KFAS); contribution payable by Kuwait shareholding companies; contribution levied on profits after transfer to the statutory reserve and offset of loss carryforwards	1%
National Labour Support Tax; imposed annually on the profits derived from activities in Kuwait by a Kuwaiti Company listed on the KSE; Ministerial Resolution No. 24 of 2006 provides rules for the application of the tax	2.5%
<i>Zakat</i> ; imposed on annual net profits of public and closed Kuwaiti shareholding companies; Ministerial Order 58 of 2007 provides rules for the application of <i>zakat</i>	1%

## E. Miscellaneous matters

**Foreign-exchange controls.** No foreign-exchange restrictions exist. Equity capital, loan capital, interest, dividends, branch profits, royalties, management and technical services fees, and personal savings are freely remittable.

**Supply and installation contracts.** In supply and installation contracts, a taxpayer is required to account to the tax authorities for the full amount received under the contract, including the offshore supply element, which is the part of the contract (cost, insurance and freight to the applicable port) pertaining to the supply of goods.

**Contractors' revenue recognition.** Tax is assessed on progress billings (excluding advances) for work performed during an accounting period, less the cost of work incurred. Previously, the authorities did not accept the completed contract or percentage-of-completion methods of accounting. However, the new Executive Rules of 2013 do not specifically prohibit the percentage-of-completion method in determining the revenue to be offset against the cost recognized.

**Subcontractors' costs.** The Kuwait tax authorities are normally stringent with respect to the allowance of subcontractors' costs, particularly subcontractors' costs incurred outside Kuwait. Subcontractors' costs are normally allowed if the taxpayer provides the related supporting documentation (contract, invoices, settlement evidence and other documents), complies with the regulations for the 5% retention on the payments made to the subcontractors and the submission of the contracts to the DIT (see *Retention on payments to subcontractors*) and fulfills certain other conditions. The tax authorities have also taken the view that they no longer accept losses from work that is subcontracted to other entities.

**Retention on payments to subcontractors.** Article 37 of the By-laws and Executive Rules Nos. 5 and 6 of 2013 require that every business entity operating in Kuwait must take all of the following actions:

- It must notify the names and addresses of its contractors and subcontractors to the DIT.

- It must submit copies of all the contracts and subcontracts to the DIT.
- It must retain 5% from each payment due to the contractors or subcontractors until the contractor or subcontractor provides a valid tax-clearance certificate issued by the DIT.

In the event of non-compliance with the above rules, the DIT may disallow the related costs from the contract or subcontract.

Article 39 of the Bylaws empowers the Ministry of Finance to demand payment of the 5% retained amount from the entities holding the amounts, if the concerned contractors or subcontractors fail to settle their taxes due in Kuwait. It also provides that if business entities have not retained the 5%, they are liable for all of the taxes and penalties due from the contractors and subcontractors.

**Work in progress.** Costs incurred but not billed by an entity at the end of the fiscal year may be carried forward to the subsequent year as work in progress. Alternatively, revenue relating to the costs incurred but not billed may be estimated on a reasonable basis and reported for tax purposes if the estimated revenue is not less than the cost incurred.

**Salaries paid to expatriates.** In a press release issued on 23 September 2003, the Ministry of Social Affairs announced that it would impose stiff penalties if companies fail to comply with the requirement to pay salaries to employees in their local bank accounts in Kuwait. These penalties apply from 1 October 2003. This requirement has been further emphasized through the new labor law issued in 2010. The DIT may disallow payroll costs if employees do not receive their salaries in their bank accounts in Kuwait.

**Offset program.** The MOF had issued Ministerial Order 13 of 2005 to reactivate the offset program. In 2006, the National Offset Company (NOC) was formed to manage and administer the implementation of the offset program on behalf of the Kuwait government and the MOF. Under Decision No. 890 of the Council of Ministers, which was taken in their session No. 2014/2-30 on 7 July 2014, the offset program was officially suspended in Kuwait. The offset program has now been cancelled with respect to all tenders issued after Decision No. 890 on 7 July 2014 and all other tenders that were issued earlier but had not closed as of the date of the decision.

The following were significant aspects of the earlier offset program:

- All civil contracts with a value of KWD10 million or more and defense contracts with a value of KWD3 million or more attracted the offset obligations for contractors. The obligations became effective on the signing date of the contract.
- Contractors subject to the offset obligation were required to invest 35% of the value of the contract with Kuwaiti government bodies.

- Contractors subject to the offset obligation were allowed to take any of the following actions to fulfill their offset obligation:
  - Option 1: equity participation in an approved offset business venture (direct participation in a project company)
  - Option 2: contribution of cash and/or in-kind technical support
  - Option 3: participation in any of the offset funds managed by certain banks or investment companies in Kuwait
  - Option 4: purchase of commodities and services of Kuwaiti origin
- Contractors covered by the offset obligation were required to provide unconditional, irrevocable bank guarantees issued by Kuwaiti banks to the MOF equal to 6% of the contract price. The value of the bank guarantee was gradually reduced based on the actual execution by the foreign contractor or supplier of its work. The MOF was able to cash in the bank guarantee if the company subject to the offset obligation failed to fulfill such obligation.

The following were practical considerations:

- Option 3 above was not a viable option because the NOC has indicated that investment in funds is not considered for the completion of offset obligations.
- The NOC insisted that every offset venture have a local equity partner and had issued guidelines in this respect.
- A combination of Options 1, 2 and 4 was being used.

The offset program was implemented through the inclusion of clauses in supply contracts that referred to an offset obligation of the foreign contractor.

## **F. Treaty withholding tax rates**

Kuwait has entered into tax treaties with several countries for the avoidance of double taxation. Treaties with several other countries are at various stages of negotiation or ratification.

Disputes about the interpretation of various clauses of tax treaties between taxpayers and the DIT are not uncommon. Disputes with the DIT regarding tax treaties normally arise with respect to the following issues:

- Existence of a permanent establishment
- Income attributable to a permanent establishment
- Tax deductibility of costs incurred outside Kuwait

Kuwait has also entered into treaties with several countries relating solely to international air and/or sea transport. Kuwait is also a signatory to the Arab Tax Treaty and the GCC Joint Agreement, both of which provide for the avoidance of double taxation in most areas. The other signatories to the Arab Tax Treaty are Egypt, Iraq, Jordan, Sudan, Syria and Yemen.

The domestic tax law in Kuwait does not provide for withholding taxes except in the case of dividend income received by investors in companies listed on the KSE (see Section B). As a result, it is not yet known how the Kuwaiti government will apply the

withholding tax procedures related to interest and royalties included in the treaties listed in the table below. The withholding rates listed in the table are for illustrative purposes only.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Austria	0	0	10
Azerbaijan	5/10 (t)	7	10
Belarus	5 (c)	5 (c)	10
Belgium	10	0	10
Brunei Darussalam	—	—	15 (x)
Bulgaria	5 (j)	5 (f)	10
Canada	5/15 (m)	10	10
China (mainland)	5 (a)	5 (a)	10
Croatia	0	0	10
Cyprus	10	10 (b)	5
Czech Republic	5 (j)	0	10
Denmark	0 (s)	—	10
Ethiopia	5 (c)	5 (b)	30
France	0	0	0
Georgia	0/5 (l)	0	10
Germany	5/15 (e)	0	10
Greece	5 (c)	5 (c)	15
Hong Kong SAR	0/5 (u)	0/5 (v)	5 (w)
Hungary	0	0	10
India	10 (n)	10 (n)	10
Indonesia	10 (c)	5 (b)	20
Iran	5 (w)	5 (w)	5 (w)
Ireland	0	0	5 (w)
Italy	5	0	10
Japan	5/10 (y)	10 (z)	10
Jordan	5 (c)	5 (b)	30
Korea (South)	5	5	15
Kyrgyzstan	0	0	10
Latvia	5 (w)	5 (w)	5 (w)
Lebanon	0	0	5
Macedonia	0	0	15
Malaysia	0	10	15 (q)
Malta	10/15 (d)	0	10
Mauritius	0	0 (f)	10
Mexico	0	0.49/10 (ii)	10
Moldova	5 (w)	2 (dd)	10
Morocco	2.5/5/10 (bb)	10 (z)	10
Netherlands	10 (i)	0	5
Pakistan	10	10 (g)	10
Philippines	10/15 (ff)	10	20
Poland	5 (j)	5 (j)	15
Portugal	5/10 (ee)	10	10
Romania	1	1	20
Russian Federation	5 (c)	0	10
Serbia and Montenegro (hh)	5/10 (aa)	10 (z)	10
Singapore	0	7 (b)	10
Slovak Republic	0	10	10
Slovenia	5	5	10
South Africa	0	0	0
Spain	5 (w)	—	5 (w)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Sri Lanka	5/10	10	20
Sudan	5 (h)	5 (h)	10
Switzerland	15	10	10
Syria	0	10 (k)	20
Thailand	10	10/15 (o)	20
Tunisia	10 (c)	2.5 (b)	5
Turkey	10	10	10
Ukraine	5 (f)	0	10
United Kingdom	5/15 (e)	0	10
Uzbekistan	5/10 (aa)	8	20
Venezuela	5/10 (p)	5	20
Vietnam	10/15 (d)	0/15 (gg)	20
Zimbabwe	0/5/10 (cc)	—	10
Non-treaty jurisdictions	15 (r)	0	0

- (a) The rate is 0% for amounts paid to a company of which the government owns at least 20% of the equity.
- (b) The rate is 0% for interest paid to the government of the other contracting state. Under the Ethiopia treaty, the rate is also 0% for interest paid to entities in which the government owns a specified percentage of the equity and for interest paid on loans guaranteed by the government.
- (c) The rate is 0% for dividends and interest paid to the government of the other contracting state. Under the Ethiopia treaty, the rate is also 0% for dividends paid to entities in which the government owns a specified percentage of the equity.
- (d) The rate is 10% for dividends paid to the government of Kuwait or any of its institutions or any intergovernmental entities. The rate is 15% for other dividends.
- (e) The 5% rate applies if the recipient of the dividends owns directly or indirectly at least 10% of the capital of the company paying the dividends. The 15% rate applies to other dividends.
- (f) The rate is increased to 5% if the beneficial owner of the interest carries on business in the other contracting state through a permanent establishment and the debt on which the interest is paid is connected to such permanent establishment.
- (g) The rate is 0% for amounts paid to the government of the other contracting state and to entities of which the government owns at least 51% of the paid up capital.
- (h) For dividends and interest, the rate is 0% if the payments are made to the government or a governmental institution of the other contracting state, or to a company that is a resident of the other contracting state and is controlled by, or at least 49% of the capital is owned directly or indirectly by, the government or a governmental institution. A 0% rate also applies to interest arising on loans guaranteed by the government of the other contracting state or by a governmental institution or other governmental entity of the other contracting state.
- (i) A 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends.
- (j) The rate is 0% if the payments are made to the government or a governmental institution of the other contracting state, or to a company that is a resident of the other contracting state and is controlled by, or at least 25% of the capital is owned directly or indirectly by, the government or a governmental institution of the other contracting state.
- (k) The rate is 0% if the beneficial owner of the interest is a resident in the other contracting state and the loan is secured or financed directly or indirectly by a financial entity or other local body wholly owned by the government of the other contracting state.
- (l) The 0% rate applies if the beneficial owner of the dividends is a company that has invested more than USD3 million or its equivalent in local currency. The 5% rate applies in all other cases.
- (m) The rate is 5% if the beneficial owner of the dividends is a company that owns 10% or more of the issued and outstanding voting shares or 25% or more of the value of all of the issued and outstanding shares. The 15% rate applies to other dividends.



- (n) Dividends or interest paid by a company that is a resident of a contracting state is not taxable in that contracting state if the beneficial owner of the dividends or interest is one of the following:
- The government
  - A political subdivision or a local authority of the other contracting state
  - The Central Bank of the other contracting state
  - Other governmental agencies or governmental financial institutions as may be specified and agreed to in an exchange of notes between the competent authorities of the contracting states
- (o) The rate is 10% in the case of financial institutions (including insurance companies) and 15% in all other cases.
- (p) The rate is 5% if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends. The rate is 10% in all other cases.
- (q) The rate is 15% for the use of, or the right to use, cinematographic films, tapes for radio or television broadcasting and copyrights of literary or artistic works. The rate is 10% for the right to use patents, trademarks, designs, models, plans, secret formulas or processes, copyrights of scientific works and industrial, commercial or scientific equipment.
- (r) This rate applies only to dividends distributed by companies listed on the KSE (see Section B).
- (s) The 0% rate applies if either of the following circumstances exists:
- The beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends, such holding is possessed for an uninterrupted period of at least one year, and the dividends are declared within that period.
  - The beneficial owner is the other contracting state, a governmental institution or an entity resident in the other contracting state.
- (t) The 5% rate applies if the beneficial owner of the dividends is the government of that contracting state, an administrative-territorial or political subdivision, a local authority or a governmental institution created in that contracting state under public law, such as a corporation, central bank, fund, authority, foundation, agency or other similar entity. The 10% rate applies in all other cases.
- (u) The 0% rate applies if the beneficial owner of the dividends is the government of the other contracting state or an institution or other entity wholly owned directly by the government of that other contracting state. The 5% rate applies in all other cases.
- (v) The 5% rate applies if the beneficial owner of the interest is a resident of the other contracting state. In the case of the Hong Kong Special Administrative Region (SAR), the 0% rate applies if the interest is paid to the following:
- The government of the Hong Kong SAR
  - The Hong Kong Monetary Authority
  - An institution set up by the government of the Hong Kong SAR under statutory law, such as a corporation, fund, authority, foundation, agency or other similar entity
  - An entity established in the Hong Kong SAR, all the capital of which is provided by the government of the Hong Kong Special SAR or any institution as defined in Subparagraph (a)(3) of Paragraph 3 of Article 11 of the tax treaty
- In the case of Kuwait, the 0% rate applies to interest paid to the following:
- The government of Kuwait
  - A governmental institution created in Kuwait under public law, such as a corporation, central bank, fund, authority, foundation, agency or similar entity
  - An entity established in Kuwait, all the capital of which is provided by the Kuwaiti government or a governmental institution
- (w) The 5% rate applies if the beneficial owner of the dividends, interest or royalties is a resident of the other contracting state.
- (x) The 15% rate applies if the beneficial owner of the royalties is a resident of the other contracting state.
- (y) The 5% rate applies if the beneficial owner is a company that has owned directly or indirectly for the period of six months ending on the date on which entitlement to the dividends is determined at least 10% of the voting shares of the company paying the dividends. The 10% rate applies in all other cases.
- (z) The 10% rate applies if the beneficial owner of the interest is a resident of the other contracting state.
- (aa) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.

- (bb) The 2.5% rate applies if the beneficial owner of the dividends is the government of the other contracting state. The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (cc) The 0% rate applies if the beneficial owner of the dividends is an entity mentioned in Paragraph 2 of Article 4 of the treaty. The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (dd) The 2% rate applies if the beneficial owner of the interest is a resident of the other contracting state.
- (ee) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends or if the beneficial owner of the dividends is a resident of the other contracting state. The 10% rate applies in all other cases.
- (ff) The 10% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends. The 15% rate applies in all other cases.
- (gg) The 0% rate applies if the beneficial owner of the interest is the government or the central bank of the other contracting state or an institution or other entity wholly owned directly by the government of that other contracting state. The 15% rate applies in all other cases.
- (hh) This treaty applies to the separate republics of Montenegro and Serbia.
- (ii) The rate is 4.9% for interest paid to banks. The rate is 10% in all other cases.

# Laos

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## A. At a glance

Corporate Income Tax Rate (%)	24 (a)
Capital Gains Tax (%)	– (b)
Branch Tax Rate (%)	24 (c)
Withholding Tax (%) (d)	
Dividends	10
Interest	10
Royalties	5
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) This tax is known as the “profit tax.” Tobacco businesses are subject to tax at a rate of 26%.
- (b) The tax law does not provide for the taxation of capital gains derived from the transfer of tangible assets. Income from the sale of shares is subject to income tax at a rate of 10%.
- (c) Lao income tax regulations do not contain a definition of a “permanent establishment.” A foreign company may establish a branch only in certain sectors of the economy. Only a foreign bank, financial institution, insurance company, international consultant or airline company may establish a branch in Laos.
- (d) These are withholding taxes that are imposed on Lao and foreign legal entities and individuals.

## B. Taxes on corporate income

**Profit tax.** Companies and individuals engaged in manufacturing, trading and services are subject to profit tax on their Lao-source income. Foreign companies deriving income from Laos or entering into joint venture contracts with project owners in Laos are also subject to profit tax.

The accounts of a branch of a Lao company are consolidated with the accounts of the parent company for purposes of calculating profit tax.

**Rates of profit tax.** The standard rate of profit tax for business activities is 24%.

Companies in certain industries, such as mining, are taxed at different rates, depending on their agreement with the government of Laos.

Foreign investors may be entitled to profit tax exemptions for certain periods, depending on the activities and location of the business.

Listed companies in Laos may be entitled to a reduced tax rate for a four-year period.

**Lump Sum Tax.** Lump Sum Tax applies to the income of individuals and small businesses not registered for value-added tax (VAT) purposes.

**Capital gains.** The law is silent on the taxation of capital gains arising from the transfer of tangible assets. However, income derived from sales of securities is subject to a withholding tax of 10%.

**Administration.** The fiscal year in Laos is the calendar year.

For companies and individuals using the advanced or ordinary accounting system, profit tax must be declared and paid quarterly by 10 April, 10 July and 10 October and by 10 January of the following year. The annual profit tax return must be submitted together with the annual financial statements before 1 March of the following year in order to recalculate total profit tax for the year. The quarterly payments are based on the final corporate income tax liability of the preceding year, the actual profits during each quarter or the estimated corporate income tax in the annual tax payment plan for the current year. Any excess payments may be credited to future profit tax liability.

For companies or individuals using the basic accounting system, profit tax is declared and paid based on their agreements with the government.

**Dividends.** A 10% withholding tax is imposed on dividends paid.

**Foreign tax relief.** Laos has entered into double tax treaties with several countries (see Section F).

### **C. Determination of taxable business income**

**General.** The calculation used to determine the taxable income of companies and individuals subject to profit tax depends on whether the taxpayers use the advanced, ordinary or basic accounting system. Taxpayers that use the advanced or ordinary accounting system may determine taxable income using either of the following calculations:

- The difference between the actual value of the assets at the close of the year and the value of those assets at the beginning of the year less capital contributed during the year plus personal drawings of the shareholders (this method is known as the “profit method”)
- Gross income less total authorized deductions

Companies and individuals using the basic accounting system determine their taxable business income by deducting their total authorized expenses from gross income. Alternatively, they may declare their gross annual profit if the difference between gross income and expenses cannot be calculated. Gross annual profit is equal to the annual income multiplied by the profit ratio for each type of activity.

Taxable income consists of all income from available sources, such as the following:

- Income from handicraft and agriculture
- Income from the exploration of natural resources
- Income from import and export business
- Income from banking, insurance and financial activities
- Income from tourism including hotels
- Income from lottery, casino and sports activities
- Income from the provision of general services

Deductions from gross income include the following:

- General business expenses such as electricity, repair charges, salaries and wages, welfare and social security expenses, rent, interest and insurance
- Depreciation (see *Depreciation*)
- Cost of travel, up to 0.6% of annual income
- Cost of guest entertainment and telephone, up to 0.4% of annual income
- Donations and support, up to 0.3% of annual income
- Advertising, up to 0.5% of annual income

Expenses not related to business activities are not deductible. Other nondeductible expenses include the following:

- Profit tax
- Interest paid to shareholders on capital contributions
- Penalties or fines
- Golf expenses, dancing expenses, gifts and awards
- Reserves for risks and unexpected expenses

**Inventories.** The law does not prescribe a basis for the valuation of inventory. Inventory for a tax year is valued at the lower of cost or net realizable value.

**Depreciation.** Depreciation can be claimed based on the straight-line or declining-value method. In the year of acquisition or disposal, depreciation may be claimed for the portion of the asset that was put in use. The following are straight-line depreciation rates.

<b>Assets</b>	<b>Annual rate (%)</b>
Intangible fixed assets	20 to 50
Buildings	
Industrial	2 to 5
Commercial and residential	5 to 10
Plant and machinery	20
Motor vehicles	20
Office equipment	20
Software	50

Establishment expenses are expensed over two years.

**Relief for losses.** Losses can be carried forward for a period of three consecutive years. Losses may not be carried back.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
VAT applies to businesses with annual revenues exceeding LAK400 million (USD50,000) and businesses that voluntarily register for VAT	
Goods, materials and services	10
Importation of raw materials, chemicals, machinery and equipment that cannot be domestically produced and exportation of finished goods or products	0
Tax on income from the lease of immovable property; payable by the recipient each time the income is received	10
Excise duty; on the domestic production, import or service value of various commodities	
Fuel	9 to 39
Alcoholic drinks	45 to 50
Soft drinks and mineral water	5 to 10
Cigarettes and cigars	25 to 45
Perfume and cosmetics	20
Motorbikes	5 to 80
Cars	3 to 90
Motorboats	20
Electrical products (televisions, cameras and musical instruments)	20
Refrigerators, washing machines and vacuum cleaners	20
Sport related (for example, snooker, football and any game cabinet)	30 to 35
Entertainment (nightclub, disco and karaoke)	20
Mobile phone and internet	10
Lottery and casino activities	25 to 35
Social security contributions; imposed on salaries of up to LAK4,500,000 million per month	
Employee	5.5
Employer	6

#### E. Foreign-exchange controls

The Bank of Laos determines foreign-exchange controls. Foreign investors can freely repatriate their after-tax profits (including withholding tax on dividends) and capital to other countries, subject to certain substantiation requirements.

The currency of Laos is the kip (LAK). Bank accounts may be held in other currencies.

**F. Treaty withholding tax rates**

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Belarus	5/10	8	5
Brunei Darussalam	5/10	10	10
China (mainland)	5	5/10	5/10
Indonesia	10/15	10	10
Korea (South)	5/10	10	5
Luxembourg	5/15	10	5
Malaysia	5/10	10	10
Myanmar	5	10	10
Singapore	5/8	5	5
Thailand	15	10/15	15
Vietnam	10	10	10
Non-treaty jurisdictions	10	10	5

# Latvia

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*Because of the rapidly changing tax law in Latvia, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	20
Branch Tax Rate (%)	20
Withholding Tax (%) (a)	
Dividends	0/20 (b)
Interest	0/20 (c)
Royalties	0/20 (d)
Management and Consulting Fees	0/20 (e)
Gains on Transfers of Real Estate or Shares of Real Estate Companies Located in Latvia	3 (f)

- (a) These taxes apply to payments by Latvian residents or permanent establishments to nonresidents.
- (b) Withholding tax is not imposed on dividends, except for dividends paid to a resident of a state or territory that has been recognized as a low-tax or no-tax state or territory in accordance with Cabinet Regulations. Dividends are subject to 20% corporate income tax at the level of the resident distributing companies (for further details, see Section B).
- (c) No withholding tax is imposed on interest payments made by Latvian entities except for interest paid to a resident of a state or territory that has been recognized as a low-tax or no-tax state or territory in accordance with Cabinet Regulations.
- (d) No withholding tax is imposed on royalties, except for royalties paid by Latvian entities to a resident of a state or territory that has been recognized as a low-tax or no-tax state or territory in accordance with Cabinet Regulations.
- (e) The 20% rate applies to management and consulting fees. The 0% rate applies to management and consulting fees paid to residents of countries that have entered into double tax treaties with Latvia (the residence certificate must be submitted).
- (f) This is a final withholding tax imposed on gains derived by nonresident companies without a permanent establishment in Latvia from sales of Latvian real estate. This tax also applies to sales of shares if certain conditions are met (see Section B). Withholding tax is also imposed if a Latvian nonresident company disposes of real estate by investing it in the share capital of another company.

## B. Taxes on corporate income and gains

**Corporate income tax.** Under the Corporate Income Tax Law, corporate income tax is payable at the time when profit is distributed. As a result, the taxable base comprises distributed profits and notional distributed profits.



Distributed profits include the following:

- Dividends, including extraordinary dividends
- Expenses that are equivalent to dividends
- Notional dividends (a notional dividend is a profit share [for example, undistributed profit of current or previous years on which corporate income tax was not paid] for which equity is increased; tax is paid at the moment of decrease of equity [including the case of a company liquidation] or at the moment when a legal entity is registered as a payer of micro-enterprise tax)

Notional distributed profits comprise the following:

- Non-operating expenses
- Doubtful receivables
- Increased interest payments
- Loans to related parties
- Adjustments for transactions with related parties below the arm's-length value
- Liquidation quotas and other specific items

Resident companies are companies registered in Latvia and companies incorporated in foreign countries that are registered in Latvia as branches or permanent establishments. All other companies are considered to be nonresident companies.

Payments made by permanent establishment to a nonresident that owns the permanent establishment are treated as expenses that are equivalent to dividends (except expenses that ensure the economic activity of the permanent establishment). Taxable income of nonresidents is income from business activities or related activities in Latvia. Tax is withheld from payments that residents (except natural persons) and permanent establishments make to nonresidents, if such payments are not subject to personal income tax (including remuneration for management and consultancy services, fees paid for the alienation of real estate located in Latvia, and dividends, interest payments, royalties and other payments to low-tax or tax-free countries or territories).

**Tax rates.** Resident companies are subject to tax at a rate of 20% on the gross taxable amount. The net taxable base (distributed profits and notional distributed profits) is divided by coefficient of 0.8 when determining the gross taxable base for the tax period.

**Capital gains.** Capital gains derived by resident companies are included in the taxable amount. The Latvian legislative acts provide an exception; the amount of distributed profit can be reduced by the portion of income derived from the alienation of shares if the holding period is at least 36 months. Withholding tax is not applied on capital gains derived by Latvian nonresidents without a permanent establishment in Latvia (except capital gains from real estate). For nonresident companies without a permanent establishment in Latvia, a final withholding tax at a rate of 3% is imposed on proceeds received from the sale of Latvian real estate, as well as from the sale of shares of a company if in the tax year of the sale or in the preceding year, 50% or more of the company's assets, directly or indirectly, consists of real estate located in Latvia.

**Administration.** The tax period is a calendar month. Tax returns must be filed and income tax must be paid by the 20th day of the following month.

**Foreign tax relief.** A foreign tax credit is available to resident companies for foreign tax paid on taxable income earned abroad. The amount of credit may not exceed an amount equal to the tax that would be imposed in Latvia on dividends from the income earned abroad.

### C. Determination of taxable income

**General.** The net taxable base consists of distributed profits and notional distributed profits divided by a coefficient of 0.8 (see *Corporate income tax* and *Tax rates* in Section B).

**Thin capitalization.** For corporate income tax purposes, companies must include in the taxable base the following amounts:

- The amount of interest payments in proportion to the excess of the average liability over an amount equal to four times shareholders' equity at the beginning of the tax year less any revaluation reserve
- If interest payments exceed EUR3 million in the accounting year, the amount of interest payments in excess of 30% of the profit stated in the income or loss statement prior to the calculation of the corporate income tax, increased by interest payments and calculated depreciation

The thin-capitalization rules do not apply to interest on loans obtained from the following:

- Credit institutions that are residents of Latvia, another European Union (EU)/European Economic Area (EEA) country or a country with which Latvia has concluded a double tax treaty that has entered into force
- Latvian Treasury
- Development Finance Institution
- Nordic Investment Bank
- European Bank for Reconstruction and Development
- European Investment Bank
- Council of Europe Development Bank
- World Bank Group
- Publicly traded Latvia, EU or EEA state debt securities
- Governmental financing, foreign trade lending or guarantee organizations, which are residents of a country with which Latvia has concluded a double tax treaty that has entered into force or are stated in the respective double tax treaty

The first calculation described above for calculating the limitation on the interest payments does not apply if the loans are obtained from financial institutions that are resident in Latvia, another EU/EEA country or a country with which Latvia has concluded a double tax treaty that has entered into force and if such financial institutions provide crediting or financial leasing services and are under the supervision of credit institutions or the financial monitoring agency.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax on goods and services, including imports	
Standard rate	21
Supplies of medical products, infant products, tourist accommodation services, books and subscriptions	12
Exports	0
Social security contributions, paid by	
Employer	24.09
Employee	11
Property tax; rates applied to the cadastral value	
Standard rate; applicable to land, engineering structures and buildings, except for residential buildings	1.5
Increased property tax rate; applicable to buildings in poor conditions and uncultivated agriculture land	3
Rates on residential buildings	
Cadastral value under EUR56,915	0.2
Cadastral value between EUR56,915 and EUR106,715	0.4
Cadastral value above EUR106,715	0.6

## E. Miscellaneous matters

**Foreign-exchange controls.** The official currency of Latvia is the euro (EUR). No significant foreign-exchange controls are imposed in Latvia.

**Transfer pricing.** Latvian law requires the arm's-length principle to be followed in all related-party transactions. The Latvian tax authorities may reassess transactions between related parties and recalculate the tax base if the prices applied in related-party transactions are not arm's length. Transfer-pricing methods, such as the comparable uncontrolled price, resale price, cost-plus, profit-split and transactional net margin methods, may be used to assess whether the prices applied in controlled transactions are consistent with the arm's-length principle.

Until 2018, Latvian taxpayers with annual net turnover exceeding EUR1,430,000 were required to prepare transfer-pricing documentation containing industry, company, functional and economic analysis. The documentation requirements applied to all related-party transactions with an annual value over EUR14,300.

According to the draft law that will be adopted during 2018, for transactions carried out on or after 1 January 2018, the following transfer-pricing documentation must be prepared and submitted to the tax authorities within 12 months after the end of the respective financial year:

- The Base Erosion and Profit Shifting (BEPS) Master File must be prepared and submitted if the annual amount of related-party cross-border transactions exceeds EUR5 million and the taxpayer's net turnover exceeds EUR50 million or if the annual

amount of related-party cross-border transactions exceeds EUR15 million.

- The BEPS Local File must be prepared and submitted if the amount of related-party cross-border transactions exceeds EUR5 million.

According to the draft law that will be adopted during 2018, for transactions carried out on or after 1 January 2018, the following transfer-pricing documentation must be prepared within 12 months after the end of the respective financial year and submitted to the tax authorities within 1 month after request:

- The BEPS Master File must be prepared and filed after request if the annual amount of related-party cross-border transactions does not exceed EUR15 million and the taxpayer's net turnover does not exceed EUR50 million, but the annual amount of related-party cross-border transactions exceeds EUR5 million.
- The BEPS Local File must be prepared and filed after request if the amount of related-party cross-border transactions exceeds EUR250,000, but does not exceed EUR5 million.

The Country-by-Country Report notification applies to all resident entities that are part of a qualifying group (the threshold is EUR750 million).

Transfer-pricing disclosures must be submitted together with the 12th monthly corporate income tax return, which is due four to seven months after the end of the financial year.

The generally accepted practice for transfer-pricing issues is based on the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

Taxpayers can enter into an advance pricing agreement (APA) with the tax administration on the establishment of an arm's-length price (value) for a transaction conducted with a related foreign company if the transaction annual value is planned to exceed EUR1,430,000. If a taxpayer complies with an APA, the tax administration may not adjust in a tax audit the arm's-length price established for the transaction.

## F. Treaty withholding tax rates

The domestic withholding tax rate for dividends, interest and royalties is 0% (with certain exceptions, but these exceptions do not apply to treaty countries). The following table lists the withholding tax rates under Latvia's tax treaties.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Albania	5/10 (a)	5/10 (p)	5
Armenia	5/15 (a)	10	10
Austria	5/10 (a)	10	5/10 (b)
Azerbaijan	5/10 (a)	10	5/10 (b)
Belarus	10	10	10
Belgium	5/15 (a)	10	5/10 (b)
Bulgaria	5/15 (a)	5	5/7 (k)
Canada	5/15 (c)	10	10
China (mainland)	5/10 (a)	10	7

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Croatia	5/15 (a)	10	10
Cyprus	0/10 (u)	0/10 (u)	0/5 (v)
Czech Republic	5/15 (a)	10	10
Denmark	5/15 (a)	10	5/10 (b)
Estonia	5/15 (a)	10	5/10 (b)
Finland	5/15 (a)	10	5/10 (b)
France	5/15 (h)	10	5/10 (b)
Georgia	5/10 (g)	5	5
Germany	5/10 (a)	10	5/10 (b)
Greece	5/10 (a)	10	5/10 (b)
Hong Kong SAR	0/10 (z)	0/10 (w)	0/3 (x)
Hungary	5/10 (a)	10	5/10 (b)
Iceland	5/15 (a)	10	5/10 (b)
India	10	10	10
Ireland	5/15 (c)	10	5/10 (b)
Israel	5/10/15 (m)	5/10 (n)	5
Italy	5/15 (q)	10	5/10 (b)
Japan	10	10	0
Kazakhstan	5/15 (a)	10	10
Korea (South)	5/10 (a)	10	5/10 (b)
Kuwait (s)	0/5	5	5
Kyrgyzstan	5/10 (c)	10	5
Lithuania	0/15 (d)	0	0
Luxembourg	5/10 (a)	10	5/10 (b)
Macedonia	5	5	5/10 (l)
Malta	5/10 (a)	10	10
Mexico	5/10	5/10	10
Moldova	10	10	10
Montenegro	5/10 (a)	10	5/10 (o)
Morocco	6/10 (r)	10	10
Netherlands	5/15 (a)	10	5/10 (b)
Norway	5/15 (a)	10	5/10 (b)
Poland	5/15 (a)	10	10
Portugal	10	10	10
Qatar	0/5 (t)	0/5 (t)	5
Romania	10	10	10
Russian Federation	5/10	5/10	5
Serbia	5/10 (a)	10	5/10 (o)
Singapore	5/10 (a)	10	7.5
Slovak Republic	10	10	10
Slovenia	5/15 (a)	10	10
Spain	5/10 (a)	10	5/10 (b)
Sweden	5/15 (a)	10	5/10 (b)
Switzerland	15	0/10 (w)	0/5 (y)
Tajikistan	0/5/10 (f)	0/7 (i)	5/10 (b)
Turkey	10	10	5/10 (b)
Turkmenistan	5/10 (a)	10	10
Ukraine	5/15 (a)	10	10
United Arab Emirates	5	2.5	5
United Kingdom	5/15 (c)	10	5/10 (b)
United States	5/15 (g)	10	5/10 (b)
Uzbekistan	10	10	10
Non-treaty jurisdictions	0/20 (e)	0/20 (e)	0/20 (e)

- (a) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends.
- (b) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment.
- (c) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the voting power of the payer of the dividends.
- (d) The 0% rate applies if the recipient of the dividends is a company (or a partnership) that holds 25% of the capital and voting power of the payer of the dividends.
- (e) See Section A.
- (f) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 75% of the capital of the payer of the dividends. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the payer of the dividends. The 10% rate applies to all other dividends.
- (g) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the voting power of the payer of the dividends.
- (h) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the payer of the dividends.
- (i) The 0% rate applies to interest paid on loans granted by banks, or to the government, the central bank or any financial institution controlled by the government of Tajikistan.
- (j) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 20% of the capital of the payer of the dividends.
- (k) The 7% rate applies to royalties paid for the use of, or the right to use, cinematographic films and films or tapes for radio or television broadcasting, patents, trademarks, designs, and models, plans, secret formulas or processes. The 5% rate applies to other royalties.
- (l) The 10% rate applies to royalties paid for the use of, or the right to use, cinematographic films or films or tapes for radio or television broadcasting. The 5% rate applies to other royalties.
- (m) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the payer of the dividends. The 10% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 10% of the capital of the payer of the dividends and if the dividends are paid out of profits that are exempt from tax or subject to tax at a rate lower than the normal Israel tax rate under the Israel investment encouragement law.
- (n) The 5% rate applies to interest paid by Israel-registered banks. The 10% rate applies to other interest payments.
- (o) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films and films or tapes and other means of image or sound reproduction for radio or television broadcasting. The 10% rate applies to royalties paid for the following:
  - The use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment
  - Information concerning industrial, commercial or scientific experience
- (p) The 5% rate applies to interest paid on loans granted by banks.
- (q) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the voting capital of the company paying the dividends.
- (r) The 6% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends.
- (s) Latvia has ratified the tax treaty with Kuwait, which will enter into force when Latvia receives notification that Kuwait has also ratified the treaty.
- (t) The 0% rate applies if the beneficial owner of the dividends or interest is a company (other than a partnership). The 5% rate applies to dividends or interest in all other cases.
- (u) The 0% rate applies if the beneficial owner of the dividends or interest is a company (other than a partnership). The 10% rate applies to dividends or interest in all other cases.
- (v) The 0% rate applies if the beneficial owner of the royalties is a company (other than a partnership). The 5% rate applies to royalties in all other cases.

- 
- (w) The 0% rate applies if the interest is paid by a company that is a resident of a contracting state to a company (other than a partnership) that is a resident of the other contracting state and is the beneficial owner of the interest. The 10% rate applies to interest in all other cases.
- (x) The 0% rate applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience, if the royalties are paid by a company that is a resident of a contracting state to a company (other than a partnership) that is a resident of the other contracting state and is the beneficial owner of the royalties. The 3% rate applies to royalties in all other cases.
- (y) The 0% rate applies if the royalties are paid by a company that is a resident of a contracting state to a company (other than a partnership) that is a resident of the other contracting state and is the beneficial owner of the royalties. The 5% rate applies to royalties in all other cases.
- (z) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership). Dividends arising in the Hong Kong Special Administrative Region (SAR) are exempt from tax in the Hong Kong SAR if they are paid the following:
- The government of the Hong Kong SAR
  - The Hong Kong Monetary Authority
  - The Exchange Fund
  - An institution wholly or mainly owned by the government of the Hong Kong SAR (as may be agreed from time to time between the competent authorities)
- The 10% rate applies to dividends in all other cases.

# Lebanon

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## A. At a glance

Corporate Income Tax Rate (%)	17
Capital Gains Tax Rate (%)	15
Branch Tax Rate (%)	17
Withholding Tax (%)	
Dividends	10 (a)
Interest	10 (a)(b)
Royalties from Patents, Know-how, etc.	10 (c)
Payments for Services Provided by	
Nonresidents	7.5
Branch Remittance Tax	10 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) Applicable to both residents and nonresidents.  
 (b) Bank interest is subject to a 7% withholding tax for residents and nonresidents.  
 (c) Applicable if the royalties are received by Lebanese holding companies (see Section B).  
 (d) Profits derived by branches operating in Lebanon are presumed to be distributed and consequently are subject to remittance tax.

## B. Taxes on corporate income and gains

**Corporate income tax.** Lebanese companies and branches of foreign companies carrying on business in Lebanon are subject to tax



only on their income derived from Lebanon. A company is considered Lebanese if it is registered in Lebanon. The following are the two main conditions for registering a company in Lebanon:

- The company's registered office is located in Lebanon.
- The majority of the company's board of directors is of Lebanese nationality (unless the government authorizes the company to have less than a majority).

**Rates of corporate income tax.** In general, companies are subject to tax at a flat rate of 17% under Law No. 64, published on 26 October 2017.

Under Law No. 64, the gain realized from the revaluation of fixed assets (not exceptional revaluation) is subject to 10% capital gains tax unless certain conditions are met. The tax is payable with the corporate income tax (that is, within five months following the end of the fiscal year).

Profits derived in Lebanon by branches of foreign companies are presumed to be distributed and consequently are subject to the 10% remittance tax.

Contractors on government projects are subject to tax at the regular corporate income tax rate on a deemed profit of 10% or 15% of actual gross receipts, depending on the type of project.

Lebanese holding companies and offshore companies are exempt from corporate income tax. However, special taxes apply to these companies (see Section D). A Lebanese holding company is a special type of company that is formed to hold investments in and outside Lebanon ("holding company" is not synonymous with "parent company"). An offshore company is a company that engages exclusively in business transactions outside Lebanon.

Insurance companies are subject to tax at the regular corporate income tax rate of 17% under Law No. 64 on a deemed profit ranging from 5% to 10% of their premium income.

Lebanese air and sea transport companies are exempt from corporate income tax. Foreign air and sea transport companies are also exempt from corporate income tax if their home countries grant reciprocal relief to Lebanese companies. However, dividends distributed remain subject to movable capital tax.

Profits derived by industrial enterprises established in Lebanon after 1 January 1980 are exempt from income tax for up to 10 years from the date of commencement of production if such enterprises satisfy all of the following conditions:

- The factory is built in certain areas the government intends to develop.
- The object of the enterprise is to manufacture new goods and materials that were not manufactured in Lebanon before 1 January 1980.
- The total value of property, plant and equipment used in Lebanon by the new enterprise and allocated for the production of new goods and materials is at least LBP500 million.

Profits qualifying for this tax holiday may not exceed the original cost of the property, plant and equipment used by the enterprise on the date production begins.

Under Law No. 248, dated 15 April 2014, an exemption of 50% applies to profits realized from the exportation of goods produced in Lebanon. A certificate-of-origin document is needed to prove that the exports are from Lebanon. Companies engaged in the extraction of natural resources are excluded from this exemption. Decision 854/1, which was released in September 2016, explains the mechanism of the application of this law.

**Capital gains.** Capital gains on the disposal of fixed assets are taxed at a rate of 15% under Law No. 64.

If a company reinvests all or part of a capital gain subject to the 15% rate to construct permanent houses for its employees during a two-year period beginning with the year following the year in which the gain was realized, it may obtain a refund of the tax imposed on the reinvested gain.

**Administration.** The official tax year is the calendar year. Companies or branches may use a different tax year if they obtain the prior approval of the tax authorities.

Corporations with a financial year-end of 31 December must file their tax returns by 31 May of the year following the year in which the income is earned. Other corporations must file their returns within five months of their financial year-end. The tax authorities may grant a one-month extension at the request of the taxpayer if the taxpayer's circumstances warrant the extension. Tax must be paid by the same deadline.

If a taxpayer does not submit timely returns, the tax authorities may levy tax on an amount of deemed profit and impose a fine of 5% of the tax due for each month or part of a month that the return is late. The minimum penalty is LBP750,000 for joint stock companies, LBP500,000 for limited liability companies, and LBP100,000 for other taxpayers. The maximum penalty is 100% of the tax due. For failure to pay tax by the due date, a penalty of 1% of the tax due is imposed for each month or part of a month that the tax remains unpaid.

**Dividends and interest.** In general, dividends and interest are subject to a withholding tax of 10%. Interest paid to foreign entities is subject to a 7.5% nonresident tax.

Dividends received by a Lebanese corporation from another Lebanese corporation are excluded from the taxable income of the receiving company. However, dividends redistributed by a parent company to its shareholders or partners are subject only to a withholding tax of 10%.

Dividends distributed by Lebanese holding companies and offshore companies are exempt from dividend withholding tax.

Dividends and interest income earned by banks and financial institutions and generated from trading activity are subject to tax at the regular corporate tax rate of 17%.

Dividends received by banks from their subsidiaries are subject to a 10% dividend tax at the level of subsidiary.

**Foreign tax relief.** Dividends and interest income earned by banks and financial institutions and generated from trading activity are subject to tax at the regular corporate tax rate of 17%.

Dividends received by banks from their subsidiaries are subject to a 10% dividend tax at the level of subsidiary.

### C. Determination of trading income

**General.** The tax assessment is based on audited financial statements prepared according to International Financial Reporting Standards subject to certain adjustments.

Deductions are allowed for expenses incurred wholly and exclusively for business purposes. Branches, subsidiaries and affiliates of foreign companies may deduct the portion of foreign head office overhead charged to them if the auditors of the head office present to the tax authorities a certificate confirming that the overhead was fairly and equitably allocated to the various subsidiaries, associated companies and branches and that the amount of head office overhead charged back to the Lebanese entity is in accordance with the limits set by the Ministry of Finance. However, the deductible portion of the overhead charged back to the Lebanese entity is subject to a tax of 7.5% (see Section D).

**Inventories.** Inventories are normally valued at the lower of cost or net realizable value. Cost is usually determined using the first-in, first-out or weighted average cost method.

**Provisions.** The following are the only provisions that are allowed for tax purposes:

- The actual amount due at the balance-sheet date for employees' end-of-service indemnities
- Doubtful debts owed by debtors that have been declared legally bankrupt
- A provision for obsolete inventory if the following conditions are met:
  - The tax authorities are notified about the intention to destroy the obsolete stock.
  - The obsolete stock is destroyed in the presence of a representative from the tax authorities.
  - The tax authorities prepare formal minutes evidencing the destruction of the obsolete stock.

Banks and financial institutions may deduct provisions for doubtful debts before declaration of bankruptcy of the debtor if they obtain the approval of the Banking Control Commission of the Central Bank of Lebanon.

**Tax depreciation.** Depreciation must be calculated using the straight-line method. The Ministry of Finance has specified the minimum and maximum depreciation rates. A company may select appropriate rates within these limits for its activities. Companies must notify the relevant income tax authorities of the adopted depreciation rates before the declaration deadline. Otherwise the company is considered eligible for the minimum depreciation rates only.

<b>Assets</b>	<b>Minimum rate (%)</b>	<b>Maximum rate (%)</b>
Developed buildings from concrete for use in the commercial, tourism and service sectors (for example, offices, shops, stores, restaurants, hotels and hospitals)	2	5

<b>Assets</b>	<b>Minimum rate (%)</b>	<b>Maximum rate (%)</b>
Developed buildings from concrete that are used for industry and handcrafts	3	10
Developed buildings from metal for commercial and industrial use	6	20
Large renovations, maintenance and decoration works for buildings	6	20
Technical installations, industrial equipment and accessories	8	25
Computer hardware and software	20	50
Cars	10	25
Vehicles for transportation of goods and people	6	20
Means of sea transport	5	10
Means of air transport	20	25
Office equipment, furniture and fixtures	8	25
Non-consumable tools in restaurants and coffee shops (for example, glass cups and silver spoons)	— *	— *
Gas bottles	8	20

\* These items are subject to count each year and are valued at cost.

**Relief for tax losses.** Tax losses may be carried forward for three years. In addition, under Law No. 273, dated 15 April 2014, losses incurred in 2003 and 2004 can be carried forward for one extra year (four years in total). Losses incurred in 2005, 2006, 2007 and 2008 can be carried forward for an additional four or seven years. This applies to certain companies specified under this law.

**Groups of companies.** Parent companies are not required to prepare consolidated financial statements that incorporate the activities of their associated companies and subsidiaries. Each legal entity is taxed separately.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate</b>
Value-added tax (VAT); imposed on the supply of goods and services by a taxable person in the course of an economic activity in Lebanon and on imports; certain supplies are exempt; registration with the Directorate of VAT is required if an entity's total taxable turnover exceeded LBP100 million in any period varying from one to four prior consecutive quarters; all persons performing taxable economic activities have the option of registering if their turnover exceeds LBP50 million in a period varying from one to four prior consecutive quarters	
Standard rate	11%
Tax on portion of foreign head office overhead allocated to a Lebanese subsidiary, associated company or branch	7.5%

<b>Nature of tax</b>	<b>Rate</b>
Customs duties on imported goods	Various
Social security contributions	
Sickness and maternity, on monthly salaries up to LBP2,500,000; paid by	
Employer	8%
Employee	3%
Family allowances, on monthly salaries up to LBP1,500,000; paid by employer	6%
End-of-service indemnity, on monthly salaries; paid by employer	8.5%
Stamp duty on documents, such as the issuance of share capital, corporate bonds, commercial bills, lease agreements, employment agreements and other agreements (contracts related to foreign transactions of Lebanese offshore companies are exempt)	
General rate	0.4%
Built property tax; imposed on rental income generated by entities subject to income tax; such income is not subject to corporate income tax and is excluded from the taxable results together with the related expenses; the annual net income from each parcel of real estate is separately subject to built property tax	
Net income not exceeding LBP20 million	4%
Net income exceeding LBP20 million, but not exceeding LBP40 million	6%
Net income exceeding LBP40 million, but not exceeding LBP60 million	8%
Net income exceeding LBP60 million, but not exceeding LBP100 million	11%
Net income exceeding LBP100 million	14%
Municipal taxes on developed property	
Sidewalk and sewage tax, paid by landlords on annual gross rental from buildings (since 1989, the municipalities have collected this tax from tenants)	1.5%
Security and cleaning tax, paid by tenant on a percentage of the rental value of buildings (nonprofit enterprises are exempt from this tax)	
Residential buildings (minimum tax of LBP5,000)	5%
Nonresidential buildings (minimum tax of LBP10,000)	7%
Registration duty; paid by purchaser of land or buildings; levied on fair-market value of building (approximate rate)	6%
Fee on the sale contract amount; payable within 15 days of the contract date; considered as a tax credit with respect to the total registration fees, provided that the registration occurs within one year after the contract date	2%
Annual tax on total capital and reserves of Lebanese holding companies, up to a maximum tax of LBP5 million (tax	

Nature of tax	Rate
is due in full from the first year of company's operations, regardless of the month operations begin); imposed on amounts	
Not exceeding LBP50 million	6%
Exceeding LBP50 million but not exceeding LBP80 million	4%
Exceeding LBP80 million	2%
Annual tax on Lebanese offshore companies (tax is imposed in full from the first year of company's operations, regardless of the month operations begin)	LBP1 million

## E. Miscellaneous matters

**Foreign-exchange controls.** Lebanon does not impose any foreign-exchange controls.

**Anti-avoidance legislation.** Under the Lebanese tax law, criminal or tax penalties may be imposed for specified tax-avoidance schemes.

**Related-party transactions.** Transactions with related entities must be on an arm's-length basis.

## F. Tax treaties

Lebanon has entered into double tax treaties with Algeria, Armenia, Bahrain, Belarus, Bulgaria, Cuba, Cyprus, the Czech Republic, Egypt, France, Gabon, Iran, Italy, Jordan, Kuwait, Malaysia, Malta, Morocco, Oman, Pakistan, Poland, Qatar, Romania, the Russian Federation, Senegal, Sudan, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates and Yemen.

# Lesotho

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	25 (b)(c)
Interest	25 (b)(d)(e)
Royalties	25 (b)(d)
Management Charges	25 (b)(d)
Payments for Services	10 (b)
Payments to Resident Contractors	5
Branch Remittance Tax	25 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) For manufacturing companies, the rate is 10%. For companies that manufacture and export outside the Southern African Customs Union, the rate is now also 10%.
- (b) These withholding taxes apply to payments to nonresidents only.
- (c) Dividends paid by manufacturing companies subject to a concessionary corporate tax rate are exempt from withholding tax.
- (d) For interest, royalties and management charges paid by manufacturing companies subject to a concessional corporate tax rate, the rate is 15%.
- (e) A 10% withholding tax is imposed on interest paid to residents.
- (f) This tax is imposed on repatriated income. Repatriated income is the chargeable income of the branch less Lesotho income tax paid on the chargeable income and any profits reinvested in the branch. This tax is potentially subject to relief under a double tax treaty.

## B. Taxes on corporate income and gains

**Company tax.** Company tax is imposed on income from all sources located in and outside Lesotho.

**Rates of company tax.** The standard tax rate is 25%.

The rate is reduced to 10% for income from manufacturing operations and for companies that manufacture and export to countries outside the Southern African Customs Union. The special rate for manufacturing income does not apply to a Lesotho branch of a nonresident company.

**Capital gains.** Capital gains are treated as ordinary income and subject to tax at the regular corporate income tax rate.

**Administration.** The year of assessment runs from 1 April to 31 March. However, a company may select a year of assessment other than 1 April to 31 March, subject to the approval of the Commissioner of Income Tax.

Returns must be filed by the last day of the third month following the end of the year of assessment. If a return is not filed, the Commissioner may issue an estimated assessment.

Tax is payable in three installments, which are due on 30 September, 31 December and 31 March of each year of assessment. The fourth and final payment is due on submission of the return. For companies whose year-end is other than 31 March, the installments of tax are due on the last day of the sixth, ninth and twelfth months of the year of assessment.

Withholding taxes are payable when the payee becomes legally entitled to the payment.

If tax levied under the Income Tax Act is not paid by the due date, additional tax of 22% per year is payable, compounded annually and apportioned per month or part of a month.

**Dividends.** Resident companies are exempt from tax on dividends received, but they may not deduct related expenses or dividends declared. A resident company is a company that satisfies one of the following conditions:

- It is incorporated and formed under the laws of Lesotho.
- Its management and control is located in Lesotho.
- It undertakes the majority of its operations in Lesotho.

Dividends paid to nonresidents are subject to a final withholding tax at a rate of 25%. Dividends paid by manufacturing companies subject to a concessionary corporate tax rate are exempt from withholding tax.



Resident companies that pay dividends are liable for advance corporation tax (ACT).

The following is the calculation for ACT:

$$\frac{A}{100 - A} \times 100$$

In the above calculation, A is the corporate tax rate for income other than manufacturing income.

Installment tax is set off against ACT; that is, installment tax paid settles the ACT due.

**Foreign tax relief.** In the absence of treaty relief provisions, unilateral relief is granted through a credit for foreign taxes paid on income earned abroad. The amount of the credit is the lesser of the foreign tax paid and the Lesotho tax on the foreign-source income.

### C. Determination of trading income

**General.** Taxable income is financial statement income, adjusted as required by the Income Tax Act. To be eligible for deduction, expenses must be incurred in the production of income, and they must not be of a capital nature.

**Inventories.** Inventories are valued at the lower of cost or realizable value. Cost is determined using the first-in, first-out (FIFO) method or the average-cost method.

**Provisions.** Specific provisions are allowable for tax purposes. General provisions are not allowed.

**Depreciation.** Depreciation is computed using the declining-balance method at the following rates.

Asset	Rate (%)
Motor vehicles	25
Furniture, fixtures and office machines	20
Plant and machinery	20
Industrial buildings and public utility plant	5
Mining	100
Other assets	10

**Relief for losses.** Assessed losses may be carried forward for an unlimited period. A carryback of losses is not allowed.

**Groups of companies.** Companies in a group may not share their tax losses with profitable companies in the group.

### D. Value-added tax

Value-added tax is levied at the following rates:

- Specified basic commodities: 0%
- Electricity and telecommunications: 5%
- Liquor and tobacco: 15%
- Other commodities: 14%

### E. Tax treaties

Lesotho has entered into tax treaties with Mauritius, South Africa and the United Kingdom. The following are the withholding tax rates for dividends, interest and royalties under these treaties.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>	<b>Management and technical fees</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Mauritius	10	10	10	0
South Africa	15 (a)	10	10	7.5
United Kingdom	10	10	10	10
Non-treaty jurisdictions (b)	25	25	25	25

(a) The tax rate is reduced to 10% of the gross amount of the dividends if the beneficial owner of the dividends is a company that holds at least 10% of the capital of the company paying the dividends.

(b) See applicable footnotes to Section A.

# Libya

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*This chapter reflects the law in Libya as of the time of writing. In view of the current transition in Libya, the legislative situation is difficult to assess and may be subject to change. Consequently, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (a)(b)
Branch Tax Rate (%)	20 (a)
Withholding Tax (%)	
Dividends	0 (c)
Interest	0
Royalties	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (d)

- (a) Corporate income tax is imposed at a flat rate of 20%. In addition, Jihad Tax at a rate of 4% is imposed on the profits of Libyan companies and branches. Oil companies are subject to a composite rate of 65%, which includes income tax, Jihad Tax and a surtax.
- (b) Capital gains are treated as trading income.
- (c) Tax on dividends has been reinstated, but regulations relating to rates and rules of collection have not yet been issued.
- (d) Oil companies may carry forward losses 10 years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Libyan companies and foreign branches are subject to tax on their worldwide income. A national company or foreign branch is considered to be resident in Libya if it is registered with the Ministry of Economy. A foreign company that does not register but engages in activities in Libya is deemed to immediately have de facto permanent establishment status in Libya and is subject to tax on its income.

**Tax rates.** Corporate income tax is imposed at a flat rate of 20% of profits.

In addition, Jihad Tax is payable at a rate of 4% of profits.

Oil companies are subject to a composite rate of 65%, which includes income tax, Jihad Tax and a surtax.

Companies established under Law 9/2010 (Investment Law) or Law 7/2003 (Tourism Law) are exempt from corporate taxes for up to 5 years and a possible additional 3 years or 10 years, respectively, as well as from stamp duty and import duties.

**Capital gains.** Capital gains are included in ordinary income and are taxed at the regular corporate income tax rate.

**Administration.** The financial year is the calendar year, but, on application, the Tax Department may allow a different financial year.

An annual tax return must be filed within one month after approval of the company or branch accounts or four months after the year-end, whichever is earlier. Consequently, for companies using the calendar year as their financial year, tax returns must be filed by 30 April.

Tax is payable in four quarterly installments beginning with the first quarterly due date after the issuance of an assessment. The quarterly due dates are 10 March, 10 June, 10 September and 10 December.

**Dividends.** Tax on dividends has been reinstated, but regulations relating to rates and rules of collection have not yet been issued.

**Royalties.** Subject to the provisions of double tax treaties, royalties are treated as trading income.

**Foreign tax relief.** Libya does not grant any relief for foreign taxes unless a double tax treaty applies.

### **C. Determination of trading income**

**General.** Taxable income is based on financial statements prepared in accordance with generally accepted accounting principles (GAAP), subject to certain adjustments. A detailed body of Libyan GAAP does not exist.

Business expenses are generally deductible if incurred for business purposes unless specifically disallowed by the tax law.

**Basis of assessment.** The Commercial Code (Law 23/2010) requires that a report be issued on the accounts. Tax Law 2010 states that this will be relied on, and tax will be assessed on declared profits. Tax audits of accounts will be discretionary.

Notwithstanding the Commercial Code and Tax Law, in practice, tax continues to be assessed on private Libyan and foreign companies (joint stock companies and branches) based on a percentage of turnover. This is known as the “deemed profit” basis of assessment. Consequently, tax is payable even if losses are declared.

The percentage of deemed profit based on turnover varies according to the type of business activity. These percentages include the following:

- Civil works and contracting: 10% to 15%
- Oil service: 15% to 25%
- Design and consulting engineers: 25% to 40%

Each case is reviewed individually and a percentage is determined within the above broad ranges. After the preliminary final assessments are issued, taxpayers have a period of 45 days in which to negotiate an agreed settlement or to appeal. Thereafter, appeals may be made to the First and Second Appeal Committees, the Court of Appeal and finally the Supreme Court.

The deemed profit percentage applied to any year is higher than the profit percentage declared in the annual tax return, unless the actual profit declared is significantly higher than the deemed rate usually applied.

The deemed profit basis of assessment does not apply to Libyan public companies, which are assessed on an actual basis.

**Inventories.** Inventories are valued at cost.

**Provisions.** General provisions are not allowed.

**Tax depreciation.** Depreciation must be computed using the straight-line method. The following are some of the standard depreciation rates allowed in Libya.

<b>Asset</b>	<b>Rate (%)</b>
Furniture and tools	15 to 25
Buildings	4 to 10
Passenger cars	20
Computer hardware	25
Computer software	50

Head office overhead charges are limited to 5% of allowable general and administrative expenses.

**Relief for losses.** In general, losses may be carried forward five years. However, oil companies may carry forward losses 10 years. Losses may not be carried back.

**Groups of companies.** Libyan law does not provide for the fiscal integration of related parties.

## **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Social security contributions; on employee's annual salary; paid by Employer	11.25
Employee	3.75
Stamp duty; the Stamp Duty Law contains 45 schedules; the most relevant items for companies and branches are the duties to register contracts and subcontracts; customers do not pay invoices unless contracts are registered and duty paid;	

Nature of tax	Rate (%)
duty for registration is based on the contract value	
Contracts	1
Subcontracts	0.1
Import duties	
Basic rate	5
Vehicles and plant	10
Luxury items	15

### **E. Foreign-exchange controls**

The Libyan currency is the dinar (LYD).

By concession, Libyan branches of foreign companies may be paid directly offshore (up to 100%).

Libyan joint stock companies with a foreign shareholding (which may be up to 49%, effective from mid-2012; previously, up to 65%) may be paid in foreign currency, but the payments must be made into accounts held at Libyan banks.

As a result, no issue exists with respect to the remittance of profits.

### **F. Tax treaties**

Libya has entered into a multilateral tax treaty with the other Maghreb Union countries (Algeria, Mauritania, Morocco and Tunisia). It has also entered into double tax treaties with Egypt, France, India, Malta, Pakistan, Singapore, the Slovak Republic and the United Kingdom.

Libya has signed double tax treaties with many other Asian and European countries, but these treaties have not yet been ratified.

Libya has entered into a treaty of "Friendship and Co-Operation" with Italy.

# Liechtenstein

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## A. At a glance

Corporate Income Tax Rate (%)	12.5 (a)
Capital Gains Tax Rate (%)	24 (b)
Branch Tax Rate (%)	12.5 (a)
Withholding Tax (%)	
Dividends	0
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (c)

- (a) The minimum corporate income tax is CHF1,800 per year, effective from 1 January 2017.  
(b) This is the maximum rate. See Section B.  
(c) The amount of the offsetting loss is limited (see Section C).

## B. Taxes on corporate income and gains

**Corporate income tax.** The current Liechtenstein tax law entered into force on 1 January 2011. Certain tax-favorable situations may result by applying the notional interest deduction (see *Notional interest deduction*). In June 2013 and September 2014, parliament passed amendments of the Liechtenstein tax law to reduce the budget deficit (for example, changes to notional interest deduction; see *Notional interest deduction*). Further amendments were enacted, effective from 2017, to incorporate the Base Erosion and Profit Sharing (BEPS) measures into the Liechtenstein tax law.

Resident corporations carrying on activities in Liechtenstein are generally taxed on worldwide income other than income from foreign real estate. Income from permanent establishments abroad is exempt from income tax.

Branches of foreign corporations and nonresident companies owning real property in Liechtenstein are subject to tax on income attributable to the branch or real property.

**Rates of corporate tax.** Companies resident in Liechtenstein and foreign enterprises with permanent establishments in Liechtenstein are subject to income tax. The corporate income tax rate is 12.5%. The minimum corporate income tax is CHF1,800 per year, effective from 1 January 2017.

**Notional interest deduction.** Deemed interest on the equity of the taxpaying entity may be deducted from taxable income. Parliament sets the applicable interest rate annually in the financial law, based on the market development. The rate was 4% for 2017. The notional interest deduction on equity can reduce taxable income only to CHF0. As a result, loss carryforwards cannot be generated as a result of the notional interest deduction.

**Patent box regime for intellectual property companies.** As a result of BEPS Action 5, the patent box regime was abolished, effective from 1 January 2017. A transition period until 2020 applies for companies that took advantage of the patent box rules for the 2016 fiscal year.

**Capital gains.** Capital gains, except those derived from the sales or liquidations of investments in shares or similar equity instruments and from the sales of real property, are included in income and subject to tax at the regular rate.

Capital gains derived from sales, liquidations or unrealized appreciations of investments in shares or similar equity instruments are not taxed in Liechtenstein.

Real estate profits tax applies to capital gains from the sale of real property. The tax rate depends on the amount of taxable profit. The maximum rate is 24%.

**Administration.** The tax year for a company is its fiscal year.

Companies with operations in Liechtenstein must file their tax return and financial statements no later than 1 July of the year following the end of the fiscal year (extension of the filing deadline of up to six months is possible in specific cases if the provisional invoice for such fiscal year is paid). The tax authorities issue a tax assessment, generally in the second half of the calendar year, which must be paid within 30 days of receipt. If they obtain approval from the tax administration, companies may pay their tax in installments.

**Dividends.** Dividends are generally not included in the taxable income of companies subject to tax. However, in the course of the incorporation of the BEPS measures, a correspondence principle was introduced. Under this principle, income, such as dividend income received by a Liechtenstein parent from investments of at least 25% in the capital of a company, may be reclassified to taxable income if such a payment qualifies as tax-deductible expense at the level of the paying subsidiary.

Distributions of Liechtenstein stock corporations (and other companies with capital divided into shares) are generally not subject



to a withholding tax (the so-called coupon tax was abolished, effective from 1 January 2011).

### C. Determination of trading income

**General.** Taxable income is accounting income, subject to adjustments for tax purposes and excluding income from capital gains from sales of shares or similar equity instruments, dividends on investments in shares or similar equity instruments, foreign real property and income from permanent establishments located abroad.

Expenses related to the company's business are generally deductible. Taxes are not deductible.

Nondeductible expenses include hidden distributions to shareholders or related persons and excessive depreciation.

**Inventories.** Inventories must be valued at the lower of cost or market value, with cost calculated using the first-in, first-out (FIFO) or average-cost method. Companies may establish a general inventory reserve of up to one-third of the inventory cost or market value at the balance sheet date if detailed inventory records are available for review by the tax authorities. The need for a reserve exceeding this amount must be documented to the satisfaction of the tax authorities.

**Depreciation.** Depreciation of fixed assets that is commercially justified and recorded in the statutory accounts may be deducted for tax purposes. The straight-line and declining-balance methods are acceptable. The following are acceptable declining-balance rates:

- 5% for industrial buildings
- 20% for office equipment and furnishings
- 30% for machinery, equipment, computers and vehicles other than automobiles
- 35% for automobiles

**Relief for losses.** Losses may be carried forward to offset income for an unlimited number of years following the year of the loss. Losses may not be carried back.

The offsetting loss is limited to 70% of taxable income (even if unused loss carryforwards exist). Consequently, at least 30% of the positive taxable income is taxed. In addition, the notional interest deduction on equity can only reduce taxable income to a minimum of CHF0. This means that loss carryforwards cannot be generated as a result of the notional interest deduction.

**Groups of companies.** On request, associated companies (corporations) may form a group for tax purposes. Under group taxation, losses of group members may be credited against profits of other group members within the same year. To apply for group taxation, the following conditions, among others, must be met:

- The parent company must have its legal seat in Liechtenstein.
- The parent company must hold at least 50% of the voting rights and the capital of the subsidiaries as of the beginning of the respective year.

For purposes of group taxation, the subsidiaries in a group may be located in foreign countries.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	
Standard rate	7.7
Hotels and lodging services (overnight stays only)	3.7
Basic necessities, such as food and medicine	2.5
Stamp duty on capital; imposed on incorporations and increases in capital; the first CHF1 million is exempt	1
Payroll taxes	
Social security contributions, on gross salary; paid by	
Employer	6.93
Employee	4.55
Accident insurance, imposed on gross salary; rates vary depending on the extent of coverage	
On the job, paid by employer; rate depends on class of risk and insurance company	Various
Off the job, paid by employee (approximate rate)	1.5
Unemployment insurance; paid by	
Employer (yearly maximum, CHF630)	0.5
Employee (yearly maximum, CHF630)	0.5
Company pension fund, imposed on gross salary; minimum contribution (approximate rate, depending on plan); paid by	
Employer (approximate rate)	4
Employee (approximate rate)	4
Child allowance, imposed on gross salary; paid by employer	1.9
Health insurance, imposed on gross salary; paid in equal amounts by employer and employee; rate depends on the contribution of the mandatory insurance company	Various

## E. Transfer pricing

Intercompany charges should be determined at arm's length. It is possible to reach an agreement in advance with the tax authorities concerning arm's-length pricing.

Following the recommendations of the Organisation for Economic Co-operation and Development (OECD) on BEPS Action 13, Liechtenstein introduced on 1 January 2017 the legal basis for a three-tiered approach to transfer-pricing documentation consisting of a master file, a local file and the Country-by-Country (CbC) report.

Companies must provide on request of the tax authorities (no general filing obligation) documentation regarding the adequacy of transfer prices of transactions with related companies or related permanent establishments. If a company is considered a large company, it is expected that the company will be required to apply internationally recognized guidelines on transfer pricing (that is, master file and local file) for its documentation. A

company is considered large (following Liechtenstein company law) if all of the following criteria are exceeded:

- Total assets of CHF25,900,000
- Net revenue of CHF51,800,000
- Annual average of 250 full-time employees

For smaller companies, lower documentation requirements apply (principle of reasonableness).

The master file and local file will be introduced through an ordinance that has not entered yet into force.

Liechtenstein-headquartered multinational groups with annual consolidated group revenue of at least CHF900 million must file CbC reports. The CbC legislation closely follows the model legislation related to CbC reporting outlined in BEPS Action 13 and contains a secondary filing mechanism as well as the possibility to appoint a surrogate entity for filing purposes. The CbC legislation entered into force as of 1 January 2017 and, consequently, only covers tax periods beginning in or after 2017. However, for tax periods beginning in 2016, a voluntary filing is generally possible if requested by the taxpayer. In addition, groups with consolidated group revenue of less than CHF900 million may also file CbC reports on voluntary basis.

## F. Treaty withholding tax rates

The rates shown are the lower of the treaty rates or the normal domestic rates.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Andorra	0	0	0
Austria	0*	0*	0
Czech Republic	0	0	0
Georgia	0	0	0
Germany	0	0	0
Guernsey	0	0	0
Hong Kong SAR	0	0	0
Hungary	0	0	0
Iceland	0	0	0
Luxembourg	0	0	0
Malta	0	0	0
San Marino	0	0	0
Singapore	0	0	0
Switzerland	0	0	0
United Arab Emirates	0	0	0
United Kingdom	0	0	0
Uruguay	0	0	0
Non-treaty jurisdictions	0	0	0

\* Under the tax cooperation agreement between Austria and Liechtenstein, companies from Liechtenstein may be required to deduct 25% of dividend and interest payments made to parties in Austria and transfer such amounts to the Austrian tax authorities as tax from the parties in Austria.

Liechtenstein has signed a double tax treaty with Monaco, but this treaty has not yet been ratified. The treaty has been approved by the Liechtenstein parliament, but notification from Monaco's government is still pending.

In addition, Liechtenstein has entered into tax information exchange agreements with various countries, including Andorra, Antigua and Barbuda, Australia, Belgium, Canada, China, Denmark, the Faroe Islands, Finland, France, Germany, Greenland, Iceland, India, Ireland, Italy, Japan, Mexico, Monaco, the Netherlands, Norway, Sweden, St. Kitts and Nevis, St. Vincent and the Grenadines, South Africa, the United Kingdom and the United States.

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## A. At a glance

Corporate Profit Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 (b)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%) (c)	
Dividends	0/15 (d)
Interest	0/10 (e)(f)
Royalties and Know-how	0/10 (e)(g)
Sale, Rent or Other Transfer of Real Estate Located in Lithuania	15 (e)
Compensation for Violations of Copyrights or Related Rights	0/10 (e)(g)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5/Unlimited (h)

- (a) This is the standard rate of profit tax. Reduced rates apply to small, agricultural or nonprofit companies and to companies registered and operating in free-economic zones that satisfy certain conditions.
- (b) In general, capital gains are included in taxable profit and are subject to tax at the regular profit tax rate. A capital gain derived from the sale of shares of a company registered in a European Economic Area (EEA) country or in a tax treaty country is exempt from tax if either of the following conditions is satisfied:
- The shares have been held for at least two years and the holding represents more than 10% of shares of the company throughout that period.
  - The shares were transferred in a reorganization (as stipulated in the Law on Profit Tax), the shares have been held for at least three years, and the holding represents more than 10% of the shares of the company throughout that period.
- This rule does not apply if the shares are sold to the issuer of the shares.
- (c) The withholding tax rates may be reduced by applicable tax treaties.
- (d) The dividend withholding tax is a final tax. Under the participation exemption rule, the rate is 0% if the recipient is a company (not located in a tax haven) that holds at least 10% of the shares of the payer of the dividends for a period of at least 12 months. The participation exemption is denied for entities or a group of entities if the main purpose or one of the main purposes of putting in place the arrangements was to obtain a tax advantage.
- (e) These withholding taxes apply to payments to nonresident companies.
- (f) Interest paid to an entity registered in an EEA country or in a tax treaty country is exempt from tax. In other cases, a 10% withholding tax is applied.
- (g) Royalties, payments for know-how and compensation for violations of copyrights or related rights are subject to a 0% withholding tax if the criteria stipulated in the Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different member states are met. In other cases, the 10% withholding tax rate applies.
- (h) Losses from disposals of securities and derivative financial instruments may be carried forward five years to offset gains derived from disposals of such items. Losses from the disposal of shares of companies registered in an EEA country or in another tax treaty country cannot be carried forward if the shares have been held for at least two years and if the holding represents at least 10% of shares of the company throughout that period. However, these losses can be offset against capital gains derived from disposals of securities and derivative financial instruments in the current year. Other losses may be carried forward for an unlimited period, unless the entity ceases to carry on the activity that resulted in the loss. Also, see Section C.

## B. Taxes on corporate income and gains

**Profit tax.** Under the Law on Profit Tax, Lithuanian companies are subject to profit tax on their worldwide income. Lithuanian (resident) companies are defined as enterprises with the rights of legal persons registered in Lithuania. For purposes of the profit tax, Lithuanian companies include companies formed in Lithuania and

companies incorporated in foreign countries that are registered in Lithuania as branches or permanent establishments.

Profits of Lithuanian companies earned through permanent establishments in the EEA or in tax treaty countries are exempt in Lithuania if the profit from activities carried out through these permanent establishments is subject to corporate income tax or equivalent tax in such countries.

Foreign (nonresident) companies, which are defined as companies not incorporated in Lithuania, are subject to profit tax on their Lithuanian-source income only.

A foreign enterprise is deemed to have a permanent establishment in Lithuania if it satisfies any of the following conditions:

- It permanently carries out activities in Lithuania.
- It carries out its activities in Lithuania through a dependent representative (agent).
- It uses a building site or a construction, assembly or installation object in Lithuania.
- It uses installations or structures in Lithuania for prospecting or extracting natural resources, including wells or vessels used for that purpose.

International telecommunication income and 50% of income derived from transportation that begins in Lithuania and ends in a foreign country or that begins in a foreign country and ends in Lithuania are considered to be income received through a permanent establishment if such activities relate to the activities of a foreign enterprise through a permanent establishment in Lithuania.

**Tax rates.** The standard profit tax rate is 15%.

For the first tax year, a 0% rate applies to small entities with annual income not exceeding EUR300,000 and an average number of employees that does not exceed 10. For further tax years, if the conditions mentioned in the preceding sentence are met, a 5% rate applies.

For the first tax year, a 0% rate applies to small entities owned by individuals if in the further three tax periods, the small entity does not stop its activity, is not liquidated or reorganized, and its shares are not transferred. A 5% rate applies in subsequent tax years if the conditions mentioned in the preceding sentence are met.

A 5% rate applies to the taxable profit of cooperative companies if more than 50% of the companies' income is derived from agricultural activities.

A 5% rate applies to the taxable profit from the use, sale or other transfer of an intangible asset, if the taxpayer created the intangible asset while engaged in qualifying research and development (R&D) activities (for further details, see *Relief for research and development works* in Section C).

Entities registered and operating in a free-economic zone benefit from 100% exemption from profit tax for 10 years and a further 50% reduction in profit tax for an additional 6 years if they satisfy either of the following conditions:

- They make investments in fixed assets of at least EUR1 million, and at least 75% of their income is derived from various activities, except trading.
- They make investments in fixed assets of at least EUR100,000, their average number of employees is not less than 20, and at least 75% of their income is derived from the provision of services.

The free-economic zone benefits mentioned above apply if such benefits are compatible with Commission Regulation (EU) No. 651/2014 of 17 June 2014, declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union 2012/C 326/01.

Currently, seven free-economic zones are located in Akmenė, Kaunas, Kėdainiai, Klaipėda, Marijampolė, Panevėžys and Šiauliai.

Nonprofit entities are subject to profit tax if they engage in business activities. If the annual business income of a nonprofit entity does not exceed EUR300,000, a 0% tax rate applies to the first EUR7,250 of taxable profit. The remaining part of the taxable profit is subject to tax at a rate of 15%. Income received from activities carried out to satisfy public interests that is intended to be used for the funding of such activities is not considered income received from business activities of nonprofit entities.

Entities engaged in international transportation by ships or in a directly related activity can elect to be taxed on a special tax base related to the net tonnage of their fleet. The tax on such entities is calculated by applying the 15% corporation tax to the net tonnage instead of the taxable profit of the entities.

**Collective investment undertakings.** Income, dividends and capital gains of collective investment entities and venture and private capital entities are exempt from the tax if the source of income or the final recipient of income is not located in a tax haven.

**Capital gains.** Capital gains are included in taxable profit and are subject to tax at the regular profit tax rate, except for gains and losses derived from disposals of securities and derivatives. Gains and losses on securities and derivatives are included in a separate tax base that is subject to tax at the regular profit tax rate. A capital gain derived from the sale of shares of a company registered in an EEA country or in a tax treaty country is exempt from tax if the shares have been held for an uninterrupted period of at least two years and if the holding represents more than 10% of the shares of the company throughout that period.

The exemption mentioned above does not apply if the shares are transferred to the issuer of the shares.

Capital gains derived from the transfer of shares in a reorganization or from another transfer specified in the law is exempt from tax if the shares have been held for an uninterrupted period of at least three years and if the holding represents more than 10% of the shares of the company throughout that period.



## Administration

*Tax year.* The tax year is the calendar year. Companies may request permission to use a different 12-month tax year, which must be used continuously.

*Profit tax.* Companies must file profit tax returns with the tax inspectorate by the 15th day of the 6th month following the end of the tax year.

Companies must make quarterly advance payments of profit tax by the 15th day of the last month of each quarter. The law specifies two methods that companies may choose to calculate their advance profit tax. The chosen method must be applied consistently throughout the year, but it can be changed once in the tax year. The following are the specified methods:

- The results of prior financial years. The advance payments for the first six months are calculated based on the profit tax for the year before the preceding year. Each of these advance payments equals 25% of the profit tax for such year. For the 7th through 12th months of the tax year, the advance payment equals 25% of the profit tax calculated for the preceding tax year.
- The forecasted profit tax of the current year. Each of the advance payments equals 25% of the forecasted profit tax for such year. However, the total of the advance profit tax payments made during the tax year must total at least 80% of annual profit tax.

If companies choose to pay the advance profit tax based on the results of prior financial years, they must file two profit tax advance payment returns. The first return covers the first 6 months of the tax year and must be filed by the 15th day of the 3rd month of the tax year. The second return covers the last 6 months of the tax year and must be filed by the 15th day of the 9th month of the tax year.

If the advance profit tax payment is based on the forecasted profit tax of the current year, the profit tax advance payment return must be filed by the 15th day of the 3rd month of the tax year.

Newly registered enterprises in their first tax year and enterprises with taxable profit not exceeding EUR300,000 in the preceding tax year are not required to make advance payments of profit tax.

Any balance of tax due for a tax year must be paid by the 15th day of the 6th month following the tax year. If the total of the advance payments exceeds the tax due for the tax year, a company may obtain a refund or apply the excess to future taxes. Taxes must be paid in euros.

*Withholding taxes.* Withholding taxes together with returns for such taxes must be submitted to the tax inspectorate by the 15th day of the month following the month in which the taxes are withheld.

**Withholding taxes.** Withholding tax at a rate of 10% is imposed on the following types of payments to nonresident companies:

- Interest
- All types of royalties
- Compensation for violations of copyrights or related rights

Interest paid to an entity registered in an EEA country or in a tax treaty country is exempt from tax.

Royalties, payments for know-how and compensation for violations of copyrights or related rights are exempt from withholding tax if the criteria stipulated in the Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different member states are met.

Withholding tax at a rate of 15% is imposed on the following types of payments to nonresident companies:

- Dividends (for further details, see *Dividends*)
- Payments with respect to the sale, rent or other transfer of immovable property located in Lithuania
- Payments for performance and sport activity in Lithuania
- Directors' fees to members of the Supervisory Board

**Dividends.** Dividends received from Lithuanian and foreign companies are subject to corporate profit tax at a rate of 15%. The 15% tax on dividends paid by Lithuanian companies is withheld at source.

For dividends paid by Lithuanian companies to other Lithuanian companies, profit tax for the preceding tax year is reduced for the company receiving dividends by the withholding tax calculated on the dividends. However, the amount of the reduction may not exceed the amount of profit tax for the preceding tax year. The amount of the withholding tax not used to reduce the preceding year's tax may be set off against other taxes or refunded by the tax authorities. Payers of dividends must pay the withholding tax on the dividends to the tax authorities by the 15th day of the month following the month of payment of the dividends.

Lithuanian resident companies receiving dividends from foreign companies must pay the tax on the dividends to the tax authorities by the 15th day of the month following the month of receipt of the dividends.

Under the participation exemption rule, dividends are not subject to profit tax if the recipient is a company (not located in a tax haven) that holds at least 10% of the shares of the payer of the dividends for a period of at least 12 months.

Dividends paid by foreign companies to Lithuanian companies are not subject to tax if the company paying the dividends is registered in an EEA country and if the company's profits were subject to corporate profit tax or an equivalent tax. This exemption and the participation exemption for dividends paid by foreign companies to Lithuanian companies does not apply to dividends that the foreign company deducted in computing its taxable profit.

The participation exemption also applies to the following:

- Dividends that are attributed to the permanent establishment of a foreign company in Lithuania
- Cash payments made to reduce the company's capital that was formed using the company's earnings

The above-mentioned participation exemptions for dividends paid by Lithuanian companies to foreign companies and the dividends received by Lithuanian companies from foreign companies may be denied under a general anti-abuse rule, which provides that the participation exemption may be denied for entities or a group of entities if the main purpose or one of the main purposes of the arrangements that were put in place was to obtain a tax advantage.

**Foreign tax relief.** In general, a foreign tax credit may be claimed in an amount not exceeding the amount of Lithuanian profit tax payable on the foreign income. Special rules apply to particular types of income, unless a double tax treaty provides otherwise.

The exemption method is applied to profit from activities carried out through permanent establishments of Lithuanian entities in EEA countries or in tax treaty countries if profit from activities carried out through these permanent establishments is subject to corporate income tax or equivalent tax in such countries.

### C. Determination of taxable income

**General.** Profit before tax equals gross revenue, minus expenses incurred in earning such revenue.

Taxable profit is calculated by taking the following actions:

- Subtracting non-taxable income (for example, after-tax dividends, revenues from the revaluation of fixed assets under certain circumstances and payments received from insurance companies up to the amount of incurred losses) from the accounting profit
- Taking into account nondeductible expenses and deductible expenses of a limited amount

Deductions are allowed if they are incurred during the usual business activity and are necessary to earn revenues or obtain economic benefits, provided that documentary evidence is presented.

Expenses incurred for the benefit of employees are allowable deductions if the benefit received by employees is subject to personal income tax.

Expenses that may be deducted up to certain limits include, among others, the following:

- Depreciation and amortization
- Business trip expenses
- Representation expenses
- Provisions for bad debts
- Natural losses

A double deduction is allowed for sponsorship payments (except payments in cash exceeding EUR9,750 to a single sponsorship recipient), up to a maximum deduction equal to 40% of the taxable profit.

A triple deduction is allowed for R&D costs if the scientific R&D activities are related to the usual or intended activities of the entity that generate or will generate income or economic benefits.

Nondeductible amounts include dividends and costs that are incurred outside the usual business operations, that are inappropriately documented or that are related to earning non-taxable income.

Payments to tax havens may be deducted only if the Lithuanian enterprise can prove that certain conditions evidencing the economic basis of the transaction were met.

Other taxes (for example, social insurance contributions and real estate tax) may be deducted from taxable income.

The income and expenses of enterprises must be converted to euros.

**Inventories.** Inventories must be valued at actual cost, which is calculated using the first-in, first-out (FIFO) method. On approval of the tax authorities, a taxpayer may apply the average cost or last-in, first-out (LIFO) method.

**Tax depreciation.** To calculate tax depreciation, companies may select the straight-line method, double-declining value method or production method. The selected depreciation method must be applied for all assets of the same type. To change the depreciation method, companies must obtain the approval of the local tax authorities.

Under the straight-line method, depreciation is claimed each year in equal portions. Under the double-declining value method, the depreciation or amortization coefficient is calculated by multiplying the straight-line rate by two. For the purpose of calculating the amount of depreciation or amortization for the tax period during the first year, the acquisition price of long-term assets is multiplied by the depreciation coefficient. To calculate the depreciation or amortization of long-term assets during the other years, except for the last year, the residual value of long-term assets at the beginning of the tax year is multiplied by the depreciation coefficient. Under the production method, depreciation is calculated based on the number of units produced over the asset's useful life.

Accelerated depreciation may be claimed for assets used in R&D activities. The law sets the maximum depreciation rates. These rates determine the minimum number of years over which assets may be depreciated. The following are some of the minimum periods.

<b>Assets</b>	<b>R&amp;D Minimum period for depreciation Years</b>	<b>Other Minimum period for depreciation Years</b>
Intangible assets	2 to 15	3 to 15
Buildings and premises		
Constructed or reconstructed on or after 1 January 2002	8	8
Constructed or reconstructed before 1 January 2002	15 to 20	15 to 20
Plant and machinery	2 to 15	5 to 15
Computers	2	3
Vehicles	4 to 10	4 to 10
Other assets	2	4

**Relief for research and development works.** In the calculation of profit tax, three times the amount of R&D expenses, except for depreciation or amortization costs of fixed assets, may be deducted from income in the corresponding tax year. Fixed assets that

are used for R&D may be depreciated or amortized applying accelerated depreciation (amortization) rates.

In addition, taxable profit from the use, sale or other transfer of an intangible asset may be taxed at a 5% rate if the following conditions are met:

- The taxpayer created the intangible asset while engaged in qualifying R&D activities.
- Income from the use, sale or other transfer of the intangible asset is received only by the entity that created it, and only that entity incurs all related expenses.
- The intangible asset is protected by copyright or a patent.

**Relief for investment projects.** The taxable profit of a Lithuanian entity may be reduced by up to 100% by the amount of expenses that are incurred in the acquisition of fixed assets used in an “investment project.” For this purpose, an “investment project” is investment in certain categories of fixed assets (machinery, equipment, information technology hardware and software, acquired intellectual property rights and lorries, trailers and semitrailers that are not older than five years), required for the manufacturing or supply of new products (or services), increasing production volume, the implementation of a new process of production (or supply of services), essential changes to an existing process (or part of the process) and the implementation of new technologies that are protected by international patent law. Acquisition costs of lorries, trailers and semitrailers purchased during a tax year may reduce taxable profit only up to EUR300,000. This relief may be applied in the 2009 through 2023 tax years, and the balance of unused relief may be carried forward to the subsequent four years.

**Relief for film production.** A Lithuanian entity or a foreign entity operating through a permanent establishment in Lithuania that makes a contribution to a Lithuanian film producer for the production of a film or parts of a film may deduct 75% of the contribution from its taxable income and reduce its profit tax payable by the amount of the contribution if certain conditions are met. Profit tax payable for the tax year may be reduced up to 75%, and the balance of unused relief may be carried forward to the subsequent two years. This tax relief may be applied in the 2014 through 2018 calendar years.

**Relief for losses.** Losses, except losses resulting from disposals of securities and derivative financial instruments, may be carried forward for an unlimited period. Effective from the 2014 tax year, taxpayers except for small entities can cover only up to 70% of their taxable profit with accumulated tax losses. The carry-forward of such losses is no longer allowed if the activity that resulted in the loss ceases. Loss resulting from disposals of securities and/or derivative financial instruments may be carried forward for five years. However, such losses may be covered only by future gains from the disposal of securities and/or derivative financial instruments.

For a reorganization or transfer, the acquiring entity may carry forward the acquired losses, except for losses of entities (non-financial institutions) resulting from the disposal of securities and derivatives, incurred before the completion of the reorganization

or transfer if the acquiring entity continues to carry on the activity taken over or a part of such activity for a period of at least three years. Effective from the 2014 tax year, taxpayers except for small entities can cover only up to 70% of their taxable profit with tax losses acquired during a reorganization or transfer.

**Groups of enterprises.** Corporations are taxed separately in Lithuania. Consolidated returns are not allowed. The transfer between group entities of tax losses incurred in the 2010 tax year and subsequent tax years is allowed. Certain conditions apply.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; intra-EU supplies and exports are zero-rated	0/5/9/21
Real estate tax, on the taxable value of real estate (the value is calculated by real estate registry institutions using methodology established by the government); maximum rate	3
Social security tax; paid by Employer	
Fixed-term employment contact	29.58
Regular employment contact	27.98
Employee	3
(An employee can write a request to the pension accumulation company that it pay additional contributions from his or her salary to the pension accumulation fund [2% from 1 January 2016]; in such cases, an employer must withhold 5% as social security contributions.)	
Health insurance contributions; paid by Employer	3
Employee	6

Other significant taxes include excise duty, land and land lease tax, tax on the use of Lithuanian natural resources and pollution tax.

#### E. Miscellaneous matters

**Foreign-exchange controls.** The Lithuanian currency is the euro (EUR).

If agreed to by the parties, foreign currency may be used for bank payments between business entities, and the euro may be used for both bank and cash payments. Commercial operations involving foreign currency, such as purchasing, selling and exchanging, may be performed by the following:

- Credit, payment and electronic money institutions or other payment service providers if it is related to provision of payment service
- Financial brokerage companies if it is related to provision of investment service
- Currency exchange operators working under the Law on Currency Exchange Operators

**Transfer pricing.** Entities operating in Lithuania that had revenues exceeding EUR2,896,200 for the tax year preceding the tax year during which transactions with related parties are undertaken are subject to the Lithuanian transfer-pricing rules. Under these rules, they must maintain supporting documentation establishing that all transactions with associated parties are carried out on an arm's-length basis. Lithuanian transfer-pricing rules are based on the Organisation for Economic Co-operation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

Companies must file with the tax inspectorate a return reporting the transactions entered into with associated parties, together with their profit tax returns, if the total value of the transactions exceeds EUR90,000.

The Country-by-Country Reporting (CbCR) requirements were introduced in Lithuania and are effective from 5 June 2017. All Lithuanian tax-resident entities that are part of a multinational enterprise group with annual consolidated group revenue equal to or exceeding EUR750 million must comply with the CbCR requirements for fiscal years beginning on or after 1 January 2016.

**Controlled foreign companies.** Certain income of controlled entities located in countries or zones included in the special list approved by the Minister of Finance is added to taxable income of Lithuanian entities and taxed at the standard profit tax rate.

## F. Treaty withholding tax rates

The following table lists the maximum withholding rates under Lithuania's tax treaties.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Armenia	5/15 (a)	10	10
Austria	5/15 (a)	10	5/10 (b)
Azerbaijan	5/10 (a)	10	10
Belarus	10	10	10
Belgium	5/15 (a)	10	5/10 (b)
Bulgaria	0/10 (c)	10	10
Canada	5/15 (a)	10	10
China (mainland)	5/10 (a)	10	10
Croatia	5/15 (d)	10	10
Cyprus	0/5 (c)	0	5
Czech Republic	5/15 (a)	10	10
Denmark	5/15 (a)	10	5/10 (b)
Estonia	5/15 (e)	10	10
Finland	5/15 (a)	10	5/10 (b)
France	5/15 (d)	10	5/10 (b)
Georgia	5/15 (f)	10	10
Germany	5/15 (a)	10	5/10 (b)
Greece	5/15 (a)	10	5/10 (b)
Hungary	5/15 (a)	10	5/10 (g)
Iceland	5/15 (a)	10	5/10 (b)
India	5/15 (d)	10	10
Ireland	5/15 (a)	10	5/10 (b)
Israel	5/10/15 (d)	10	5/10 (b)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Italy	5/15 (d)	10	5/10 (b)
Kazakhstan	5/15 (a)	10	10
Korea (South)	5/10 (a)	10	5/10 (b)
Kyrgyzstan	5/10 (e)	10	10
Latvia	0/15 (h)	0	0
Luxembourg	5/15 (a)	10	5/10 (b)
Macedonia	0/10 (k)	10	10
Malta	5/15 (a)	10	10
Mexico	0/15 (k)	10	10
Moldova	10	10	10
Netherlands	5/15 (a)	10	5/10 (b)
Norway	5/15 (a)	10	5/10 (b)
Poland	5/15 (a)	10	10
Portugal	10	10	10
Romania	10	10	10
Russian Federation	5/10 (i)	10	5/10 (b)
Serbia	5/10 (i)	10	10
Singapore	5/10 (a)	10	7.5
Slovak Republic	10	10	10
Slovenia	5/15 (a)	10	10
Spain	5/15 (a)	10	5/10 (b)
Sweden	5/15 (a)	10	5/10 (b)
Switzerland	5/15 (e)	10	5/10 (b)
Turkey	10	10	5/10 (b)
Turkmenistan	5/10 (a)	10	10
Ukraine	5/15 (a)	10	10
United Arab Emirates	0/5 (c)	0	5
United Kingdom	5/15 (a)	10	5/10 (b)
United States	5/15 (d)	10	5/10 (b)
Uzbekistan	10	10	10
Non-treaty jurisdictions	0/15 (j)	10	10

- (a) The 5% rate applies if the recipient owns more than 25% of the authorized capital of the payer.
- (b) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (c) The 0% rate applies if the recipient owns more than 10% of the authorized capital of the payer.
- (d) The 5% rate applies if the recipient owns at least 10% of the authorized capital of the payer.
- (e) The 5% rate applies if the recipient owns at least 20% of the authorized capital of the payer.
- (f) The 5% rate applies if the recipient owns more than 25% of the authorized capital of the payer and if the total value of the recipient's investment is at least USD75,000.
- (g) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment or for transmission by satellite, cable, optic fiber or similar technology. The 10% rate applies to other royalties.
- (h) The 0% rate applies if the recipient owns more than 25% of the authorized capital of the payer.
- (i) The 5% rate applies if the recipient owns more than 25% of the authorized capital of the payer and if the total value of the recipient's investment is at least USD100,000.
- (j) The 0% rate applies if the recipient holds more than 10% of the shares of the payer of the dividends for a period of at least 12 months.
- (k) The 0% rate applies if the recipient owns at least 10% of the authorized capital of the payer.
- (l) The 5% rate applies if the recipient owns at least 25% of the authorized capital of the payer.



# Luxembourg

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## A. At a glance

Corporate Income Tax Rate (%)	18 (a)
Capital Gains Tax Rate (%)	18 (a)
Branch Tax Rate (%)	18 (a)
Withholding Tax (%)	
Dividends	0/15 (b)
Interest	0/10 (c)
Royalties	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	17 (d)

- (a) This is the 2018 maximum rate set by the law of 23 December 2016 on the 2017 tax reform. In addition, a municipal business tax and an additional employment fund contribution (employment fund surcharge) are levied on income (see Section B).
- (b) A 15% dividend withholding tax is imposed on payments to resident and nonresidents. Under Luxembourg domestic law, a full withholding tax exemption applies to dividends if they are paid to qualifying entities established in European Union (EU)/European Economic Area (EEA) member states, Switzerland or a country with which Luxembourg has entered into a double tax treaty and if certain conditions are met (see Sections B and F).
- (c) For details, see *Interest* in Section B.
- (d) The loss carryforward is limited to 17 years for losses incurred from financial years closing after 31 December 2016 (see Section C). No time limitation applies with respect to losses incurred between 1 January 1991 and 31 December 2016.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their worldwide income. Companies whose registered office or

central administration is in Luxembourg are considered resident companies.

Taxation in Luxembourg of foreign-source income is mitigated through several double tax treaties. In addition, if no tax treaty applies, a foreign tax credit is available under domestic law.

Nonresident companies whose registered office and place of management are located outside Luxembourg are subject to corporate income tax only on their income derived from Luxembourg sources.

**Tax rates.** Corporate income tax rates currently range from 15% to 18%, depending on the income level. In addition, a surcharge of 7% is payable to the employment fund. A local income tax (municipal business tax) is also levied by the different municipalities. The rate varies depending on the municipality, with an average rate of 7.5%. The municipal business tax for Luxembourg City is 6.75% and the maximum effective overall tax rate for companies in Luxembourg City is 26.01%. The following is a sample 2018 tax calculation for a company in Luxembourg City.

Profit	EUR100.00
Corporate income tax at 18%	(18.00)
Employment fund surcharge at 7%	(1.26)
Municipal business tax	(6.75)
	<u>EUR73.99</u>
Total income taxes	<u>EUR26.01</u>
As percentage of profit	<u>26.01%</u>

Furthermore, corporate income tax is levied at a reduced rate of 15% for taxable profits not exceeding EUR25,000. The maximum rate applies to amounts exceeding EUR30,000.

**Net wealth tax.** Net wealth tax is imposed on the net asset value as of 1 January, reduced by the value of qualifying participations (at least 10% of the capital of qualifying domestic or foreign subsidiaries) that are held directly or through a qualifying fiscally transparent entity. Net wealth tax may be reduced up to the amount of corporate income tax for the preceding year (including the contribution to the employment fund and before deduction of tax credits) by the creation of a net wealth tax reserve (equivalent to five times the reduction requested) that must be maintained for five years in the accounts. This net wealth tax reduction is not granted up to the amount of minimum net wealth tax (determined as described below) due from corporate entities, either on a stand-alone basis or within a tax-consolidation group.

Net wealth tax is levied at a rate of 0.5% on an amount of taxable net wealth called the unitary value (corresponding basically to the sum of assets less liabilities and provisions at a given date as valued according to the provisions of the Luxembourg Valuation Law) up to and including EUR500 million. If the unitary value exceeds this threshold, net wealth tax equals the sum of the following:

- EUR2,500,000 (which corresponds to a rate of 0.5% applied to the amount of EUR500 million)
- 0.05% of the taxable amount exceeding EUR500 million

Resident companies must pay the minimum net wealth tax equal to either of the following:

- EUR4,815 if the sum of financial assets, transferable securities, cash and receivables owed by affiliated companies exceeds 90% of their balance sheet and EUR350,000
- An amount ranging from EUR535 to EUR32,100, depending on their balance sheet total

If the minimum net wealth tax applies, it is reduced by the amount of corporate income tax (including contribution to the employment fund but after deduction of possible tax credits) due from the company for the preceding year.

The following entities are exempt from regular net wealth tax, but subject to the minimum net wealth tax:

- Securitization vehicle
- Venture capital company (*société d'investissement en capital à risque*, or SICAR)
- Corporate pension fund (SEPCAV)
- Pension savings association (ASSEP)

**Luxembourg investment vehicles.** Luxembourg offers a large number of investment vehicles (companies and funds) that can be used for tax-efficient structuring.

Luxembourg Undertakings for Collective Investment in Transferable Securities (UCITs) are subject to an annual subscription tax (*taxe d'abonnement*) of 0.05%, levied on their total net asset value, unless a reduced rate or an exemption applies. For the rates of the subscription tax, see Section D. Distributions made by UCITs are not subject to withholding tax.

Investment vehicles offered in Luxembourg are described below.

*Specialized Investment Funds.* Specialized Investment Funds (SIFs) are lightly regulated investment funds for “informed investors.” In this context, an “informed investor” is one of the following:

- An institutional investor
- A professional investor
- Any other type of investor who has declared in writing that he or she is an “informed investor” and either invests a minimum of EUR125,000 or has an appraisal from a bank, an investment firm or a management company (all of these with a European passport), certifying that he or she has the appropriate expertise, experience and knowledge to adequately understand the investment made in the fund

SIFs are subject to significantly simplified rules for setting up fund structures such as hedge funds, real estate funds and private equity funds. Amendments to the SIF Law covering items, such as the authorization process, delegation, risk management, conflict of interest and cross investment between compartments of SIFs, took effect on 1 April 2012. The Law of 12 July 2013 on alternative investment fund managers (AIFMs) further amended the SIF regime.

An exemption for corporate income tax, municipal business tax and net worth tax applies to investment funds in the form of an SIF. These funds are subject only to a subscription tax at an

annual rate of 0.01% calculated on the quarterly net asset value of the fund, unless an exemption regime applies (for example, investments in funds already subject to the subscription tax, certain money market funds and pension pooling vehicle funds). Distributions by SIFs are not subject to withholding tax.

Certain double tax treaties signed by Luxembourg apply to an SIF incorporated as an investment company with variable capital (*société d'investissement à capital variable*, or SICAV) or an investment company with fixed capital (*société d'investissement à capital fixe*, or SICAF). In general, an SIF constituted as a common fund (*fonds commun de placement*, or FCP) does not benefit from double tax treaties; however, certain exceptions exist (Germany, Guernsey, Isle of Man, Jersey, Saudi Arabia, Seychelles and Tajikistan).

*Reserved alternative investment funds.* A reserved alternative investment fund (RAIF; the French translation is *fonds d'investissement alternatif réservé*, or FIAR) can be incorporated under the form of a common investment fund (FCP; *fonds commun de placement*) or of an investment company (SICAV or SICAF). RAIFs are reserved to informed investors (see *Specialized Investment Funds*).

The law provides for a dual tax regime. The general tax regime is the same as for SIFs, with subscription tax levied at an annual rate of 0.01% (subject to certain exemptions). In addition, an optional tax regime is available for RAIFs investing in risk capital. This regime is identical to the venture capital companies' tax regime (see *Venture capital companies*).

*Venture capital companies.* A venture capital company (*société d'investissement en capital à risque*, or SICAR) can be set up under a transparent tax regime as a limited partnership or under a nontransparent tax regime as a corporate company. SICARs are approved and supervised by the Commission for the Supervision of the Financial Sector, but they are subject to few restrictions. They may have a flexible investment policy with no diversification rules or leverage restrictions. SICARs in the form of a corporation benefit from a partial objective exemption regime for income from securities under which losses on disposals and value adjustments made against such investments are not deductible from taxable profits. In addition, SICARs are exempt from subscription tax and net worth tax. For corporations, a dividend withholding tax exemption regime applies. In principle, SICARs still benefit from a net wealth tax exemption. However, they are subject to the minimum net wealth tax regime and, accordingly, must pay annual net wealth tax under this regime (see *Net wealth tax*).

*Securitization companies.* A securitization company can take the form of a regulated investment fund or a company (which, depending on its activities, may or may not be regulated). Securitization companies are available for securitization transactions in the broadest sense. They are subject to corporate income tax and municipal business tax. However, commitments to investors (dividend and interest payments) are deductible from the tax base. Distributions of proceeds are qualified as interest payments for Luxembourg income tax purposes and are consequently not subject to withholding tax. In principle, securitization companies still

benefit from a net wealth tax exemption. However, they are subject to the minimum net wealth tax regime and, accordingly, must pay annual net wealth tax under this regime (see *Net wealth tax*).

*Private asset management companies.* The purpose of a private asset management company (*société de gestion de patrimoine familial*, or SPF) is the management of private wealth of individuals without carrying out an economic activity. SPFs are subject to subscription tax levied at a rate of 0.25% with a minimum amount of EUR100 and a maximum amount of EUR125,000. An exemption for corporate income tax, municipal business tax and net worth tax applies.

SPFs may not benefit from double tax treaties entered into by Luxembourg or from the EU Parent-Subsidiary Directive. Dividend and interest income arising from financial assets may be subject to withholding tax in the state of source in accordance with the domestic tax law of that state. Dividend distributions to shareholders are not subject to Luxembourg withholding tax. Interest payments are exempt from withholding tax unless the recipient is a Luxembourg resident individual (see *Interest*).

*Holding companies.* Holding companies (*sociétés de participations financières*, or SOPARFI) are fully taxable Luxembourg resident companies that take advantage of the participation exemption regime. They may benefit from double tax treaties signed by Luxembourg as well as the provisions of the EU Parent-Subsidiary Directive. For information regarding debt-to-equity rules, see Section E. A SOPARFI can be set up as a public company limited by shares (*société anonyme*), limited company (*société à responsabilité limitée*) or a partnership limited by shares (*société en commandite par actions*, or SCA).

**Capital gains.** The capital gains taxation rules described below apply to a fully taxable resident company.

Capital gains are generally regarded as ordinary business income and are taxed at the standard rates. However, capital gains on the sale of shares may be exempt from tax if all of the following conditions apply:

- The seller is one of the following:
  - A resident capital company or a qualifying entity fully subject to tax in Luxembourg.
  - A Luxembourg permanent establishment of an entity that is resident in another EU state and is covered by Article 2 of the EU Parent-Subsidiary Directive.
  - A Luxembourg permanent establishment of a capital company resident in a state with which Luxembourg has entered into a tax treaty.
  - A Luxembourg permanent establishment of a capital company or cooperative company resident in an EEA state other than an EU state.
- The shares have been held for 12 months or the shareholder commits itself to hold its remaining minimum shareholding in order to fulfill the minimum shareholding requirement for an uninterrupted period of at least 12 months.
- The holding represents at least 10% of the capital of the subsidiary throughout that period, or the acquisition cost is at least EUR6 million.

- The subsidiary of which shares are sold is a resident capital company or other qualifying entity fully subject to tax, a non-resident capital company fully subject to a tax comparable to Luxembourg corporate income tax or an entity resident in an EU member state that is covered by Article 2 of the EU Parent-Subsidiary Directive.

However, capital gains qualifying for the above exemption are taxable to the extent that related expenses deducted in the current year and in prior years exceed the dividends received. These related expenses include interest on loans used to finance the purchase of such shares and write-offs.

**Administration.** In general, the tax year coincides with the calendar year unless otherwise provided in the articles of incorporation. Tax returns must be filed before 31 May in the year following the fiscal year. Effective from the 2017 fiscal year, Luxembourg corporations must file their corporate income tax, municipal business tax and net worth tax returns by electronic means. The date for filing the tax returns may be extended on request by the taxpayer. Late filing may be subject to a penalty of up to 10% of the tax due. In addition, if the tax return is not filed by the deadline, the tax authorities can impose a penalty of up to EUR25,000.

Taxes are payable within one month after receipt of the tax assessment notice. However, advance payments must be made quarterly by 10 March, 10 June, 10 September and 10 December for corporate income tax, and by 10 February, 10 May, 10 August and 10 November for municipal business tax and net worth tax. In general, every payment is equal to one-quarter of the tax assessed for the preceding year. If payments are not made within these time limits, an interest charge of 0.6% per month may be assessed.

Luxembourg has introduced a partial self-assessment procedure that is optional for the authorities. This procedure allows the authorities to release tax assessments without verifying the filed tax returns, while keeping a right of verification within a statute of limitations period of five years. In practice, the self-assessment primarily applies to companies having a holding activity.

**Dividends.** Dividends received by resident companies are generally taxable. However, dividends received from resident taxable companies are fully exempt from corporate income tax if the following conditions are fulfilled:

- The recipient is one of the following:
  - A resident capital company or a qualifying entity fully subject to tax in Luxembourg.
  - A Luxembourg permanent establishment of an entity that is resident in another EU state and is covered by Article 2 of the EU Parent-Subsidiary Directive.
  - A Luxembourg permanent establishment of a capital company resident in a state with which Luxembourg has entered into a tax treaty.
  - A Luxembourg permanent establishment of a capital company or cooperative company resident in an EEA state other than an EU state.
- The recipient owns at least 10% of the share capital of the distributing company or the acquisition cost of the shareholding is at least EUR1,200,000.



- The recipient holds the minimum participation in the distributing company for at least 12 months. The 12-month period does not need to be completed at the time of the distribution of the dividends if the recipient commits itself to hold the minimum participation for the required period.

Dividends received from nonresident companies are fully exempt from tax if the above conditions are met and if any of the following applies:

- The distributing company is a fully taxable resident capital company.
- The distributing entity is a capital company subject to a tax comparable to Luxembourg corporate income tax (that is, subject to a mandatory corporate tax at a nominal rate of at least 9% from 1 January 2018 [9.5% for 2017], levied on a tax base that is determined according to rules and criteria that are similar to those applicable in Luxembourg).
- The distributing entity is resident in another EU member state and is covered by Article 2 of the EU Parent-Subsidiary Directive.

The exemption for dividends also applies to dividends on participations held through qualifying fiscally transparent entities.

Expenses (for example, interest expenses or write-downs with respect to participations that generate exempt income) that are directly economically related to exempt income (for example, dividends) are deductible only to the extent that they exceed the amount of exempt income.

If the minimum holding period or the minimum shareholding required for the dividend exemption granted under Luxembourg domestic law is not met, the recipient can still benefit from an exemption for 50% of the dividends under certain conditions.

On the distribution of dividends, as a general rule, 15% of the gross amount must be withheld at source; 17.65% of the net dividend must be withheld if the withholding tax is not charged to the recipient, unless a more favorable rate is provided by a tax treaty. No dividend withholding tax is due if either of the following conditions is met:

- The recipient holds directly, or through a qualifying fiscally transparent entity, for at least 12 months (the holding period requirement does not need to be completed at the time of the distribution if the recipient commits itself to eventually hold the minimum participation for the required 12-month period) at least 10% of the share capital of the payer, which must be a fully taxable resident capital company or other qualifying entity, or shares of the payer that had an acquisition cost of at least EUR1,200,000, and the recipient satisfies one of the following additional requirements:
  - It is a fully taxable resident capital company or other qualifying entity or a permanent establishment of such company or entity.
  - It is an entity resident in another EU member state and is covered by Article 2 of the EU Parent-Subsidiary Directive.
  - It is a capital company resident in Switzerland that is fully subject to tax in Switzerland without the possibility of being exempt.

- It is a Luxembourg permanent establishment of an entity that is resident in another EU member state and that is covered by Article 2 of the EU Parent-Subsidiary Directive.
  - It is a company resident in a state with which Luxembourg has entered into a tax treaty and is subject to a tax comparable to the Luxembourg corporate income tax (that is, subject to a mandatory corporate tax at a nominal rate of at least 9% from 1 January 2018 [9.5% for 2017], levied on a tax base that is determined according to rules and criteria that are similar to those applicable in Luxembourg), or it is a Luxembourg permanent establishment of such a company.
  - It is a company resident in an EEA member state and is subject to a tax comparable to the Luxembourg corporate income tax (that is, subject to a mandatory corporate tax at a nominal rate of at least 9% from 1 January 2018 [9.5% for 2017], levied on a tax base that is determined according to rules and criteria that are similar to those applicable in Luxembourg), or it is a Luxembourg permanent establishment of such a company.
- The distributing company is an investment fund, an SIF, an SPF, an SICAR or a RAIF.

Luxembourg has enacted the anti-hybrid clause and the anti-abuse clause, as adopted by the European Commission through Directives 2014/86/EU and 2015/121/EU, respectively. Since 1 January 2016, the Luxembourg tax exemption for dividends derived from an otherwise qualifying EU subsidiary (see above) does not apply to the extent that this income is deductible by the EU subsidiary. In addition, the participation exemption for dividends from qualifying EU subsidiaries and the exemption from Luxembourg dividend withholding tax for income (dividend) distributions to qualifying EU parent companies of Luxembourg companies does not apply if the income is allocated in the context of “an arrangement or a series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax advantage that defeats the object or purpose of the PSD (Parent-Subsidiary Directive), are not genuine having regard to all relevant facts and circumstances.” In line with the European Council’s resolution, the law continues by stating that “an arrangement, which may comprise more than one step or part, or a series of arrangements, shall be regarded as not genuine to the extent that they are not put into place for valid commercial reasons which reflect economic reality.”

These clauses apply only within the intra-EU context for income allocated after 31 December 2015.

**Interest.** Except for the cases discussed below, no withholding tax is imposed on interest payments. For interest linked to a profit-sharing investment, dividend withholding tax may apply.

Interest payments made by Luxembourg payers to beneficial owners who are individuals resident in other EU member states or to certain residual entities (defined as paying agents on receipt in the directive) were subject to withholding tax, unless the recipient elected that information regarding the interest payment be exchanged with the tax authorities of his or her state of residence. The withholding tax rate was 35%.

The law of 25 November 2014 abolished the withholding tax described above. Since 1 January 2015, the option to deduct withholding tax from interest payments to EU-resident individuals is no longer applicable in Luxembourg.

Withholding tax at a rate of 20% is imposed on interest payments made to individuals resident in Luxembourg by the following:

- Luxembourg paying agents
- Paying agents established in the EU, in an EEA state other than an EU state or in a state with which Luxembourg has concluded an agreement containing measures equivalent to those in the EU Savings Directive, if a specific form is filed by 31 March of the calendar year following the year of receipt of the interest

The withholding tax is final if the interest income is derived from assets held as part of the private wealth of the individual.

**Foreign tax relief.** A tax credit is available to Luxembourg resident companies for foreign-source income (derived from a country with which no double tax treaty is in place) that has been subject to an equivalent income tax abroad. The same applies to withholding tax that would have been levied in the country of source of the income, according to the provisions of the applicable double tax treaty and Luxembourg tax law. The maximum tax credit corresponds to the Luxembourg corporate income tax that is payable on the net foreign-source income.

### C. Determination of trading income

**General.** The taxable income of corporations is based on the annual financial statements prepared in accordance with generally accepted accounting principles. Profits disclosed are adjusted for exempt profits, nondeductible expenses, special deductions and loss carryforwards.

Expenses incurred exclusively for the purposes of the business are deductible. Expenses incurred with respect to exempt income are disallowed (see Section B for a description of the tax treatment of expenses related to tax-exempt dividends).

**Accounting rules.** International Financial Reporting Standards (IFRS), as adopted by the EU, were introduced in Luxembourg in 2010. Undertakings may apply the IFRS provisions to financial years that remained open on the date of entry into force of this law. However, a tax balance sheet is required to avoid the taxation of unrealized gains. In addition, companies that prepare their accounts under the Luxembourg generally accepted accounting principles' standards may also opt for the use of fair value accounting for financial instruments.

A new chart of accounts and an electronic filing requirement for the trial balance for statistical purposes became mandatory in Luxembourg for certain entities for fiscal years beginning after December 2010.

**Inventories.** Inventory must be valued at the lower of acquisition (or production) cost or fair market value. The cost may be calculated either on the basis of weighted-average prices, first-in, first-out (FIFO), last-in, first-out (LIFO) or a similar method, provided the business situation justifies such a method. The method chosen should be applied consistently.

**Provisions.** Provisions for losses and uncertain liabilities may be deductible for tax purposes if they are based on objective facts and if the corresponding charge is deductible and economically connected to the relevant tax year.

**Tax depreciation.** The straight-line depreciation method and, under certain conditions, the declining-balance method (except for buildings) are allowed.

Commercial buildings are depreciated at straight-line rates ranging from 1.5% to 4%. The straight-line rate for industrial buildings is 4%. Land may not be depreciated.

The depreciation rates under the straight-line method are 10% for plant and machinery, 20% for office equipment and 25% for motor vehicles. The declining-balance depreciation rates may be as high as 3 times the straight-line depreciation rate without exceeding 30% (4 times and 40% for equipment exclusively used for research and development).

Depreciable assets with a useful life of one year or less and those with a value not exceeding EUR870 may be deducted in full from business income in the year of acquisition.

Taxpayers may also opt for a deferred depreciation; the linear depreciation of an asset for a given financial year can, on request of a taxpayer, be deferred until the end of the useful life of such asset, at the latest. This measure allows taxpayers to better manage tax credits that can only be used for a specified period (tax credit for investment or tax credit for hiring unemployed persons) as well as the carryforward of tax losses, which is also limited in time under the law on the 2017 tax reform.

**Special tax depreciation for investments in clean technology.** Businesses making eligible investments aimed at protecting the environment and providing for the rational use of energy may elect an accelerated tax amortization of 80% of the depreciation base.

**Intellectual property.** Eighty percent of the net income derived from qualifying intellectual property (IP) rights is exempt from income tax (Luxembourg corporate income tax and municipal business tax) and net wealth tax under certain conditions. Capital gains derived from the disposal of qualifying IP rights also benefit from the exemption regime. The scheme covers patents, trademarks, designs, domain names and software copyrights.

To comply with the nexus approach agreed to at the Organisation for Economic Co-operation and Development (OECD) level (Action 5 of the Base Erosion and Profit Shifting [BEPS] plan on Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance) and at the EU level, the above regime is abolished from 1 July 2016 for income taxes and from 1 January 2017 for net wealth tax. However, the internationally agreed five-year transitional period, as proposed by the German and UK governments and endorsed by the OECD and the G20, applies. The current IP regime will accordingly continue to apply for a transitional period, which begins on 1 July 2016 and ends on 30 June 2021, to any qualifying IP that has been created or acquired before 1 July 2016, including improvements made to such IP, provided that such improvements are completed before

1 July 2016. Similarly, for net wealth tax purposes, the above regime will continue to apply to the above-mentioned IP until 1 January 2021 (inclusive), which is the key date for the calculation of the unitary value and, accordingly, the 2021 net wealth tax.

However, the transitional period includes a safeguard measure (in line with the OECD recommendations on Action 5), which states that the transitional period will expire on 31 December 2016 if both of the following circumstances exist:

- The IP has been acquired after 31 December 2015 from a “related party.” For the definition of related party, the law refers to Article 56 of the Income Tax Law, which states that parties are related “When an enterprise participates, directly or indirectly in the management, control or capital of another enterprise, or where the same individuals participate, directly or indirectly, in the management, control or capital of two enterprises ...” “Acquisition” is defined as any acquisition for value of IP, including acquisitions resulting from a tax-neutral restructure, such as a merger, demerger, business contribution or similar transaction.
- At the time of its acquisition, the IP has not qualified for the Luxembourg IP regime or for a foreign tax regime corresponding to the Luxembourg IP regime.

A further safeguard measure, which has been adopted from the OECD Final Report on Action 5, is the automatic communication by the Luxembourg tax authorities to the competent authority of another country of the identity of any taxpayer who is considered to be a new adherent to the IP regime (that is, any taxpayer that benefits from the IP regime for IP created or acquired after 6 February 2015, which corresponds to the date of release by the OECD of “Action 5: Agreement on the Modified Nexus Approach for IP Regimes” document. The information must be communicated, regardless of whether an advance ruling is provided, no later than the earlier of the following:

- Three months after the date on which the information becomes available to the Luxembourg tax authorities
- One year after the date of filing of the tax return by the taxpayer

A draft law providing for a new IP regime is currently pending before Luxembourg’s parliament. The revised IP regime, to be introduced in the Income Tax Law through a new Article 50ter, provides for an 80% tax exemption for the net income derived from qualifying IP. Based on the agreed nexus approach, the formula to be applied broadly corresponds to the proportion of qualifying expenditures compared to overall expenditures (nexus ratio) applied to adjusted and compensated (in this context, compensated refers to the offsetting of losses incurred on one qualifying IP asset against profits derived from another qualifying IP asset) net eligible income from the IP asset.

After approval by Luxembourg’s parliament, the provisions of the new IP regime should apply from the 2018 fiscal year.

### **Tax credits**

*General investment tax credit.* A tax credit of 13% is granted for additional investments in qualifying assets made during the tax year. Qualifying assets consist of depreciable tangible fixed assets other than buildings physically used in EU member states, or

in Iceland, Liechtenstein and Norway (the EEA). Certain assets are excluded from this tax credit, such as motor vehicles, assets that have a useful life of less than three years and secondhand assets. In addition, an 8% credit is granted for qualifying new investments up to EUR150,000, and a 2% credit is granted for investments over that amount. If investments are made to create jobs for disabled persons, these rates are increased to 9% and 4%, respectively. Investments may qualify for both credits.

Effective from 1 January 2018, the grant of the investment tax credit is extended to the following:

- Electric cars, which are passenger cars with zero emissions, functioning exclusively on electricity or on hydrogen fuel cells. The measure should apply only to those cars whose date of first registration is after 31 December 2017.
- Acquired software, subject to certain limits and conditions. The investment tax credit on the acquisition of software is 8% for investment amounts not exceeding EUR150,000 and 2% for the investment exceeding that amount. The maximum amount of the tax credit for the acquisition of software cannot exceed 10% of the corporate income tax due for the tax year in which the financial year of the acquisition of the software ends.

*Tax credit for ecological equipment.* The rates for the general investment tax credit (see *General investment tax credit*) are increased from 8% to 9% and from 2% to 4% for certain investments intended to protect the environment.

The above credits reduce corporate income tax and may be carried forward for 10 years.

*Tax credit for professional training.* From 2018, the former tax credit of 14% is abolished and replaced by co-financing measures (cash grants). The amount of these grants depends on the size of the enterprise (from 2% up to 20% of the amount of investments made in training).

*Tax credit for hiring of unemployed.* Fifteen percent of the annual gross salary paid to persons who were unemployed can be offset against corporate income tax under certain conditions.

*Tax credit for venture capital investments.* Eligible projects may qualify for a corporate income tax credit of 30% of the nominal amount of so-called venture capital certificates, limited to a maximum credit of 30% of taxable income.

**Relief for losses.** Trading losses, adjusted for tax purposes, incurred in or after 1991 may be carried forward without a time limitation. For losses incurred in financial years closing after 31 December 2016, the use of loss carryforwards is limited to 17 years. The oldest losses are deemed to be used first. Losses may not be carried back.

**Groups of companies.** A Luxembourg company and its wholly owned (at least 95% of the capital, which may be reduced to 75% in exceptional situations) Luxembourg subsidiaries may form a “vertical fiscal unity.” The fiscal unity allows the affiliated subsidiaries to combine their respective tax results with the tax result of the parent company of the consolidated group. To qualify for tax consolidation, both the parent and its wholly owned

subsidiaries must be resident capital companies that are fully subject to tax. A permanent establishment of a nonresident capital company fully subject to a tax comparable to Luxembourg corporate income tax also qualifies as a parent company of the group. The tax-consolidation rules also allow consolidation between a Luxembourg parent company and its indirectly held Luxembourg subsidiary through a nonresident qualifying company or a tax-transparent entity.

Companies that are part of a tax-consolidation group suffer the minimum net wealth tax at the level of each entity, but the consolidated amount of minimum tax is capped at EUR32,100.

Companies may also form a “horizontal tax consolidation.” The horizontal tax consolidation is a consolidation between two or more Luxembourg-resident companies owned by the same nonresident parent, provided that the parent company is resident in an EEA state and fully subject to a tax comparable to Luxembourg corporate income tax. In addition, Luxembourg permanent establishments of a nonresident company, regardless of its fiscal residence, are allowed to be included in a tax consolidation, provided that this company is fully liable to a tax corresponding to Luxembourg corporate income tax.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on the supply of goods and services within Luxembourg and on the import of goods and services into Luxembourg	
General rate	17
Other rates	3/8/14
Subscription tax ( <i>taxe d'abonnement</i> ), annual tax on the value of a company's shares; rate depends on type of company	
Société de Gestion de Patrimoine Familial (SPFs)	0.25
Investment funds	
Certain funds of funds, certain institutional monetary funds, Pension Fund Pooling Vehicles (PFPVs), microfinance UCIs and Exchange Traded Funds	0
Specialized Investment Funds (SIFs), dedicated funds (funds owned exclusively by institutional investors), institutional compartments of funds, monetary funds and cash funds, on the condition that the exemption regime does not apply	0.01
Other funds	0.05
Social security contributions on salaries (2018 rates); paid by	
Employer (including health at work contribution and accident insurance but excluding mutual insurance)	12.06
Employee (including care insurance)	12.45
Payroll taxes, for accident insurance; paid by employer (2018 rate)	0.90
Health at work contribution, on salaries; paid by employer (2018 rate)	0.11

Nature of tax	Rate (%)
Care insurance on gross employment income; paid by employee (2018 rate)	1.4
Mutual insurance (2018 rates); paid by employer	0.46 to 2.95

## E. Miscellaneous matters

**Foreign-exchange controls.** Luxembourg does not impose transfer restrictions. The Banque Centrale de Luxembourg (BCL) and the Service Central de la Statistique et des Etudes Économiques (the national statistical institute of Luxembourg) monitor the transfer of funds. Effective from 1 January 2012, this obligation was transferred to the companies themselves on a monthly basis. The reporting obligation also applies to selected companies in the non-financial sector that, based on previous activity, are expected to realize large volumes of transactions, mainly services, with foreign counterparts.

**Debt-to-equity rules.** The Luxembourg tax law does not contain any specific thin-capitalization rules. In principle, borrowed money that is necessary for financing an operation is not limited to a percentage of paid-in capital. However, based on the abuse-of-law doctrine, the authorities tend to challenge debt-to-equity ratios of companies engaged in holding activities that are greater than 85:15. Under the abuse-of-law doctrine, the tax authorities may challenge fictitious or abnormal transactions and schemes that are entered into for the sole purpose of avoiding taxes.

**Anti-avoidance legislation.** No specific anti-avoidance rules are contained in the law, except for the application of the Parent-Subsidiary Directive (see Section B for a description of the general anti-abuse rule regarding the participation exemption, which was incorporated into Luxembourg law, effective from 1 January 2016).

With respect to the transfer-pricing legislation, according to Article 56 of the Income Tax Law, if associated enterprises enter into transactions that do not meet the arm's-length principle, any profits that would have been realized by one of the enterprises under normal conditions are included in the profits of that enterprise and taxed accordingly. Based on this measure and on the general anti-abuse provision, the tax authorities can substitute an arm's-length price if transactions with a related party are entered into at an artificial price or if transactions are entered into in an abnormal manner and are solely tax-motivated.

Article 56bis of the Luxembourg Income Tax Law further clarifies the concept of the arm's-length principle. This article contains the basic framework of a transfer-pricing analysis based on principles revised in the context of BEPS Action Plan. It particularly focuses on the comparability analysis and contains new elements to be considered, incorporating the conclusions from Actions 8 to 10 of the BEPS Plan into domestic law.

On 27 December 2016, the Luxembourg tax authorities issued an administrative Circular (LIR No. 56/1-56bis/1), reshaping the transfer-pricing framework for companies carrying out intra-group financing activities in Luxembourg. The Circular, which refers to the aforementioned Article 56bis, provides additional



guidance regarding the substance and transfer-pricing requirements in line with the OECD guidelines. This Circular replaces Circular No. 164/2 of 28 January 2011 and Circular No. 164/2bis of 8 April 2011, effective from 1 January 2017.

**Chamber of Commerce fee.** Membership in the Chamber of Commerce, which requires an annual membership fee, is mandatory for all commercial companies having their legal seat in Luxembourg and for Luxembourg branches of foreign companies. The fee ranges from 0.025% to 0.20%, depending on the taxable profit of the company, before loss carryforwards, as provided by the Luxembourg income tax law. The fee is assessed on the basis of the taxable profit realized two years before the year the contribution is due. For companies in a loss situation, partnerships and limited companies (*société à responsabilité limitée*) must make a minimum contribution of EUR70, while other corporations must make a minimum annual contribution of EUR140. Companies that mainly perform a holding activity and that are listed as such in the Statistical Classification of Economic Activities in the European Community (Nomenclature statistique des activités économiques dans la communauté européenne, or NACE) Code must pay a lump-sum fee of EUR350.

**Special tax regime for expatriate highly skilled employees.** The provisions of the beneficial income tax regime for expatriates apply to assignments or recruitments made after 1 January 2011. If the employer meets certain conditions, the tax regime can apply to employees who are sent to work temporarily in Luxembourg on an assignment between intragroup entities and to employees who are directly recruited abroad by a company to work temporarily in Luxembourg. Under the tax regime, tax relief is provided for certain costs related to expatriation if several conditions are met.

**Special tax regime for carried interest.** The Law on Alternative Investment Fund Managers (AIFMs), dated 12 July 2013, defines “carried interest” as a share in the profits of the Alternative Investment Fund (AIF) accrued to the AIFM as compensation for the management of the AIF, excluding any share in the profits of the AIF accrued to the AIFM as a return on any investment by the AIFM in the AIF. The AIFM law allows the taxation of carried interest realized by certain natural persons that are employees of the AIF or their management company as “speculative income” under Luxembourg’s income tax law. The tax rate is 25% of the marginal tax rate applicable to the adjusted income.

To benefit from the tax regime, natural persons must not have been Luxembourg tax residents, nor have been subject to tax in Luxembourg on their professional revenues, during the five years preceding the year of implementation of the AIFM law. Natural persons must establish their tax domicile in Luxembourg during the year of implementation of the AIFM law or during the following five years. The favorable tax treatment is limited to the 10-year period beginning with the year in which the individual persons begin their activity entitling them to the above income.

**Limitation of corporate tax deductibility of “golden handshakes.”** To limit excessive “golden handshakes” to departing employees, voluntary departure indemnities or dismissal indemnities above EUR300,000 are not tax-deductible for employers. Tax rules at

the level of the employee remain fully applicable. A fractioned payment that is made over several years is deemed to be a single payment.

**Islamic finance.** The Luxembourg tax administration provides guidance covering the Luxembourg tax treatment of some contracts and transactions with respect to Islamic finance. This clarifies the revenue repatriation mechanism of Luxembourg's Sharia-compliant financing instruments as well as structuring capacities.

**VAT free zone.** In 2011, Luxembourg introduced a temporary exemption regime for VAT purposes. This regime provides a VAT suspension system for transactions concerning goods stored in specific locations.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under Luxembourg domestic tax law. Dividend distributions to companies resident in a treaty country are covered by the Luxembourg participation exemption regime. As a result, a full exemption from Luxembourg dividend withholding tax may apply if certain conditions are met (see Section B).

	Dividends %	Interest (m) %	Royalties %
Andorra	0/5/15 (cc)	0	0
Armenia	0/5/15 (s)	0	0
Austria	0/5/15 (a)(d)	0	0
Azerbaijan	0/5/10 (n)	0	0
Bahrain	0/10 (z)	0	0
Barbados	0/15 (l)	0	0
Belgium	0/10/15 (c)(d)	0	0
Brazil	0/15 (g)	0	0
Brunei Darussalam	0/10 (z)	0	0
Bulgaria	0/5/15 (a)(d)	0	0
Canada	0/5/15 (h)	0	0
China (mainland)	0/5/10 (a)	0	0
Croatia	0/15 (d)(s)	0	0
Czech Republic	0/10 (aa)(d)	0	0
Denmark	0/5/15 (a)(d)	0	0
Estonia	0/5/15 (a)(d)(bb)	0	0
Finland	0/5/15 (a)(d)	0	0
France	0/5/15 (a)(d)	0	0
Georgia	0/5/10 (o)	0	0
Germany	0/5/15 (d)(w)	0	0
Greece	0/7.5 (d)	0	0
Guernsey	0/5/15 (g)	0	0
Hong Kong SAR	0/10 (q)	0	0
Hungary	0/10 (d)(z)	0	0
Iceland	0/5/15 (a)	0	0
India	0/10	0	0
Indonesia	0/10/15 (a)	0	0
Ireland	0/5/15 (a)(d)	0	0
Isle of Man	0/5/15 (g)	0	0
Israel	0/5/10/15 (u)	0	0
Italy	0/15 (d)	0	0
Japan	0/5/15 (g)	0	0
Jersey	0/5/15 (g)	0	0

	Dividends %	Interest (m) %	Royalties %
Kazakhstan	0/5/15 (y)	0	0
Korea (South)	0/10/15 (g)	0	0
Laos	0/5/15 (s)	0	0
Latvia	0/5/10 (a)(d)	0	0
Liechtenstein	0/5/15 (r)	0	0
Lithuania	0/5/15 (a)(d)	0	0
Macedonia	0/5/15 (a)	0	0
Malaysia	0/5/10 (g)	0	0
Malta	0/5/15 (a)(d)	0	0
Mauritius	0/5/10 (g)	0	0
Mexico	0/5/15 (g)	0	0
Moldova	0/5/10 (t)	0	0
Monaco	0/5/15 (s)	0	0
Morocco	0/10/15 (a)	0	0
Netherlands	0/2.5/15 (a)(d)	0	0
Norway	0/5/15 (a)	0	0
Panama	0/5/15 (s)	0	0
Poland	0/15 (d)(x)	0	0
Portugal	0/15 (d)	0	0
Qatar	0/5/10 (p)	0	0
Romania	0/5/15 (a)(d)	0	0
Russian Federation	0/5/15 (j)	0	0
San Marino	0/15 (l)	0	0
Saudi Arabia	0/5	0	0
Serbia	0/5/10 (a)	0	0
Seychelles	0/10 (z)	0	0
Singapore	0	0	0
Slovak Republic	0/5/15 (a)(d)	0	0
Slovenia	0/5/15 (a)(d)	0	0
South Africa	0/5/15 (a)	0	0
Spain	0/5/15 (a)(d)	0	0
Sri Lanka	0/7.5/10 (k)	0	0
Sweden	0/15 (d)	0	0
Switzerland	0/5/15 (f)	0	0
Taiwan	0/10/15 (e)	0	0
Tajikistan	0/15	0	0
Thailand	0/5/15 (a)	0	0
Trinidad and Tobago	0/5/10 (g)	0	0
Tunisia	0/10	0	0
Turkey	0/5/15 (a)	0	0
Ukraine	0/5/15 (ee)	0	0
United Arab Emirates	0/5/10 (g)	0	0
United Kingdom	0/5/15 (a)(d)	0	0
United States	0/5/15 (b)	0	0
Uruguay (dd)	0/5/15 (g)	0	0
Uzbekistan	0/5/15 (a)	0	0
Vietnam	0/5/10/15 (i)	0	0
Non-treaty jurisdictions	0/15 (d)	0	0

(a) The 5% rate (Netherlands, 2.5%; Indonesia, Korea (South), Morocco and Thailand, 10%) applies if the beneficial owner is a company that holds directly at least 25% of the capital of the payer of the dividends.

(b) The 0% rate applies if the beneficial owner is a company that, on the date of payment of the dividends, has owned directly at least 25% of the voting shares of the payer for an uninterrupted period of at least two years and if such dividends are derived from an industrial or commercial activity effectively operated in Luxembourg. The 5% rate applies if the beneficial owner

of the dividends is a company that owns directly at least 10% of the voting shares of the payer. The 15% rate applies to other dividends.

- (c) The 10% rate applies if the recipient is a company that, since the beginning of the fiscal year, has a direct holding in the capital of the company paying the dividends of at least 25% or paid a purchase price for its holding of at least EUR6,197,338.
- (d) Under an EU directive, withholding tax is not imposed on dividends distributed to a parent company resident in another EU state if the recipient of the dividends holds directly at least 10% of the payer or shares in the payer that it acquired for a price of at least EUR1,200,000 for at least one year. This holding period does not need to be completed at the time of the distribution if the recipient commits itself to eventually holding the participation for the required period.
- (e) The 15% rate applies if the beneficial owner of the dividends is a collective-investment vehicle established in the other jurisdiction and treated as a body corporate for tax purposes in that other jurisdiction. The 10% rate applies to other dividends.
- (f) The 0% rate applies if, at the time of the distribution, the beneficial owner is a company that has held at least 25% of the share capital of the payer for an uninterrupted period of at least two years. The 5% rate applies if the beneficial owner is a company that holds directly at least 25% of the share capital of the payer. The 15% rate applies to other dividends.
- (g) The second listed rate applies if the beneficial owner is a company that holds directly at least 10% of the capital of the payer.
- (h) The 5% rate applies if the beneficial owner is a company that controls directly or indirectly at least 10% of the voting power in the company paying the dividends. The 15% rate applies to other dividends.
- (i) The 5% rate applies if the beneficial owner of the dividends is a company that meets either of the following conditions:
- It holds directly or indirectly at least 50% of the capital of the payer.
  - It has invested in the payer more than USD10 million or the equivalent in Luxembourg or Vietnamese currency.
- The 10% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 25%, but less than 50%, of the capital of the payer and if such beneficial owner's investment in the payer does not exceed USD10 million or the equivalent in Luxembourg or Vietnamese currency. The 15% rate applies to other dividends.
- (j) The lower rate of 5% applies if the beneficial owner is a company that holds directly at least 10% of the capital in the distributing company and that has invested at least EUR80,000 (or equivalent in rubles) in such company.
- (k) The 7.5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the shares of the payer. The 10% rate applies to other dividends.
- (l) The 0% rate applies if the beneficial owner is a company that holds at least 10% of the payer for a continuous period of 12 months before the decision to distribute the dividend. The 15% rate applies to other dividends.
- (m) Interest payments may be subject to withholding tax in certain circumstances. For details, see Section B.
- (n) The 5% rate applies if the beneficial owner is a company that holds directly or indirectly at least 30% of the paying company's capital and if the value of its investment in the paying company is at least USD300,000 at the payment date.
- (o) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the capital of the payer and that has invested more than EUR2 million or its equivalent in the currency of Georgia. The 5% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 10% of the capital of the payer and that has invested more than EUR100,000 or its equivalent in the currency of Georgia. The 10% rate applies to other dividends.
- (p) The 0% rate applies if the beneficial owner is a company that holds directly at least 10% of the capital of the payer. The 5% rate applies to individuals who own directly at least 10% of the capital of the company paying the dividends and who have been residents of the other contracting state for at least 48 months preceding the year in which the dividends are paid. The 10% rate applies to other dividends.
- (q) The lower rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the shares in the payer or if it acquired the shares in the payer for a price of at least EUR1,200,000. The 10% rate applies to other dividends.
- (r) Withholding tax is not imposed on dividends distributed to a parent company if the beneficial owner of the dividends is a company that, at the time of the

payment of dividends, has held directly for an uninterrupted period of 12 months at least 10% of the capital of the company paying the dividends or that has a capital participation with an acquisition cost of at least EUR1,200,000 in the company paying the dividends. The 5% rate applies if the beneficial owner is a company that holds directly at least 10% of the capital of the payer of the dividends. The 15% rate applies to other dividends.

- (s) The 5% rate applies if the beneficial owner is a company that holds directly at least 10% of the payer. The 15% rate applies to other dividends.
- (t) The 5% rate applies if the beneficial owner is a company that holds directly at least 20% of the capital of the payer. The 10% rate applies to other dividends.
- (u) The 5% rate applies if the beneficial owner is a company that holds directly at least 10% of the capital of the payer. The 10% rate applies if the beneficial owner is a company that holds directly at least 10% of the capital of the company paying the dividends and if the payer company is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate lower than the normal rate of Israeli company tax. The 15% rate applies to other dividends.
- (v) The 5% rate applies if the beneficial owner is a company that holds at least 25% of the voting shares of the payer of the dividends during the period of six months immediately before the end of the accounting period for which the distribution of profits takes place.
- (w) The 5% rate applies if the beneficial owner is a company that holds directly at least 10% of the capital in the distributing company. In other cases, the 15% rate applies, including dividends arising from real estate companies that benefit from a full or partial tax exemption or that treat distributions as tax deductible. SICAVs, SICAFs, SICARs and qualifying FCPs are in the scope of the new double tax treaty with Germany and may benefit from the withholding tax regime.
- (x) The 0% rate applies if the beneficial owner is a company that directly holds at least 10% of the capital of the company paying the dividends for an uninterrupted period of 24 months. The 15% rate applies to other dividends.
- (y) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly at least 15% of the shares of the payer. The 15% rate applies to other dividends.
- (z) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the shares of the payer. The 10% rate applies to other dividends.
- (aa) The 0% rate applies if the beneficial owner is a company (other than a partnership) that holds for an uninterrupted period of at least one year directly at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (bb) On 7 July 2014, Luxembourg and Estonia signed a new treaty that is intended to replace the current 2006 treaty. Under the new treaty, a 0% rate will apply if the beneficial owner is a company that holds directly at least 10% of the capital of the company paying the dividends. A 10% rate will apply to other dividends.
- (cc) The 0% rate applies if the beneficial owner holds directly and for an uninterrupted period of 12 months at least 10% of the shares of the payer or paid a purchase price for its holding of at least EUR1,200,000. The 5% rate applies if the beneficial owner is a company other than a partnership holding directly at least 10% of the share capital of the payer. The 15% rate applies in all other cases.
- (dd) The provisions of this treaty apply from 1 January 2018.
- (ee) The 0% rate applies if the beneficial owner is a company that holds, for an uninterrupted period of three years preceding the date of payment of the dividends, a direct participation of at least 50% in the paying company and if an investment of at least USD1 million or its equivalent in the local currencies of the contracting states has been made in the capital of the paying company. This rate applies only insofar as the distributed dividend is derived from an industrial or commercial activity. The 5% rate applies if the beneficial owner is a company that holds directly at least 20% of the capital of the payer. The 15% rate applies to other dividends.

Mongolia repealed its treaty with Luxembourg, effective from 1 January 2014.

Luxembourg has signed and enacted new tax treaties or amendments to existing tax treaties with Argentina, Cyprus, Hungary, Senegal, the United States and Uzbekistan, but these treaties and amendments are not yet in force. The withholding tax rates under

these new treaties and amendments are not reflected in the table above.

Following treaty negotiations, treaty drafts have been initialed with Botswana, Kyrgyzstan and Oman. New treaties or amendments to existing treaties have been signed with Albania and Kuwait.

Tax treaty negotiations with Egypt, Lebanon, New Zealand, Pakistan, Syria, Pakistan and the United Kingdom are under way.

Since 2009, Luxembourg has signed numerous new treaties or treaty amendments with other countries. As a result, Luxembourg complies with OECD standards with respect to information exchange between tax authorities and reinforces international fiscal cooperation against tax fraud.

On 7 June 2017, Luxembourg (together with 67 other jurisdictions) signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (the MLI). At the time of signature, Luxembourg and all of the other signatories submitted a list of its tax treaties in force that it would like to designate as Covered Tax Agreements (that is, to be amended through the MLI). In addition, Luxembourg submitted a preliminary list of reservations and notifications with respect to the various provisions of the MLI. The most important changes that will affect all of Luxembourg's tax treaties relate to the introduction of a principal purpose test and an amendment of the preamble that states that the relevant tax treaty is not intended to create opportunities for non-taxation or reduced taxation. Luxembourg is one of only 25 countries that decided to apply mandatory binding arbitration.

## Macau Special Administrative Region (SAR) of China

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### A. At a glance

Corporate Income Tax Rate (%)	12 (a)
Capital Gains Tax Rate (%)	12 (a)(b)
Branch Tax Rate (%)	12 (a)
Withholding Tax (%) (c)	
Dividends	0 (d)
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) For the 2017 tax year, complementary tax is imposed on taxable profits in excess of MOP600,000 at a rate of 12%.
- (b) For details regarding the taxation of capital gains, see Section B.
- (c) Macau law does not contain any specific measures imposing withholding taxes except for service fees paid to individuals. Under certain circumstances, interest or royalties received by nonresidents from Macau may be regarded as income from commercial or industrial activities in Macau and taxed at the normal corporate income tax rates.
- (d) Dividends are not taxable if they are distributed by entities that have paid corporate income tax at the corporate level on the distributed income.

### B. Taxes on corporate income and gains

**Corporate income tax.** Companies and individuals carrying on commercial or industrial activities in Macau are subject to complementary tax in Macau. An entity established in Macau is regarded as carrying on business in Macau, and its profits are subject to complementary tax. Non-Macau entities that derive profits from commercial or industrial activities in Macau are also subject to complementary tax.

**Rates of corporate income tax.** The same complementary tax rates apply to companies and individuals. The following are the complementary tax rates for the 2017 tax year.

Exceeding MOP	Taxable profits		Tax on lower amount MOP	Rate on excess %
	Not exceeding MOP			
0	600,000		0	0
600,000	—		0	12

For the 2018 tax year, income derived from Portuguese-speaking countries is exempt from Macau corporate income tax, provided that it is taxed in those countries.

**Offshore companies.** Macau Offshore Companies (MOCs) are exempt from Macau complementary tax. A company qualifies as an MOC if it is established under Macau's offshore law and if it meets certain criteria. In general, MOCs must use non-Macau currencies in its activities, target only non-Macau residents as customers and concentrate only on non-Macau markets. Newly established MOCs may engage only in the nine categories of offshore services contained in a list published by the government.

**Capital gains.** The Macau Complementary Tax Law does not distinguish between a "capital gain" and "revenue profit." Companies carrying on commercial or industrial activities in Macau are subject to complementary tax on their capital gains derived in Macau.

**Administration.** The tax year is the calendar year.

For tax purposes, companies are divided into Groups A and B. These groups are described below.

*Group A.* Group A companies are companies with capital of over MOP1 million (USD125,000) or average annual taxable profits over the preceding three years of more than MOP500,000 (USD62,500). Other companies maintaining appropriate accounting books and records may also elect to be assessed in this category by filing an application with the Macau Finance Services Bureau before the end of the tax year.

Income of Group A companies is assessed based on their financial accounts submitted for tax purposes. These companies are required to file between April and June of each year complementary tax returns with respect to the preceding year. The tax returns must be certified by local accountants or auditors registered with the Macau Finance Services Bureau.

Group A companies may carry forward tax losses to offset taxable profits in the following three years.

*Group B.* All companies that are not Group A companies are classified as Group B taxpayers.

For Group B companies, tax is levied on a deemed profit basis. Financial information in tax returns submitted by Group B companies normally serves only as a reference for tax assessment. Group B companies are normally deemed to earn profits for each year of assessment, regardless of whether the taxpayers have earned no income or incurred losses for the year.

Group B companies are required to file annual tax return forms for the preceding year between February and March. Certification of the tax return forms by registered accountants or auditors is not required.



Group B companies may not carry forward tax losses.

**Dividends.** Dividends are normally paid out of after-tax profits. Consequently, no tax is imposed on dividends.

Group A companies (see *Administration*) may claim deductions for dividends declared out of current-year profits. Under such circumstances, the recipients of the dividends are subject to complementary tax on the dividends.

**Foreign tax relief.** Macau does not grant relief for foreign taxes paid except for those specified under double tax treaties with Macau.

### C. Determination of trading income

**General.** As discussed in Section B, companies are divided for tax purposes into Groups A and B. For Group A companies, taxable profits are based on the profits shown in the signed complementary tax return, subject to adjustments required by the tax law. Group B companies are taxed on a deemed profit basis.

To be deductible, expenses must be incurred in the production of taxable profits. Certain specific expenses are not allowed, such as life insurance and fines. The deduction of provisions is restricted.

**Inventories.** Inventories are normally valued at the lower of cost or net realizable value. Cost can be determined using the weighted average or first-in, first-out (FIFO) methods.

**Provisions.** The following are the rules for the tax-deductibility of provisions in Macau:

- Provision for bad debts: deductible up to 2% of trade debtor's year-end balance
- Provision for inventory loss: deductible up to 3% of the value of the closing inventory at the end of the year
- Provision for taxes: not deductible
- Other provisions: subject to approval by the tax authorities

**Tax depreciation.** Tax depreciation allowances are granted for capital expenditure incurred in producing taxable profits. These allowances are calculated based on the actual cost of purchase or construction, or, if the amount of the cost is not available, the book value accepted by the Macau Finance Services Bureau. The following are the maximum straight-line depreciation rates in Macau.

<b>Asset</b>	<b>Maximum rate (%)</b>
Industrial buildings (including hotels)	
First year	20
Subsequent years	4
Commercial and residential buildings	
First year	20
Subsequent years	2
Central air-conditioning plant	14.29
Central telecommunication, telephone and telex systems	10
Elevators and escalators	10
Vessels, dredgers and floating cranes	10
Transport equipment	
Light vehicles	20

<b>Asset</b>	<b>Maximum rate (%)</b>
Heavy vehicles	16.66
Furniture	
Office	20
Residential	16.66
Computers, minicomputers and word processors	25
Other office equipment	20
Non-electronic equipment and machinery	14.29
Electronic equipment and machinery	20
Computer software	33.33
Molds	33.33
Patents	10
Other assets	Various

**Relief for losses.** Group A companies (see Section B) may carry forward losses for three years. Loss carrybacks are not allowed.

**Groups of companies.** Macau does not allow consolidated returns or provide other relief for groups of companies.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate</b>
Property tax, levied annually on owners of real property in Macau; the tax is applied to the actual rental income for leased property and to the deemed rental value for other property as determined by the Macau Finance Services Bureau; up to 10% of the rent or rental value may be deducted to cover repairs and maintenance, and other expenses related to the property; certain buildings are exempt including industrial buildings occupied by their owners for industrial purposes, new residential or commercial buildings for the first 6 years on the islands of Coloane and Taipa and for the first 4 years in other parts of Macau, and new industrial buildings for the first 10 years on Coloane and Taipa and for the first 5 years in other parts of Macau	
Rental property	10%
Other property	6%
Stamp duty, on selling price or assessable value of transferred property; payable by purchaser	1% to 3% (plus 5% surcharge)
Additional stamp duty; payable on the acquisition of residential properties by corporations or non-Macau residents	10%
Special stamp duty, on transaction price; payable by transferor of residential properties, shops, offices and car parks; subject to exemptions under certain special circumstances	
Property acquired by the vendor on or after 14 June 2011 (for residential properties) and 30 October 2012 (for shops, offices and	

Nature of tax	Rate
car parks) and sold within one year after acquisition (from the issuance date of the stamp duty demand note)	20%
Property acquired by the vendor on or after 14 June 2011 (for residential properties) and 30 October 2012 (for shops, offices and car parks) and sold in the second year after acquisition (from the issuance date of the stamp duty demand note)	10%

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Macau is the pataca (MOP). Since 1977, the pataca has been closely aligned with the Hong Kong dollar (HKD), moving within a narrow band around an exchange rate of MOP103 to HKD100. Because the Hong Kong dollar is officially pegged to the US dollar, the value of the pataca is closely associated with the value of the US dollar. The current exchange rate is approximately MOP8:USD1.

Macau does not impose foreign-exchange controls.

**Debt-to-equity rules.** Except for the banking and financial services sector, no statutory debt-to-equity requirements or capitalization rules are imposed in Macau.

## F. Tax treaties

Macau has entered into double tax treaties with Cape Verde, Mainland China, Mozambique and Portugal. Macau has also signed tax treaties with Belgium and Vietnam, but these treaties are not yet in force.

# Macedonia, Former Yugoslav Republic of

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*Macedonia, which was a republic of the former Yugoslavia, gained its independence in 1991. It was admitted to the United Nations in 1993 as the "Former Yugoslav Republic of Macedonia." Because of the rapidly changing economic situation in Macedonia, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	10
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	10
Withholding Tax (%)	
Dividends	10
Interest	10
Royalties from Patents and Know-how	10
Fees for Management, Consulting, Financial, Research and Development Services	10
Rent and Payments under Leases of Immovable Property	10
Insurance Premiums	10
Payments for Telecommunication Services	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

## B. Taxes on corporate income and gains

**Corporate income tax.** Macedonian companies are subject to corporate tax on their worldwide income. Macedonian companies are companies incorporated in Macedonia. Foreign companies are taxed in Macedonia on their profits generated from activities conducted through a permanent establishment in the country and on income from Macedonian sources.

**Rate of corporate income tax.** The corporate income tax rate is 10%.

**Tax incentives.** Tax incentives available in Macedonia are described below.

*Tax relief for reinvested profits.* As of January 2015, companies may claim tax relief for the amount of profits reinvested in business-related tangible and intangible assets. No relief is available for profits reinvested in cars, furniture, carpets, audiovisual devices and other decorative objects used to equip administrative premises. The tangible and intangible assets acquired under the tax relief may not be sold or otherwise disposed of within the five-year period beginning with the year in which the investment is made. If this condition is not satisfied, the company must pay the tax saved.

*Technological Industrial Development Zones.* Companies are exempt from income tax for the first 10 years of their activities in a Technological Industrial Development Zone, subject to the conditions and procedures established in the Law on Technological Industrial Development Zones.

**Capital gains and losses.** Capital gains are included in taxable income and are subject to tax at the regular corporate income tax rate of 10%.

**Administration.** The tax year is the calendar year.

Companies must make advance monthly payments of corporate income tax by the 15th day of each month. The tax base for the monthly payments equals  $\frac{1}{12}$  of the tax determined for the preceding year adjusted by the percentage of the cumulative growth of retail prices in the country in the preceding year.

Companies must file annual tax returns by 15 March of the year following the tax year. Filing of monthly tax returns is not required. If the tax determined in an annual tax return is more than the amount of advance tax paid, the company must pay the difference within 30 days after the filing due date. Any overpaid amount must be refunded within 30 days following the request of the taxpayer.

**Dividends.** Dividends paid to foreign companies are subject to withholding tax at a rate of 10% on the net amount of the distributed dividends (that is, after deduction of the 10% corporate tax), unless tax treaty relief applies. Remittances of profits by branches to their home countries are not subject to withholding tax.

Dividends distributed to resident companies are exempt from corporate tax.

**Foreign tax relief.** Resident companies may claim a tax credit for foreign income tax paid, but the amount of the credit may not exceed the 10% profit tax imposed in Macedonia on the foreign-source income.

### C. Determination of trading income

**General.** Companies pay income tax on the profit realized in the year, increased by the amount of the nondeductible expenses.

**Inventories.** Inventories are valued at cost, but the value for tax purposes may not exceed the sales value on the date when taxable income is determined.

**Provisions.** Provisions booked for current liabilities are deductible for tax purposes. Write-offs of receivables for which no final

court decision on their non-collectibility has been issued are not deductible for tax purposes. Written-off receivables taxed in prior years as nondeductible expenses are deducted from the tax base in the year in which the receivables are collected.

**Tax depreciation.** Tax depreciation follows the accounting depreciation of tangible and intangible assets. The excess amount of the accounting depreciation not recognized for tax purposes taxed in prior years is deductible from the nondeductible expenses in the following years in which such differences become deductible for tax purposes.

**Relief for losses.** As of 1 January 2015, losses may be carried forward for three years. Losses may not be carried back.

**Groups of companies.** Group registration is not permitted in Macedonia.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax; imposed on goods sold and services rendered in the RM, on sales of real property in the RM and on imports; certain items are exempt, such as banking, insurance and other financial activities	
Standard rate	18%
Reduced rate (for food products for human use, drinking water from public water supply systems, books, brochures and newspapers, certain materials and fixed assets for agriculture, drugs and medicine products for human use, computers, printers and accessories, software, equipment that is used for the production of solar electricity and passenger transport)	5%
Exports	0%
Excise tax on sales in the RM and on imports of various items; tax is imposed at ad valorem rates, which are applied to the sales or import price, or at specific rates, which are expressed in Macedonian denars per unit of goods; for petrol, Diesel D-1 and gas, the rates are subject to change every two weeks	
Petrol	MKD21.692 to MKD24.396 per liter
Diesel D-1 (petrol for use in motor cars)	MKD15.121 per liter
Heating oil	MKD6.136 per liter
Fuel oil	MKD0.10 per kilogram
Alcoholic beverages	MKD340 per liter of pure alcohol
Beer	MKD4 per percentage of alcohol in a liter
Cigars and cigarillos	MKD21.37 per piece
Cigarettes	MKD1.753 per piece plus 9% of the retail price
Other tobacco products	MKD1,350 per kilogram

Nature of tax	Rate
Taxes contained in Property Tax Law Property tax; annual tax on owners of immovable property, including non-rural land, residential buildings or apartments, industrial, business and administrative buildings, and garages and other structures; tax base is the market value of the real estate or movable property; tax return must be filed by 31 January (only if changes have occurred since the previous period)	0.1% to 0.2%
Tax on sales and other transfers of real estate and rights to real estate; tax base is the market value of the real estate or right at the time of the sale; for exchanges, the tax base is the difference between the market values of the items being exchanged; tax payable by transferor; tax return must be filed within 15 days after the transfer of the property	2% to 4%
Inheritance and endowment tax, on the inheritance or endowment of immovable or movable property; tax applies regardless of whether inheritance or endowment is granted in a will or is acquired under the inheritance law or under an endowment agreement; tax base is the market value of the inheritance and endowment, reduced by debts and expenses; tax is paid by resident and nonresident recipients, including companies; tax return must be filed within 15 days after the transfer of the property	
Individuals in first line of heritage	0%
Individuals in second line of heritage	2% to 3%
All others	4% to 5%

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Macedonia is the denar (MKD). All transactions in Macedonia must be made in denars.

The National Bank of the Republic of Macedonia, which is the central bank, is exempt from income tax.

Residents and nonresidents may maintain foreign-currency accounts at commercial banks.

Registration with the central bank is required for the following transactions:

- Obtaining or granting loans
- Paying or receiving cash
- Opening bank accounts abroad

**Transfer pricing.** Macedonia has transfer-pricing rules. Under these rules, the tax authorities may adjust the taxable income of taxpayers derived from transactions with related companies if they deem prices paid (or charged) to related companies for various types of items to be excessive. In such circumstances, the difference between prices stated in financial statements and arm's-length prices is subject to tax.

**Debt-to-equity ratios.** Under thin-capitalization rules, interest on loans received from shareholders owning at least 25% of the capital of the borrower or on loans guaranteed by such shareholders is subject to tax to the extent that such interest corresponds to the excess of the loan balance over three times the shareholders' share in the equity of the borrower.

The thin-capitalization restrictions apply only to loans provided by direct shareholders that are nonresidents. In addition, the 25% participation threshold is alternatively measured by reference to voting rights. Loans provided from financial institutions are excluded from the thin-capitalization restrictions. Newly established entities are excluded in their first three years of operations.

## F. Treaty withholding tax rates

	Dividends %	Interest %	Royalties %
Albania	10	10	10
Azerbaijan	8	0/8 (b)	8
Austria	0/15 (i)	0	0
Belarus	5/15 (a)	10	10
Belgium	0/10/15 (ff)	10	10
Bosnia and Herzegovina	5/15 (aa)	10	10
Bulgaria	5/15 (a)	0/10 (b)	10
China (mainland)	5	0/10 (cc)	10
Croatia	5/15 (a)	0/10 (e)	10
Czech Republic	5/15 (a)	0	10
Denmark	0/5/15 (f)	0	10
Egypt (w)	10	10	10
Estonia	0/5 (a)	0/5 (k)	5
Finland	0/15 (g)	0/10 (h)	0
France	0/15 (d)	0	0
Germany	5/15 (q)	0/5 (z)	5
Hungary	5/15 (a)	0	0
India	10	0/10 (b)	10
Iran	10	10	10
Ireland	0/5/10 (r)	0	0
Italy	5/15 (a)	0/10 (j)	0
Kazakhstan	5/15 (aa)	0/10 (e)	10
Kosovo	0/5 (aa)	10	10
Kuwait	0	0	15
Latvia	5/10 (q)	0/5 (t)	5/10 (u)
Lithuania	0/10 (i)	0/10 (e)	10
Luxembourg	5/15 (a)	0	5
Moldova	5/10 (a)	5	10
Morocco	10	10	10
Netherlands	0/15 (i)	0	0
Norway	0/10/15 (x)	0/5 (y)	5
Poland	5/15 (a)	0/10 (k)	10
Qatar	0	0	5
Romania	5	0/10 (l)	10
Russian Federation	10	10	10
Saudi Arabia	5	0/5 (dd)	10
Serbia and Montenegro	5/15 (a)	10	10
Slovak Republic	5	10	10
Slovenia	5/15 (a)	10	10
Spain	5/15 (q)	0/5 (p)	5



	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Sweden	0/15 (a)	0/10 (m)	0
Switzerland	5/15 (a)	0/10 (n)	0
Taiwan	10	0/10 (c)	10
Turkey	5/10 (a)	0/10 (o)	10
Ukraine	5/15 (a)	0/10 (e)	10
United Arab Emirates (w)	5	0/5 (ee)	5
United Kingdom	0/5/15 (v)	0/10 (s)	0
Vietnam (w)	5/10/15 (bb)	10	10
Non-treaty jurisdictions	10	10	10

- (a) The lower rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 25% of the equity of the payer of the dividends.
- (b) The 0% rate applies if the beneficial owner of the interest is the government or the central bank.
- (c) The 0% rate applies if the beneficial owner of the interest is the government, a municipality, the central bank or an agency fully owned and controlled by the government or a municipality (debts indirectly financed by the government, a local authority or the central bank).
- (d) The 0% rate applies if the recipient of the dividend is a company that holds directly or indirectly at least 10% of the equity of the payer of the dividends.
- (e) The 0% rate applies if the beneficial owner of the interest is the government, municipalities, the central bank, other financial institutions fully owned by the government or municipalities, or other legal entities that are directly financed by the government, the central bank or municipalities.
- (f) The 0% rate applies if the beneficial owner of the dividends is a pension fund or other similar institution providing pension schemes in which individuals may participate to secure retirement benefits. The 5% rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 25% of the equity of the payer of the dividends and if such holding is maintained for an uninterrupted period of at least one year and the dividends are declared within that period.
- (g) The 0% rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 10% of the voting power of the payer of the dividends.
- (h) The 0% rate applies if the beneficial owner of the interest is the State of Finland, Bank of Finland, Finnish Fund for Industrial Co-operation or if the interest is from loans supported by the government of Finland.
- (i) The 0% rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 10% of the equity of the payer of the dividends.
- (j) The 0% rate applies if the beneficial owner of the interest is the government, municipalities or their fully owned entities or if the interest payments arise from loans of other agencies or instrumentalities (including financial institutions) based on agreements between the governments.
- (k) The 0% rate applies if the beneficial owner of the interest is the government including municipalities, the central bank and financial institutions controlled by the government or if the interest is derived from loans guaranteed by the government.
- (l) The 0% rate applies if the beneficial owner of the interest is the government including municipalities, agencies or banks of the government or municipalities or if the interest is derived from loans warranted, insured or financed by the government.
- (m) The 0% rate applies if any of the following circumstances exist:
- The beneficial owner of the interest is the state, a statutory body or the central bank.
  - The interest is paid on loans approved by the government of the country of the interest payer.
  - The interest is paid on loans granted by the SWEDCORP, Swedfund International AB, the Swedish Export Credits Guarantee Board or any other public institution with the objective of promoting exports or development.
  - The interest is paid on bank loans.

- (n) The 0% rate applies if the beneficial owner obtained the interest with respect to sales on credit of industrial, commercial or scientific equipment or with respect to sales on credit of merchandise between enterprises or if the interest is paid on bank loans.
- (o) The 0% rate applies if the beneficial owner of the interest is the government, municipalities or the central bank.
- (p) The 0% rate applies if the beneficial owner obtained the interest with respect to sales on credit of industrial, commercial or scientific equipment or with respect to sales on credit of merchandise between enterprises or if the interest is paid on long-term bank loans (over five years).
- (q) The lower rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 10% of the equity of the payer of the dividends.
- (r) The 0% rate applies if the beneficial owner of the dividends owns at least 25% of the equity of the payer of the dividends for the entire 12-month period ending on the date of payment of the dividend or if the beneficial owner of the dividends is a pension scheme. The 5% rate applies if the beneficial owner of the dividends is a company that holds at least 10% of the voting power of the payer of the dividends.
- (s) The 0% rate applies to interest paid with respect to a loan granted or credit extended by an enterprise to another enterprise and to interest paid to political subdivisions, local authorities or public entities.
- (t) The 0% rate applies to interest paid with respect to a loan granted or credit extended for the sale of industrial, commercial or scientific equipment (unless the sale or loan is between related persons), and to interest paid to the government including local authorities, the central bank and financial institutions wholly owned by the government.
- (u) The higher rate applies to royalties paid for the use of, or the right to use, movies or tapes for radio and television broadcasting.
- (v) The 0% rate applies if the beneficial owner of the dividends owns at least 25% of the equity of the payer of the dividends for the entire 12-month period ending on the date of payment of the dividend or if the beneficial owner of the dividends is a pension scheme. The 5% rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 10% of the equity of the payer of the dividends.
- (w) This treaty is not yet in force.
- (x) The 0% rate applies if the beneficial owner of the dividends is the Central Bank of Norway, the government pension plan of Norway or Norfund or, in case of Macedonia, the Central Bank of Macedonia. The 10% rate applies if the recipient of the dividend is a company (other than a partnership) that holds at least 25% of the equity of the payer of the dividends.
- (y) The 0% rate applies to the following:
- Interest paid to the government of a contracting state, a political subdivision or local authority thereof, the central bank of a contracting state or an institution wholly owned by the government of a contracting state
  - Interest paid on a loan insured or guaranteed by a governmental institution for the purpose of promoting exports
  - Interest paid with respect to the sale on credit of industrial, commercial or scientific equipment
- (z) The 0% rate applies to the following:
- Interest paid with respect to the sale of commercial or scientific equipment on credit
  - Interest paid with respect to the sale of goods by an enterprise to another enterprise on credit
  - Interest paid on a loan guaranteed by the Federal Republic of Germany with respect to the export of foreign direct investment
  - Interest paid to the government of the Federal Republic of Germany, the Deutsche Bundesbank, the Kreditanstalt für Wiederaufbau, the Deutsche Investitions- und Entwicklungsgesellschaft or the Macedonian government.
- (aa) The lower rate applies if the recipient of the dividend is a company that holds directly at least 25% of the equity of the payer of the dividends.
- (bb) The 5% rate applies if the recipient of the dividend is a company that holds directly at least 70% of the equity of the payer of the dividends. The 10% rate applies if the recipient of the company holds at least 25%, but no more than 70%, of the equity of the payer of the dividends.
- (cc) The 0% rate applies if the beneficial owner of the interest is the government, municipalities, the central bank, other financial institutions fully owned by the government or other legal entities that are indirectly financed by the government, the central bank or municipalities.

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- (dd) The 0% rate applies if the payer or the beneficial owner of the interest is the government, including municipalities, the central bank and financial institutions fully owned by the government.
  - (ee) The 0% rate applies if the beneficial owner of the interest is the state, a local government, the central bank, the Abu Dhabi Investment Authority, the Abu Dhabi Office, the International Petroleum Investment Company, the Abu Dhabi Investment Council, the Dubai Investment Company, the Mubadala Development Company, the United Arab Emirates Investment Authority, the Al Dafra Holding Company or any other institution created by the government or a local authority or local government, other than the state, that is recognized as an integral part of that government.
  - (ff) The 0% rate applies if the recipient of the dividend is a company that holds at least 25% of the equity of the payer of the dividends. The 5% rate applies if the recipient of the dividend is a company that holds directly at least 10% of the equity of the payer of the dividends.

# Madagascar

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## A. At a glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (a)
Branch Tax Rate (%)	20 (a)
Withholding Tax (%)	
Dividends	0 (b)
Interest	20 (c)
Royalties	10 (d)
Other Non-salary Payments	5/10 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) This rate applies to companies with turnover of MGA100 million or more. For companies with a lower amount of turnover, a special corporate income tax called Synthetic Tax is applied at a rate of 5%. For further details, see Sections B and C.
- (b) A parent-subsidiary regime exists (see Section B).
- (c) This withholding tax applies to resident and nonresident corporations and individuals.
- (d) This withholding tax applies to nonresident corporations.
- (e) The 5% withholding tax applies to residents, and the 10% withholding tax applies to nonresident corporations and individuals.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies deriving taxable income from activities carried out in Madagascar are subject to corporate income tax. Resident companies are companies incorporated in Madagascar, which include subsidiaries, permanent establishments and branches of foreign companies.

**Tax rates.** For companies with turnover of MGA100 million or more, the corporate income tax rate is 20%.

The minimum tax is MGA100,000 plus 0.5% of annual turnover (including capital gains) for companies carrying out the following activities:

- Agricultural
- Craft
- Mining
- Industrial
- Tourism
- Transport

This minimum tax equals 0.1% of annual turnover for fuel station filling companies. For companies engaged in other activities, the minimum tax is MGA320,000 plus 0.5% of annual turnover.

The minimum tax applies if the company incurs a loss or if the corporate income tax calculated using the 20% rate is less than the minimum tax to be paid as stated above.

Individuals or companies performing exclusively public market activities are exempt from minimum tax.

For companies with turnover of less than MGA100 million, a special corporate income tax called Synthetic Tax is applied at a rate of 5%.

*Free zones' companies.* Free zones' companies are exempt from corporate income tax for the first five years of their activities and are subject to corporate income tax at a rate of 10% for subsequent years.

*Large mining investments.* Mining companies making investments over USD25 million can benefit from legal and tax incentives if they are eligible under a special law called Loi sur les Grands Investissements Miniers (LGIM). They are exempt from minimum tax for five years from the beginning of exploitation. The corporate income tax rates are 10% for owners of mining permits and 25% for the transformation entities.

**Capital gains.** Capital gains are included in taxable income and subject to corporate income tax.

**Administration.** The standard tax year is the calendar year. However, companies may select a tax year running from 1 July to 30 June or another tax year.

Companies using the standard tax year must file financial statements and the corporate income tax return with the Malagasy tax authorities by 15 May of the year following the tax year. For companies choosing a tax year-end other than the standard tax year-end, the filing must be made by the 15th day of the fourth month following the year-end. Companies must make six installments of corporate income tax for each tax year. Each payment must equal one-sixth of the preceding year's tax amount. The installments are payable by 15 February, 15 April, 15 June, 15 August, 15 October and 15 December.

Before engaging in activities in Madagascar, an entity must apply for tax registration by completing a specified form during the company creation procedure. The tax registration for wholesalers requires the filing of a specific declaration. A tax identification card is issued to a new taxpayer on the completion of registration.

The tax identification card must be renewed every year at the time of submission of the corporate income tax return.

Taxpayers that compute taxable income under the actual or simplified actual regime must open a bank account in their name.

Financial statements provided to private or public entities require the visa or certification of the tax administration.

Nonresident entities must file a declaration that details all goods and services purchased during a financial year (annual third-party declaration).

Shareholders' current-account transactions (loans granted by shareholders to the company) must be evidenced by registered-loan agreements and be regularly recorded.

In the case of a tax audit, the tax authority may require any documents and information about the nature of the business relationships between a resident company and foreign company, the companies' transfer-pricing methods, and the activities and tax regimes of the companies. A failure to provide documents and information to the tax authority is subject to a fine of MGA5 million (approximately USD2,300).

Industrialists and commercial enterprises under the value-added tax regime are required to have an analytical accounting and a stock card. A failure to comply with this obligation is subject to a fine of 1% of annual turnover. Analytical accounting is a system that is primarily intended to track expense and revenue accounts by categories in order to determine profit and loss for each activity. A stock card is a statement of goods kept regularly on hand for use or sale.

Tax litigation claims may be made only if prior payment of accepted tax is made. The relevant receipt must be attached to the claim.

Tax may be collected through various legal means, including the seizure of assets. However, sales of seized objects are subject to prior written authorization of the Head of Tax Office.

**Dividends.** Companies are subject to corporate income tax on dividends received. Individuals are exempt from income tax on dividends received.

A special local parent-subsidiary regime exists. Under this regime, only 5% of the dividends received by parent companies from their subsidiaries is subject to corporate income tax. To benefit from this regime, the company receiving the dividends must satisfy the following requirements:

- It must submit an application for the parent-subsidiary regime to the tax authorities before the end of the financial year.
- It must be resident in Madagascar.
- It must hold at least 75% of the share capital of the subsidiary.
- It must be a public limited company or a private limited company.
- It must be subject to corporate income tax.
- It must have a consolidated annual turnover of more than MGA100 million.
- It must not have subsidiaries and branches located in jurisdictions that have lower tax rates than Madagascar.
- It must not be subject to another preferential regime.

**Withholding income tax.** All payments made to nonresident service suppliers are subject to withholding income tax at a rate of 10%, regardless of whether the service is rendered inside or outside Madagascar. This is a final tax. The tax is withheld and paid by the recipient of the service to the competent tax authority before the 15th of the month following the month of payment.

Unregistered resident individuals and companies that import and export goods and/or provide services and goods to registered individuals and companies are subject to income tax at a rate of 5%. This income tax is withheld by the following:

- Custom agents for imported and exported goods
- Purchasers for resident suppliers of goods and services

### C. Determination of trading income

**General.** For companies with turnover of MGA100 million or more, taxable income is based on financial statements prepared according to the Chart of Account or the Plan Comptable Général (PCG 2005), which conforms to the International Financial Reporting Standards (IFRS' 2003 version) and International Accounting Standards (IAS).

Business operating expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Interest paid on shareholder loans in excess of the interest rate determined for the interest applicant by the central bank plus two percentage points on an amount not exceeding two times the authorized capital. None of the interest on shareholder loans is deductible if the capital is not fully paid up.
- Certain specified charges and subsidies.
- Taxes, penalties and most liberalities (payments that do not produce a compensatory benefit to the company).
- Interest, arrears, income from bonds, loans, deposits, royalties on operating licenses, patents, trademarks, manufacturing processes or formulas, or other similar rights and remuneration for services paid by residents to nonresident individuals or companies, unless it is established that these payments are in line with the resident's business, regularly evidenced and not exaggerated.

Expenses incurred on transactions with unregistered individuals or companies that have been subject to withholding tax of 5% are deductible if the correct tax has been paid to the tax authority.

Turnover and charges relating to public market are not included in the corporate income tax base. However, losses incurred in public-market activities are not deductible.

The arm's-length principle for payments made between affiliated entities applies in Madagascar.

For entities with turnover of less than MGA100 million, taxable income is based on the turnover for the financial year.

**Inventories.** Inventory is normally valued at the lower of cost or market value. For goods that are not identifiable, cost must be determined through the use of the weighted average cost-price method or the first-in, first-out method.

**Provisions.** Provisions are generally deductible for tax purposes if they are established for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

**Depreciation.** Land is not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates generally used in the industry. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Commercial and industrial buildings	5
Office equipment	10
Motor vehicles	15
Plant and machinery	10

In certain circumstances, plant and machinery and other assets may be depreciated using the declining-balance method or an accelerated method.

**Tax credit.** Entities engaged in renewable energy production and distribution activities may benefit from a tax credit equal to the tax corresponding to 50% of the invested amount. This incentive also applies to other specified investments by entities in the tourism, industrial or construction sectors. The credit is annually capped to 50% of the amount of corporate income tax. The excess amount may be carried forward without time limitation, subject to the above limit of 50%.

Entities subject to Synthetic Tax benefit from a tax reduction of 2% of the amount of purchased goods and equipment supported by regular invoices. However, the tax to be paid cannot be less than 3% of turnover.

**Relief for losses.** Losses may be carried forward for five years. Losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** Malagasy law does not provide for consolidated tax filings.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); on goods sold and services rendered in Madagascar; also imposed on public and private companies engaged in telecommunications activities, redistribution of broadcasting and television programs or the providing of services electronically; entities that have annual turnover of less than MGA100 million (approximately USD50,000) are not liable to VAT; materials and equipment for the production of renewable energy are exempt from VAT; cash payments made between entities liable to VAT are forbidden; only payments by bank check, wire transfer, credit card, non-endorsed bill of exchange and mobile banking are allowed	



<b>Nature of tax</b>	<b>Rate (%)</b>
General rate	20
Special VAT on public market; discharges entities from Synthetic Tax; VAT is withheld by the public accountant at the moment of payment (advances or balance) and paid by the public accountant to the competent tax authority by the 15th day of the following month; the tax base is the amount of the transaction; operator must file VAT returns with the competent tax authority by the 15th day of the month following the month of the withholding made by the public accountant; details of operations linked to the public market must be attached to the financial statements submitted to the tax authority at the end of a financial year	8
Urban tax; annual tax on the rental value of property that is part of business assets	Various
Registration duties on transfers of real property, businesses or movable property, and free inter vivos transfers (The occupying or use of movable or immovable property must be supported by a lease agreement. This implies that registration fees at a rate of 2% are imposed on the total amount of rent during the lease agreement period.)	5
Social security contributions	
For family allowances; on gross monthly remuneration; amount of remuneration subject to contributions is limited based on the minimum salary provided by decree	
Employer	13
Employee	1
For illness and pregnancy; on gross monthly remuneration, which is not limited; payable by employer	5

## **E. Foreign-exchange controls**

The currency in Madagascar is the ariary (MGA).

Exchange-control regulations exist in Madagascar. For foreign-exchange control purposes, the two kinds of operations are current operations and capital operations.

Current operations include transfers abroad of profits after payments of taxes, dividends, earned income, expatriate allowances and savings. Current operations require only a transfer declaration to a local bank.

Capital operations include operations relating to stock transfers, shares of liquidation bonuses, sales of businesses or assets and compensation for expropriations. Capital operations involving transfers abroad require an authorization from the Ministry of Finance.

Madagascar is a member of the South African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

**F. Treaty withholding tax rates**

The table below provides the withholding tax rates under the France and Mauritius treaties. The domestic rates apply if they are lower than the treaty rates.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
France	0	15	10/15
Mauritius	0	10	5
Non-treaty jurisdictions	0	10	10*

\* This withholding tax applies to nonresident companies.

# Malawi

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## A. At a glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30/35 (b)
Branch Tax Rate (%)	35
Withholding Tax Rate (%) (c)	
Dividends	10 (d)
Interest	20 (e)
Royalties	20 (e)
Rent	15 (e)
Payments for Services	20
Payments for Casual Labor Exceeding MWK15,000	20
Fees	10 (e)
Commissions	20 (e)
Payments to Nonresidents Without a Permanent Establishment in Malawi	10/15 (f)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

- (a) For other rates and information regarding a mineral royalty, see Section B.
- (b) See Section B.
- (c) See Section B for an extended list of withholding taxes and for further details regarding these taxes.
- (d) This withholding tax is imposed on dividends paid to residents and non-residents.
- (e) This withholding tax is imposed on foreign companies with a permanent establishment in Malawi.
- (f) The 10% rate applies to income derived from a mining project by way of interest, royalties, payment for independent personal services or dividends. The 15% rate applies to management fees and other payments.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Locally incorporated companies and branches of foreign companies are subject to corporate income tax on their income deemed to be from a source in Malawi. Income is deemed to be from a source within Malawi if it is derived from the carrying on in Malawi of a “trade.” For this purpose, “trade” covers any employment, profession, business, calling, occupation, or venture, including the leasing of property. Foreign-source income is exempt from corporate income tax.

**Rates of corporate income tax.** Locally incorporated companies are subject to corporate income tax at a rate of 30%. Branches of foreign companies are subject to tax at a rate of 35%.

Effective from 1 July 2016, income tax is imposed on income from life insurance business at a rate of 30%. Life insurance companies are subject to tax on their investment income, including income from the leasing of property, in accordance with the general provisions of the Taxation Act.

Effective from 1 July 2016, a mineral royalty is payable as a tax with respect to mining products at the following rates:

- All minerals other than precious stones and semiprecious stones and commercial minerals exported in an unmanufactured state: 5%
- Commercial minerals exported in an unmanufactured state: 5%
- Precious stones and semiprecious stones: 10%

The mineral royalty is payable to the Malawi Revenue Authority on a quarterly basis within 21 days after the end of each quarter of the year of assessment.

**Capital gains and losses.** Pending enactment of the Capital Gains Tax Act, capital gains derived by companies are included in taxable income and are subject to tax at the applicable corporate income tax rate.

For assets qualifying for capital allowances, capital gains and losses equal the difference between the sales proceeds and the written-down tax value of the assets. For assets not qualifying for capital allowances, capital gains equal the difference between the sales proceeds and the basis of the asset, which is either the cost of the asset or the open market price of the asset at the time of acquisition. The basis of a capital asset may be determined under either of the following methods:

- Applying the consumer price index published by the National Statistical Office at the date of disposal of the asset that is applicable to the year in which the purchase or the construction of the asset was effected or completed

- Using the value of the asset as of 1 April 1992 that was submitted to and accepted by the Commissioner of Taxes, adjusted by the consumer price index published by the National Statistical Office at the date of disposal of the asset

Capital gains are not subject to tax if they are used within 18 months to purchase a qualifying asset similar to or related in service or use to the asset that was sold.

Capital losses on assets not qualifying for capital allowances can be offset only against current or future capital gains. However, such capital losses may be set off against other income in the year in which a company ceases to exist. Capital losses with respect to assets on which capital allowances have been granted are fully deductible from taxable income.

Effective 1 July 2015, gains realized on the transfer of property from an individual to a trust is exempt from income tax.

**Administration.** The tax year runs from 1 July to 30 June. The year of assessment for income tax is any period of 12 months with respect to which tax is chargeable. Financial years ending on or before 31 August are normally treated as relating to the tax year ended in June of that calendar year.

Companies must file an income tax return with the Commissioner General of the Malawi Revenue Authority within 180 days after the end of the year of assessment.

At the beginning of each year of assessment, the company must estimate the tax payable in that year. This estimated tax, which is known as provisional tax, must be paid quarterly by the 25th day of the month following the end of each quarter. The total installments must equal at least 90% of the actual tax liability for the year of assessment.

If the amount of tax unpaid as a percentage of the total tax liability exceeds 10% but does not exceed 50%, a penalty equal to 25% of the unpaid tax is imposed. If the percentage of unpaid tax exceeds 50%, a penalty equal to 30% of the unpaid tax is imposed.

Effective from 1 July 2015, interest on unpaid tax is charged at the prevailing bank lending rate plus 5% per year.

Under a self-assessment system, taxpayers are responsible for calculating their tax liability and submitting tax returns together with any outstanding tax due. The Malawi Revenue Authority accepts the return as filed and does not issue any administrative assessments. If it is not satisfied, it will undertake to verify the correctness of the information contained in the return.

**Dividends.** A final withholding tax at a rate of 10% is imposed on dividends distributed to resident and nonresident companies and individuals. Dividends are not subject to another 10% withholding tax if they are redistributed.

**Tax on deemed interest.** Interest income is deemed with respect to interest-free loans and is subject to income tax, effective from 1 July 2015.

**Withholding taxes.** Certain payments are subject to withholding tax. The tax is withheld by the payer and remitted to the Malawi

Revenue Authority on a monthly basis by the 14th day of the following month. Recipients of the payments treat the withholding tax as an advance payment of tax that offsets income tax subsequently assessed.

Withholding Tax Exemption Certificates may be issued to qualifying taxpayers whose affairs are up to date (that is, companies that have no outstanding tax liabilities or who have made satisfactory arrangements to settle any outstanding tax liabilities). Under the Income Tax Act, no exemption from withholding tax is granted for bank interest, rent, royalties, fees, commission, payments for casual labor and payments to contractors and subcontractors. The Commissioner General may exempt from withholding tax the receipts of certain persons or organizations that are exempt from tax under the Income Tax Act. The following table provides withholding tax rates for payments to residents and to nonresidents with a permanent establishment in Malawi. For tax purposes, resident companies are companies incorporated in Malawi.

<b>Payment</b>	<b>Withholding tax rate (%)</b>
Interest	20
Royalties	20
Rent	15
Payments for supplies to traders and institutions	3
Fees	10
Commissions	20
Payments for carriage and haulage	10
Payments for sales of tobacco and other products	3
Payments to contractors and subcontractors in the building and construction industry	4
Payments for public entertainment	20
Payments of over MWK15,000 for casual labor	20
Payments for services	20

The income of nonresidents arising or deemed to arise from a source within Malawi that is not attributable to a permanent establishment of the nonresident in Malawi is subject to a final withholding tax at a rate of 15% on management fees and other payments and 10% on income derived from a mining project by way of interest, royalties, payments for independent personal services or dividends, unless the income is specifically exempt from tax under a double tax treaty or tax law.

A withholding tax is also imposed on dividends (see *Dividends*).

**Foreign tax relief.** If foreign income that has been taxed in a foreign country is included in taxable income in Malawi, a tax credit is available to reduce the tax payable in Malawi. To qualify for this relief, the company must prove to the Commissioner General that it has paid the tax on the income in the foreign country. On receipt of this proof, the Commissioner General grants the relief.

### **C. Determination of trading income**

**General.** Taxable income is the income reported in the companies' financial statements, subject to certain adjustments.

Amounts received for the right of use or occupation of land and buildings or plant and machinery or for the use of patents, designs,

trademarks or copyrights or other property, which in the opinion of the Commissioner General is of a similar nature, is included in taxable income.

Certain income is specifically exempt from tax under the Taxation Act, including foreign-source income.

Realized foreign-exchange gains and losses are assessable. Unrealized foreign-exchange gains and losses are not taxable or deductible.

Expenditure that is not of a capital nature and losses, wholly and exclusively and necessarily incurred for the purposes of trade or in the production of income, are allowable as deductions in determining the taxable income of a company. For tax purposes, certain expenses are not allowed as deductions, including the following:

- Losses or expenses that are recoverable under insurance contracts or indemnities
- Tax on the income of the taxpayer or interest payable on such tax
- Income carried to any reserve fund or capitalized
- An expense relating to income that is not included in taxable income
- Contributions by an employer to any pension, sickness, accident or unemployment fund that has not been approved by the Commissioner General
- An expense for which a subsidy has been or will be received
- Rent or cost of repairs to premises not occupied for purposes of trade
- Fringe benefits tax and any penalty chargeable on the fringe benefits tax

Expenditure incurred within 18 months before the start of a manufacturing business is allowable as a deduction if it would normally be allowable in the course of business.

Deductions of employer pension contributions are limited to 15% of the employees' gross annual salary.

If land is sold and if timber that is intended for sale is growing on the land, the market value of the timber is included in the seller's taxable income. However, a deduction is allowed. If the land was acquired by the taxpayer for valuable consideration, the Commissioner General apportions a reasonable portion of that consideration to the timber and this amount may be deducted. If no valuable consideration was given for the land, the Commissioner General sets a reasonable value for the standing timber, which may be deducted.

In determining taxable income derived from farming, expenses with respect to the following are allowed as deductions:

- The stamping, leveling and clearing of land
- Works for the prevention of soil erosion
- Boreholes
- Wells
- Aerial and geophysical surveys
- Water control work with respect to the cultivation and growing of rice, sugar or other crops approved by the Minister of Finance and water conservation work (reservoir, weir, dam or embankment constructed for the impounding of water)

**Inventories.** Trading stock and work in progress must be valued on the basis of cost or market sales price.

Livestock may be valued for tax purposes at either cost or market selling value.

### **Capital allowances**

*Investment allowance.* An investment allowance is granted at a rate of 100% of the cost of new or unused industrial buildings and plant or machinery that is used by the company for “manufacturing,” which includes hotels and farming. The rate is 40% if these items are used.

For purposes of investment allowance, plant and machinery does not include motor vehicles intended or adapted for use on roads.

Staff housing does not qualify for the investment allowance.

The investment allowance reduces the value of the asset for purposes of calculating the annual allowance in subsequent years of assessment.

*Initial allowance.* The initial allowance is granted with respect to capital expenditure incurred during the year of assessment on certain assets that are used for the purposes of the company’s trade or business or for farming purposes. “Manufacturers” can claim either initial allowances or investment allowances on industrial buildings and plant and machinery, but they cannot claim both allowances for the same asset. The following are the rates for the initial allowance.

<b>Assets</b>	<b>Rate (%)</b>
Farm improvements, industrial buildings and railway lines	10
Articles (includes working instruments), implements, machinery and utensils (private passenger vehicles are excluded)	20
Farm fencing	33⅓

*Annual allowances.* Annual allowances are claimed on cost in the first year and subsequently on written-down values. For newly constructed commercial buildings, other than industrial buildings, with a cost of at least MWK100 million, the rate is 2.5%. For farm improvements, industrial buildings and railway lines, the rate of the annual allowance is 5%. For farm fencing, the rate is 10%. For other assets, the allowances granted are determined by the Commissioner General. The rates vary between 10% and 40%, depending on the type of asset.

*Mining allowance.* An allowance equal to 100% of expenditure incurred by mining companies may be claimed. The export allowance and transport allowance (see *Special allowances*) may not be claimed by mining companies.

*Balancing charge or allowance.* If an asset for which capital allowances have been claimed and allowed is disposed of during the year of assessment, the proceeds of disposal, if any, are set off against the written-down tax value of the asset, and either a balancing charge or allowance arises.



**Special allowances.** Malawi offers special tax allowances, which are described below.

*Export allowance.* An allowance equal to 25% of taxable income from export proceeds is granted with respect to sales of goods that are classified as nontraditional exports. The Commissioner General has issued a directive providing that the export allowance should be calculated on “taxable” export proceeds less export-related expenses. This remains an area of controversy with much debate surrounding the interpretation of the meaning of “taxable income.” Tea, tobacco, sugar and coffee do not qualify for this allowance.

*International transport allowance.* An allowance equal to 25% of the international transport costs with respect to non-traditional exports may be claimed. Tea, tobacco, sugar and coffee do not qualify for this allowance.

**Research expenditure.** Expenditure not of a capital nature that is incurred by a company on experiments and research with respect to the company’s business are allowed as a deduction from taxable income. Similar deductions apply to contributions, bursaries (broadly, scholarships) and donations to research institutions for the purposes of industrial research or scientific experimental work or education connected with the business of the company.

**Relief for losses.** In general, losses incurred in trading operations may be carried forward and offset against profits in the following six years. Loss carrybacks are not allowed.

Effective from 1 July 2016, losses attributable to a mining start-up expenditure, or to a deductible expenditure incurred before the issuance of a small-scale mining license, a medium-scale mining license, a large-scale mining license or an artisanal mining permit that first applies to the mining project may be deducted in the year that the losses arise and in the following year up to a period of 10 years after the losses arise, or in the following year up to a period of 10 years after a mining permit first applies to the mining project, whichever is later. The taxpayer may choose which losses to deduct in order to gain the most deductions for these and other losses.

**Groups of companies.** Malawi does not allow consolidated returns or provide other types of relief for groups of companies.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax; levied on a wide range of imported and locally manufactured goods and services; collected by the Malawi Revenue Authority from the importer, manufacturer, wholesaler, retailer or provider of services	16.5%
Stamp duties	
Transfer of shares	0%
Sale of real property; imposed on sales proceeds	1.5%
Partnership instruments	MWK20

Nature of tax	Rate
Mortgages, bonds, debentures or covenants exceeding MWK1,000	MWK1.20 per each MWK200
Registration fee of a company	MWK50,000
Property tax; levied by local authorities on the value of industrial, commercial or private properties owned by a taxpayer in the district; payable semiannually	Various
Commercial properties	0.875%
Residential properties	0.518%
Fringe benefits tax; imposed on employers other than the government with respect to fringe benefits provided to employees, excluding employees earning less than MWK360,000 per year	30%
Resource rent tax; imposed on after-tax profits of mining companies if the company's rate of return exceeds 20%	10%

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Malawi is the kwacha (MWK).

The Reserve Bank of Malawi is responsible for enforcing foreign-exchange control regulations in Malawi, which include the following:

- Approval for foreign equity investments in Malawian companies must be obtained from the Reserve Bank of Malawi.
- Foreign currency denominated loans to Malawian entities must be approved by the Reserve Bank of Malawi.

**Tax clearance certificate.** The following transactions require a tax clearance certificate from the Commissioner General:

- Transfer of land and buildings
- Renewal of certificate of fitness for commercial vehicles
- Renewal of Business Residence Permit
- Renewal of professional business licenses and permits of medical practitioners, dentists, legal practitioners (lawyers), engineers and architects who are engaged in a private practice or in partnership with another private practitioner
- Renewal of a certificate of registration under the National Construction Industry Act
- Transfer of a company as a going concern
- Externalization of funds to nonresident service providers whose source is deemed to be Malawi
- Renewal of temporary employment permits, business licenses, tourism licenses, telecommunications licenses and energy licenses
- Renewal, extension or transfer of mining licenses, or transfers of mineral rights by the ministry responsible for energy and natural resources
- Change of ownership of company
- Renewal of registration of public transport conveyances by the Road Traffic Directorate

**Transfer pricing.** Under the Taxation Act, if a person not resident in Malawi carries on business with a person resident in Malawi

and if in the course of such business it is arranged that the business of the person resident in Malawi produces either no profits or less profit than might be expected had no such relationship existed, the profits of the resident person from that business are deemed to be the amount that might have been expected to accrue if the business had been conducted by independent persons.

Effective from 1 July 2017, new transfer-pricing provisions were introduced to strengthen the prevention of tax avoidance. The new regulations provide documentation rules and also indicate that any person engaged in transfer pricing should maintain documentation coinciding with transactions. The documentation required under these regulations must be submitted to the Commissioner General within 45 days of a written request being issued by the Commissioner General. Any person who fails to comply with the notice is subject to an initial penalty not exceeding the Malawi kwacha equivalent of USD1,400 at the prevailing exchange rate and further penalties not exceeding the Malawi kwacha equivalent of USD2,100 at the prevailing exchange rate for each month that the failure continues.

**Debt-to-equity rules.** Malawi has introduced thin-capitalization rules, which are effective from 1 July 2015. However, the debt-to-equity ratio has been stipulated only for the mining industry, for which the debt-to-equity ratio is set at 3:1 for the first five years in which a mining permit applies to the project and 1.5:1 thereafter. The Minister of Finance is responsible for prescribing the ratio for the other industries, depending on circumstances, and effecting the tax adjustments that are accordingly required for ratios higher than the prescribed ratios.

## **F. Tax treaties**

Malawi has entered into double tax treaties with France, Kenya, the Netherlands, Norway, South Africa, Sweden, Switzerland and the United Kingdom. The treaty with Kenya is not operational. The Malawi-Netherlands double tax treaty was suspended, effective from 1 January 2014, and a new double tax treaty is being drafted. A new tax treaty between Malawi and Denmark has been concluded but not yet promulgated. The governments of Malawi and Mauritius are discussing a double tax treaty.

The treaties vary in the definition of “exempt income.”

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**A. At a glance**

Corporate Income Tax Rate (%)	24 (a)
Real Property Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	24 (a)
Withholding Tax (%)	
Dividends	0
Interest	15 (c)(d)
Royalties from Patents, Know-how, etc.	10 (c)
Distributions by Real Estate	
Investment Trusts and Property Trust Funds	10/24 (e)
Payments to Nonresident Contractors	13 (f)
Payments for Specified Services and Use of Movable Property	10 (g)

Other Income	10 (h)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (i)

- (a) The main rate of corporate tax is 24%. Effective from the 2017 year of assessment, the rates for resident companies incorporated in Malaysia that have paid-up capital with respect to ordinary shares of MYR2,500,000 or less at the beginning of the tax-basis period and that satisfy other specified conditions (small and medium enterprises [SMEs]) are 18% on the first MYR500,000 of chargeable income and 24% on the remaining chargeable income. The above rates do not apply to companies carrying on upstream oil and gas activities under a production-sharing contract, which are taxed at a rate of 38%. For the 2017 and 2018 years of assessment only, the 24% corporate tax rate is reduced by one to four percentage points, based on an increase in chargeable income, as compared to the immediate preceding year of assessment. For further details, see Section B.
- (b) Real property gains tax is imposed on gains derived from disposals of real property or shares in real property companies. The maximum rate is 30% (see Section B).
- (c) This is a final tax applicable only to payments to nonresidents.
- (d) Bank interest paid to nonresidents without a place of business in Malaysia is exempt from tax. Interest paid to nonresident companies on government securities and on *sukuk* or debentures issued in Malaysia ringgits, other than convertible loan stock, approved or authorized by, or lodged with the Securities Commission, is exempt from tax. Effective from the 2017 year of assessment, the exemptions do not apply to interest paid or credited to a company in the same group.
- (e) The 24% withholding tax is imposed on distributions to nonresident corporate unit holders by Real Estate Investment Trusts (REITs) and Property Trust Funds (PTFs) that have been exempted from Malaysian income tax as a result of meeting certain distribution conditions. Distributions by such REITs and PTFs to individuals, trust bodies and other non-corporate unit holders are subject to withholding tax at a rate of 10%.
- (f) This withholding tax is treated as a prepayment of tax on account of the final tax liability.
- (g) This is a final tax applicable to payments to nonresidents for specified services rendered in Malaysia and to payments for the use of movable property excluding payments made by Malaysian shipping companies for the use of ships under voyage charter, time charter or bare-boat charter. The rate is reduced under certain tax treaties. The scope of the withholding tax was widened for a limited period such that amounts paid or credited to nonresidents for services rendered from 17 January 2017 to 5 September 2017 were subject to withholding tax even if such services were rendered outside Malaysia.
- (h) Withholding tax is imposed on "other income," which includes, among other payments, commissions and guarantee fees.
- (i) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident and nonresident companies are taxed only on income accruing in or derived from Malaysia. Resident companies engaged in banking, insurance, shipping or air transport are taxable on their worldwide income. A company is resident in Malaysia if its management and control is exercised in Malaysia; the place of incorporation is irrelevant.

**Rates of corporate tax.** Resident companies incorporated in Malaysia that have paid-up capital with respect to ordinary shares of MYR2,500,000 or less (SMEs) are taxed at a rate of 18% on their first MYR500,000 of chargeable income with the balance taxed at 24%. This concessionary tax rate does not apply if the company controls, or is controlled directly or indirectly by, another company that has paid-up capital with respect to ordinary shares of more than MYR2,500,000 or is otherwise related

directly or indirectly to another company that has paid-up capital with respect to ordinary shares of more than MYR2,500,000.

For the 2017 and 2018 years of assessment only, the corporate income tax rate on the incremental chargeable income derived by a “qualifying person” from business sources (that is, not passive income), as compared to the immediate preceding year of assessment, is reduced if certain conditions are met. The following shows the tax rate reductions under this measure.

Percentage increase in chargeable income compared to the preceding year of assessment	Corporate income tax rate reduction	Corporate income tax rate after rate reduction
Less than 5%	None	24%
5% to 9.99%	1%	23%
10% to 14.99%	2%	22%
15% to 19.99%	3%	21%
20% and above	4%	20%

Special rates apply to nonresident companies on income from interest (15%) and from royalties, specified services rendered in Malaysia and payments for the use of movable property (10%). The scope of the withholding tax was widened for a limited period such that amounts paid or credited to nonresidents for services rendered from 17 January 2017 to 5 September 2017 were subject to withholding tax even if such services were rendered outside Malaysia. Rental payments for ships made by Malaysian shipping companies (as defined) for voyage charter, time charter or bare-boat charter are exempt from withholding tax. Withholding tax (10%) is imposed on “other income” derived by nonresident companies from Malaysia, which may include, among other payments, commissions and guarantee fees, to the extent that these payments are not business income to the recipient. For treaty withholding tax rates applicable to interest and royalties, see Section F.

For resident and nonresident companies carrying on upstream oil and gas operations under a production-sharing contract, petroleum income tax is charged at a rate of 38% instead of income tax at the above rates.

**Tax incentives.** Malaysia offers a wide range of incentives such as tax holidays or investment allowances, which are granted to promote investments in selected industry sectors and/or promoted areas.

**Labuan international business and financial center.** In 1990, the Malaysian government enacted legislation that created a business and financial center on the island of Labuan with a separate and distinct tax and regulatory regime.

A Labuan company is required to have one director that may be a foreign corporation and at least one secretary who must be an officer of a Labuan trust company.

Labuan companies may transact business with Malaysian residents and may hold shares, debt obligations or other securities in domestic companies. However, Labuan companies that transact



with Malaysian residents may not benefit from the preferential Labuan tax regime (with certain exceptions).

Labuan companies are subject to tax at a rate of 3% on their net audited profits derived from their Labuan trading activities (as defined).

Instead of paying tax at the 3% rate, Labuan companies may elect to pay a fixed annual tax of MYR20,000 on their Labuan trading activities. Labuan trading activities include banking, insurance, trading, management, licensing and shipping operations. Income derived from wholly non-trading activities, such as dividends and interest, is exempt from tax.

Labuan companies may alternatively elect to be taxed under the Income Tax Act, 1967 (ITA). If they make such election, the rules described above in *Corporate income tax* and *Rates of corporate tax* apply. Labuan companies are generally exempt from the obligation to withhold tax on payments made to nonresidents.

Labuan companies may open and maintain bank accounts in foreign currency in Malaysia or abroad. In general, no restrictions are imposed on the movement of funds through these accounts.

Similar to non-Labuan companies, Country-by-Country (CbC) reporting regulations for Labuan entities have been legislated and apply from 1 January 2017 (see *Transfer pricing* in Section E for further details). Penalty provisions have also been introduced for failure to comply with the CbC reporting.

**Real property gains tax.** Real property gains tax is levied on capital gains derived from disposals of real property located in Malaysia and shares in closely controlled companies with substantial real property interests. The tax applies to gains derived by residents and nonresidents. The following rates apply to disposals by companies, effective from 1 January 2014.

Time of disposal	Rate (%)
Disposal within 3 years after the acquisition date	30
Disposal in the 4th year after the acquisition date	20
Disposal in the 5th year after the acquisition date	15
Disposal in the 6th or subsequent year after the acquisition date	5

Different rates apply to disposals by persons other than companies.

Purchasers of real property located in Malaysia or shares in real property companies must withhold tax at a rate of up to 3% of the purchase price, except in limited circumstances. Effective from 1 January 2018, the rate of 3% is increased to 7% for persons disposing of real property who are neither citizens nor permanent residents of Malaysia. Losses incurred on disposals of real property may be carried forward indefinitely to offset future real property gains. Losses on the disposal of shares in real property companies are disregarded.

**Administration.** For tax purposes, companies may adopt their accounting year as the basis period for a year of assessment. Income tax is chargeable in the year of assessment on the income earned in the basis period for that year of assessment.

Malaysia has a self-assessment regime under which companies must file their tax returns within seven months after the end of their accounting period. A tax return is deemed to be an assessment made on the date of filing the return. Effective from the 2014 year of assessment, the tax return must be filed electronically and based on audited accounts.

Companies must provide an estimate of their tax payable no later than 30 days before the beginning of their basis period (different rules may apply to a company in the year of assessment in which it commences operations). The estimated tax is payable in 12 equal monthly installments by the 15th day of each month beginning in the second month of the basis period. SMEs that begin their operations during a year of assessment are exempt from paying their tax by installments in the year of assessment in which they commence business and in the immediately following year of assessment. They are required only to settle the tax due when they file their income tax returns. All companies may revise their estimate of tax payable in the sixth and/or ninth months of their basis period. Effective from the 2018 year of assessment, estimates and revised estimates may only be filed electronically.

Companies must pay any balance of tax due by the tax filing deadline.

**Dividends.** Effective from the 2008 year of assessment, a single-tier system of taxation replaced the full imputation system. Under the single-tier system, dividends paid, credited or distributed by a company are exempt from tax in the hands of the shareholders. However, a six-year transitional rule (which has expired) allowed companies to continue to pay franked dividends to their shareholders up to 31 December 2013 under the prior imputation system by using corporate income tax that has been paid or deemed paid up to 31 December 2007. Any balance remaining in the dividend franking account after 31 December 2013 is disregarded. At any time during the transitional period, a company could have made an irrevocable election to proceed to the single-tier system and forego the dividend franking credit balance.

**Foreign tax relief.** Malaysian law allows both bilateral and unilateral foreign tax relief, subject to conditions. However, because Malaysia generally does not tax foreign-source income, foreign tax relief may not always be applicable. Malaysian resident companies that are engaged in banking, insurance, shipping or air transport are taxed on their worldwide income and may be more likely to claim foreign tax relief.

### **C. Determination of trading income**

**General.** The assessment is based on the audited financial statements, subject to certain adjustments. A nonresident company trading in Malaysia prepares the financial statements of its Malaysian branch in accordance with the Malaysian Companies Act. This act sets out disclosure requirements for financial statements, but does not prescribe the accounting treatment for specific transactions. Malaysian Financial Reporting Standards, which are based on the International Financial Reporting Standards (IFRS), govern the accounting treatment for transactions.

Deductions are allowed for expenses incurred wholly and exclusively in the production of income and for bad debts. No deduction is allowed for the book depreciation of fixed assets, but statutory depreciation (capital allowances) is granted. In general, the cost of leave passages is not deductible. Limits on the deductibility of entertainment expenses may be imposed. However, a full deduction for entertainment expenses may be claimed in specified circumstances. Double deductions are available with respect to certain expenses relating to the following:

- Participation at approved trade fairs, exhibitions or trade missions
- Maintenance of overseas trade offices
- Research and development

**Inventory.** Trading inventory is valued at the lower of cost or net realizable value. Cost must be determined under the first-in, first-out (FIFO) method; the last-in, first-out (LIFO) method is not accepted.

**Provisions.** General provisions and reserves for anticipated losses or contingent liabilities are not deductible.

### Capital allowances

*Plant and machinery.* Depreciation allowances are given on capital expenditure incurred on the acquisition of plant and machinery used for the purposes of trade or business. An initial allowance of 20% and an annual allowance ranging from 10% to 20% are granted for qualifying expenditure.

*Industrial buildings.* An initial allowance of 10% and an annual allowance of 3% are granted for qualifying expenditure on the construction or purchase of industrial buildings. As a result of these allowances, qualifying expenditure on industrial buildings is fully written off in the 30th year after the year of construction or purchase. Certain buildings may qualify for higher rates of industrial building allowances. For purposes of the allowances, industrial buildings include hotels.

Effective from the 2016 year of assessment, for certain types of buildings, industrial building allowances are available only to taxpayers that own the building and operate the relevant business in the building (that is, lessors may not be eligible to claim industrial building allowances with respect to certain buildings).

*Child care centers.* An annual allowance of 10% is granted for expenditure incurred for the construction or purchase of buildings used as child care facilities for employees.

*Employee housing.* An annual allowance of 10% is granted for expenditure incurred by manufacturers and certain approved service companies for the purchase or construction of buildings for the accommodation of employees. Buildings occupied by management or administrative staff do not qualify for this allowance.

*Educational institutions.* An annual allowance of 10% is granted for expenditure on the construction or purchase of buildings used as schools or educational institutions or for industrial, technical or vocational training.

*Motor vehicles.* Capital expenditure incurred on motor vehicles qualifies for an annual allowance of 20%. Qualifying capital expenditure on non-commercial vehicles is restricted to MYR100,000 per vehicle if the vehicle is new and if the total cost of the vehicle does not exceed MYR150,000. Qualifying capital expenditure is restricted to MYR50,000 per vehicle if the vehicle is not new or costs more than MYR150,000.

*Office equipment.* An initial allowance of 20% and an annual allowance of 10% are granted for capital expenditure on office equipment.

*Computer equipment.* An initial allowance of 20% and an annual allowance of 80% are granted for capital expenditures on information and communication technology (ICT) equipment and computer software. These accelerated capital allowance rates are available up to the 2016 year of assessment, and certain conditions must be met to benefit from these accelerated capital allowances. Effective from the 2017 year of assessment, it has been proposed that ICT equipment and computer software qualify for a 20% initial allowance and a 20% annual allowance. It has been further proposed that, effective from the 2018 year of assessment, these capital allowance rates apply to other expenditures such as consultation fees, licensing fees and incidental fees for the development of customized software.

*Small value asset.* For assets with a value not exceeding MYR1,300, a 100% allowance is given in the year in which the asset is acquired. However, the total allowance granted for such assets is capped at MYR13,000 for non-SMEs.

*Agriculture.* Annual allowances are given on capital expenditure incurred on new planting (50%), roads or bridges (50%), farm buildings (10%) and buildings for accommodation of farm workers (20%). Accelerated allowances may be allowed at the discretion of the Minister of Finance.

*Forestry.* Annual allowances are given on capital expenditure incurred for purposes of extraction of timber from a forest. Effective the 2015 year of assessment, the capital allowances are available only to persons with a concession or license to extract timber. The rates are 10% for a road or building and 20% for a building for accommodation of employees.

*Other matters.* Capital allowances are generally subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. To the extent sales proceeds are less than the tax-depreciated value, an additional allowance is given.

**Relief for trading losses.** Current-year trading losses may offset all other chargeable income of the same year. Unused losses may be carried forward indefinitely for offset against chargeable income from business sources only. Excess capital allowances may not be offset against other chargeable income of the same year, but may be carried forward indefinitely for offset against income from the trade that generated the capital allowances.

The carryforward of losses and excess capital allowances is subject to the shareholders remaining substantially (50% or more) the

same at the end of the year in which the losses or capital allowances arose and on the first day of the year of assessment in which the losses or unabsorbed capital allowances are to be used. If the shareholder of the loss company is another company, the loss company is deemed to be held by the shareholders of that other company. Under an administrative concession, the authorities have indicated that they are not enforcing the shareholding test except in the case of dormant companies. In addition, under the concession, the substantial change in shareholder rule only applies to changes in the immediate shareholder of the loss company. As a result, unused losses of non-dormant companies may continue to be carried forward indefinitely even if a substantial change in shareholders occurs.

**Groups of companies.** Under group relief provisions, 70% of current-year adjusted losses may be transferred by one company to another company in a group. A group consists of a Malaysian-incorporated parent company and all of its Malaysian-incorporated subsidiaries. Two Malaysian-incorporated companies are members of the same group if one is at least 70% owned by the other, or both are at least 70% owned by a third Malaysian-incorporated company. To obtain group relief, the recipient of the losses and the transferor of the losses must have the same accounting period and each must have paid-up capital in respect of ordinary shares exceeding MYR2,500,000. Other conditions also apply.

#### **D. Goods and services tax**

Goods and services tax (GST) is imposed at a rate of 6%. It is imposed on any supply of goods and services, except an exempt, zero-rated or out-of-scope supply, made in Malaysia by a taxable person. A business making taxable supplies must register for GST if its taxable turnover in any 12-month period exceeds MYR500,000 or is expected to exceed MYR500,000.

#### **E. Miscellaneous matters**

**Foreign-exchange controls.** Over the years, the foreign exchange administration policies have been progressively liberalized and simplified. Nonresidents are now free to make direct or portfolio investments in Malaysia in either ringgits or foreign currency. No restrictions are imposed on the repatriation of capital, profits or income earned in Malaysia.

However, the ringgit may not be traded overseas, and payments outside Malaysia should be made in foreign currency. Payments between Malaysian residents must be made in Malaysian currency.

Nonresidents may obtain any amount of foreign currency credit facilities from licensed onshore banks and from nonbank residents that do not have domestic credit facilities.

Nonresidents may lend in foreign currency to residents if the resident's total foreign currency borrowings are within permitted limits. However, no limits are imposed on loans in foreign currency by nonresident entities within a group of entities (as defined) to resident companies or on loans in foreign currency by nonresident suppliers to resident companies to finance purchases from the nonresident suppliers.

**Foreign-equity restrictions.** Foreign-equity restrictions have been liberalized over the years. As a result, no restrictions are imposed on the ownership of most companies except those in certain regulated industries.

**Anti-avoidance legislation.** Legislation permits the tax authorities to disregard or vary any transaction that is believed to have the effect of tax avoidance.

**Transfer pricing.** The tax authorities have issued transfer-pricing legislation, rules and guidelines requiring taxpayers to determine and apply an arm's-length price in their intercompany transactions. The transfer-pricing rules also require the preparation of contemporaneous transfer-pricing documentation to substantiate the arm's-length contention.

The guidelines provide a detailed list of information, documentation and records with respect to related-party transactions that need to be compiled to meet the contemporaneous documentation requirement. The guidelines are based on the arm's-length principle set forth in the Organisation for Economic Co-operation and Development (OECD) transfer-pricing guidelines and provide several methods for determining an arm's-length price.

In addition, companies carrying out cross-border transactions with associated persons may apply for an advance pricing arrangement (APA) from the tax authorities subject to conditions. Specific measures previously existed in the tax law to address thin-capitalization adjustments. However, the implementation of the thin-capitalization section was deferred until 31 December 2017, and the thin-capitalization section was ultimately repealed, effective from 1 January 2018. The government has now proposed that earnings-stripping rules (ESR) be introduced in place of the thin-capitalization rules. The ESR will be based on the principles in Action 4 of the OECD's Base Erosion and Profit Shifting Plan and will be effective from 1 January 2019. Further details will be released over time.

Penalty provisions have been introduced for failure to comply with CbC reporting that is facilitated under the Mutual Administrative Assistance arrangements, in line with Action 13 of the OECD's Base Erosion and Profit Shifting Plan and other exchange-of-information requirements. The penalty provisions are effective from 17 January 2017. The rules to introduce CbC reporting have been legislated and apply from 1 January 2017, with the first filing of the CbC report required by 31 December 2018.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a)	Interest	Royalties
	%	%	%
Albania	—	10	10
Australia	—	15	10
Austria	—	15	10
Bahrain	—	5	8
Bangladesh	—	15	10 (d)
Belgium	—	10	10

	Dividends (a) %	Interest %	Royalties %
Bosnia and Herzegovina	—	10	8
Brunei Darussalam	—	10	10
Canada	—	15	10 (d)
Chile	—	15	10
China (mainland)	—	10	10
Croatia	—	10	10
Czech Republic	—	12	10
Denmark	—	15	10
Egypt	—	15	10
Fiji	—	15	10
Finland	—	15	10 (d)
France	—	15	10 (d)
Germany	—	10	7
Hong Kong SAR	—	10	8
Hungary	—	15	10
India	—	10	10
Indonesia	—	10	10
Iran	—	15	10
Ireland	—	10	8
Italy	—	15	10 (d)
Japan	—	10	10
Jordan	—	15	10
Kazakhstan	—	10	10
Korea (South)	—	15	10 (d)
Kuwait	—	10	10
Kyrgyzstan	—	10	10
Laos	—	10	10
Lebanon	—	10	8
Luxembourg	—	10	8
Malta	—	15	10
Mauritius	—	15	10
Mongolia	—	10	10
Morocco	—	10	10
Myanmar	—	10	10
Namibia	—	10	5
Netherlands	—	10	8 (d)
New Zealand	—	15	10 (d)
Norway	—	15	—
Pakistan	—	15	10 (d)
Papua New Guinea	—	15	10
Philippines	—	15	10 (d)
Poland (c)	—	15	10 (d)
Qatar	—	5	8
Romania	—	15	10 (d)
San Marino	—	10	10
Saudi Arabia	—	5	8
Senegal (c)	—	10	10
Seychelles	—	10	10
Singapore	—	10	8
Slovak Republic	—	10	10
South Africa	—	10	5
Spain	—	10	7
Sri Lanka	—	10	10
Sudan	—	10	10

	<b>Dividends (a)</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Sweden	—	10	8
Switzerland	—	10	10 (d)
Syria	—	10	10
Taiwan (b)	—	10	10
Thailand	—	15	10 (d)
Turkey	—	15	10
Turkmenistan	—	10	10
USSR (e)	—	15	10
United Arab Emirates	—	5	10
United Kingdom	—	10	8
Uzbekistan	—	10	10
Venezuela	—	15	10
Vietnam	—	10	10
Zimbabwe	—	10	10
Non-treaty jurisdictions	—	15	10

- (a) No dividend withholding tax is imposed in Malaysia. However, for dividends paid under the transitional imputation system, tax would have been deducted at source at the prevailing corporate tax rate for that year of assessment (see Section B).
- (b) This is the income tax treaty between the Taipei Economic and Culture Office (TECO) in Malaysia and the Malaysian Friendship and Trade Centre (MFTC) in Taipei.
- (c) These treaties have been ratified, but they are not yet in force.
- (d) Approved royalties are exempt from Malaysian tax.
- (e) Malaysia is honoring the USSR treaty with respect to the Russian Federation. Malaysia has entered into separate tax treaties with Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan.

Malaysia has also entered into limited agreements covering only aircraft and ship transportation with Argentina and the United States.



# Maldives

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## A. At a glance

Corporate Income Tax Rate (%)	0
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0
Withholding Tax (%)	10*

\* The 10% withholding tax is imposed on specified payments made to persons not resident in the Maldives. These payments include the following:

- Management fees
- Fees for technical services
- Fees for the use of computer software
- Payments for performances by public entertainers
- Rents paid for the viewing of cinematographic films in the Maldives
- Royalties and rents paid for the use of plant, machinery, equipment or property
- Payments for carrying on research and development
- Fees for personal services
- Other commissions or fees

## B. Taxes on corporate income and gains

Although a tax specifically applicable to corporate profits does not currently apply, a tax of 15% is imposed on the business profits of any "person" deemed to be carrying on a business. A "person" includes, but is not limited to, corporations, partnerships and individuals. The taxable profits or losses of a partnership for a year are computed as if it were a body corporate.

Also, resident and nonresident banks are subject to a tax of 25% on taxable profits.

## C. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Goods and Services Tax; the tax is passed on to the end consumer	6
Tourism Goods and Services Tax (TGST); applies to goods and services supplied by tourist establishments	12

Nature of tax	Rate (%)
Stamp duty; imposed on all imports and exports	0.1
Customs duties; imposed on imports; rates vary according to the type of import	Various
Remittance tax; imposed on money transferred out of the Maldives by foreigners employed in the Maldives, which for this purpose are foreigners with valid work visas; banks and nonbank financial institutions that provide the service of transferring money out of the Maldives are responsible for collecting and paying the remittance tax to the Maldivian Inland Revenue Authority	3

#### **D. Foreign-exchange controls**

The Maldivian currency is the rufiyaa (MVR).

The Maldives does not impose any strict foreign-exchange controls. Businesses may remit all of their net profits after payment of business profits tax.

# Malta

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## A. At a glance

Corporate Income Tax Rate (%)	35
Capital Gains Tax Rate (%)	35 (a)
Branch Tax Rate (%)	35
Withholding Tax (%)	0 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) See Section B.

(b) See Section F.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies that are considered to be ordinarily resident and domiciled in Malta are subject to income tax on their worldwide income. Companies incorporated in Malta are

considered ordinarily resident and domiciled in Malta. In addition, companies incorporated outside Malta whose management and control are exercised in Malta are considered to be resident but not domiciled in Malta and are subject to tax in Malta under the remittance basis of taxation.

**Rates of corporate tax.** Income tax is the only tax imposed on the profits of companies. The standard rate of income tax is 35%.

**Tax incentives.** Tax incentives are offered in the Malta Enterprise Act and in regulations to the act, as well as in the Income Tax Act.

The Malta Enterprise Act contains several incentives for the promotion and expansion of business, covering a wide range of sectors and activities. The incentives available under the act may be divided into six categories, which are described in the following six subsections. Other tax incentives available in Malta are discussed in the subsequent subsections.

*Access to finance.* The Micro Guarantee Scheme provides eligible undertakings with a guarantee of up to 70% on loans, which may be used to finance projects leading to business enhancement, growth and development. The guarantee may be used to cover a specific percentage of a loan that may not exceed EUR100,000, unless the applicant is a family business, in which case the guarantee may be used to cover a specific percentage of a loan that may not exceed EUR500,000. Soft loans (loans at lower interest rates) are available to manufacturing enterprises covering 33% of an approved project but they may not exceed 75% of the cost of plant, machinery and equipment. Loan interest subsidies and royalty financing are available for highly innovative projects.

*Investment aid.* Companies engaged in specified activities can benefit from tax credits regarding capital expenditure, job creation or reinvestment of profits derived from trade or business in an approved project.

*Small and medium-sized business development.* Grants are available for the creation and development of innovative start-ups and the development of forward-looking small and medium-sized businesses carrying on or intending to carry out an activity that may contribute to the economic development of Malta, provided that certain conditions are fulfilled. The Malta Enterprise Corporation also provides assistance regarding the hiring of experts and the use of information communications technology or e-business (the conduct of business through information technology systems). Grants under this scheme are currently not available or under review. Businesses should monitor any amendments.

*Research and development and innovation programs.* Fiscal incentives and cash grants are offered to stimulate innovative enterprises to engage in research and development.

*Enterprise support.* Assistance is offered to businesses to support them in developing their international competitiveness, improving their processes and networking with other businesses.

*Employment and training.* The Employment and Training Corporation (ETC) is taking over and administering the employment

and training incentives. Enterprises are supported in recruiting new employees and training their staff. These incentives help generate more employment opportunities and training activities.

*Income Tax Act.* The Income Tax Act provides for a deduction of 150% of certain research and development expenditure incurred.

*Shipping.* Maltese shipping law is modeled on British legal sources by incorporating measures containing a system of mortgages that provide excellent security. However, Maltese law also includes measures offering attractive fiscal packages to the shipping industry.

An organization qualifies as a shipping organization if it engages in one or more specified activities and if it obtains a license from the Registrar-General to enable it to carry on such activities. The following are the specified activities:

- The ownership, operation (under charter or otherwise), administration and management of a ship or ships registered as a Maltese ship under the Merchant Shipping Act and the carrying on of related financial, security and commercial activities
- The ownership, operation (under charter or otherwise), administration and management of a ship or ships registered under the flag of another state and the carrying on of related financial, security and commercial activities
- The holding of shares or other equity interests in Maltese or foreign entities that are established for any of the purposes stated in the law and the carrying on of related financial, security and commercial activities
- The raising of capital through loans, the issuance of guarantees or the issuance of securities by a company if the purpose of such activity is to achieve the objectives of the shipping organization itself or for other shipping organizations within the same group
- The carrying on of such other activities within the maritime sector that are prescribed in regulations

A shipping organization may be established as a limited liability company (public or private), a foreign corporate body that has established a place of business in Malta or another type of entity specified in the law.

If the activities of a shipping organization are restricted to the activities and related activities described above, the following favorable tax treatment applies:

- No income tax is imposed on the income derived from the shipping activities of a licensed shipping organization.
- No income tax is imposed on gains arising on the liquidation, redemption, cancellation or any other disposal of shares, securities or other interests, including goodwill, held in a licensed shipping organization owning, operating, administering or managing a tonnage-tax ship while the ship is a tonnage-tax ship.
- No income tax is imposed on interest or other income paid to a person with respect to the financing of the operations of licensed shipping organizations.

Income derived by a ship manager from ship management activities is deemed to be income derived from “shipping activities” and is exempt from income tax under the Income Tax Act if the following conditions are satisfied:

- The company maintains proper accounts relating to its shipping activities.
- The ship manager pays an annual tonnage tax to the Registrar-General.

For these purposes, “shipping activity” is the international carriage of goods or passengers by sea or the provision of other services to or by a ship as may be ancillary to such activities or associated with such activities, including the ownership, chartering or other operation of a ship engaged in all or any of the above activities or as otherwise may be prescribed.

Income derived by a licensed shipping organization from the sale or transfer of a tonnage-tax ship or from the disposal of a right to a ship, which when delivered or completed would qualify as a tonnage-tax ship, is exempt from tax. In 2012, the European Union (EU) Commission initiated a state-aid investigation into Malta’s tonnage tax system. This investigation is still ongoing and, for the moment, the tonnage tax system is suspended.

*Collective Investment Schemes or Funds.* Collective Investment Schemes or Funds must be licensed under the Investment Services Act or notified under the Investment Services Act (List of Notified AIFs) Regulations. Collective Investment Schemes usually take the form of corporate funds, including open-ended (SICAVs) and close-ended funds, or non-corporate funds, such as unit trusts.

The income of Collective Investment Schemes (other than income from immovable property located in Malta and investment income) is exempt from tax. In addition, prescribed funds are subject to withholding tax on their local investment income. These funds are subject to a 15% final withholding tax on bank interest received and to a 10% final withholding tax on other investment income received, such as interest on bonds and government stocks (units issued by the government to which the general public is invited to subscribe). Under regulations issued by the Minister of Finance, prescribed funds are funds whose assets in Malta amount to 85% or more of their total assets. Capital gains derived by funds from disposals of investments and assets are also exempt from tax.

Capital gains derived by unit holders on disposals of their units in prescribed funds listed on the Malta Stock Exchange are exempt from tax. Unit holders in unlisted prescribed funds are subject to tax on their gains. Tax at 15% is withheld from the capital gains realized by resident investors on certain disposals of listed shares in non-prescribed funds. For nonresident Collective Investment Schemes, the withholding tax provisions apply only if the disposal of the shares is effected through an authorized financial intermediary. If the disposal of shares in nonresident non-prescribed funds is not effected through an authorized financial intermediary, no withholding tax is due and any capital gains must be disclosed by the resident investor in the individual’s tax return and taxed at the normal rates of income tax, up to a maximum of 35%.

*Aviation income.* Income derived from the ownership, lease or operation of aircraft and aircraft engines used in the international

transport of passengers or goods (aviation income) is deemed to arise outside Malta regardless of whether the aircraft is operated from Malta. Consequently, a company that is incorporated outside Malta but managed and controlled in Malta (resident but not domiciled for income tax purposes, or a “non-dom co”) must pay tax on income derived from its aviation income on a remittance basis. Aviation income that is not received in Malta is not taxed in Malta. This implies that a non-dom co may control its Maltese tax liability through its remittances and that a non-dom co deriving aviation income that is not received in Malta is exempt from tax on its aviation income.

**Notional interest deduction.** The notional interest deduction (NID) is a special tax deduction available to undertakings. Undertakings can claim a deduction of notional interest against chargeable income with respect to risk capital. The deduction aims to reduce the debt bias by approximating neutrality between debt and equity financing.

The NID for a year of assessment is calculated as follows:

$$Y = A \times B$$

Y represents the NID that may be claimed in the relevant year of assessment.

A represents the reference rate that is equivalent to the risk-free rate plus a premium of 5%. The risk-free rate is determined by the current yield to maturity on Malta government stocks with a remaining term of approximately 20 years.

B represents the amount of risk capital. For companies and partnerships resident in Malta, risk capital consists of the total equity disclosed in the undertaking’s financial statements as of the end of that particular financial year. This includes share or partnership capital, any share premium, positive retained earnings, loans or other debt incurred by the undertaking that does not bear interest, and any other reserves resulting from a contribution to the undertaking. For permanent establishments of nonresident companies or partnerships, risk capital consists of the capital of the undertaking that is attributable to the permanent establishment.

The NID that may be claimed during the year of assessment is capped at an amount equal to 90% of the undertaking’s chargeable income gross of the NID for the year preceding the year of assessment (excluding any gross-up for flat-rate foreign tax credit purposes [see *Foreign tax relief*]). At the option of the undertaking, any excess NID may be carried forward indefinitely for deduction and added to the deduction claimed for subsequent years until it is absorbed.

If an undertaking claims an NID, the shareholder or partner of the undertaking claiming an NID is deemed to have received in that year an amount of interest income equal to the NID claimed by the undertaking for the relevant year of assessment.

**Capital gains.** Income tax is imposed on capital gains derived from the transfer of ownership of the following assets only:

- Immovable property. However, gains on transfers of immovable property or rights over immovable property that are subject to

the new property transfer tax (see *Property transfer tax*) are exempt from income tax.

- Securities (company shares that do not provide for a fixed rate of return, units in Collective Investment Schemes and units relating to linked long-term business of insurance [life insurance contracts under which benefits are wholly or partially determined by reference to the value of, or income from, property]).
- Goodwill, business permits, copyrights, patents, trademarks, trade names and any other intellectual property.
- Beneficial interests in trusts.
- Full or partial interests in partnerships.

In certain cases, value shifting and degrouping result in taxable capital gains.

If a person acquires or increases a partnership share, a transfer of an interest in the partnership to that partner from the other partners is deemed to occur, and is accordingly subject to tax.

For purposes of the capital gains rules, “transfer” has a broad definition that is not restricted to sale. It also includes any assignment or cession of any rights, reduction of share capital, liquidation or cancellation of units or shares in Collective Investment Schemes and other types of transactions. The definition does not include inheritance.

Transfers that are exempt from tax include the following:

- Donations to philanthropic institutions
- “Emphyteutical” grants for periods of less than 50 years (the Civil Code defines “emphyteusis” as a contract under which one of the contracting parties grants to the other, in perpetuity or for a time, a tenement for a stated annual rent or ground rent, which the grantee agrees to pay to the grantor, either in money or in kind, as an acknowledgment of the tenure)
- Transfers of chargeable assets between companies belonging to the same group of companies
- Transfers by nonresidents of securities in Maltese companies that are not primarily engaged in holding immovable property in Malta
- Transfers of securities listed on the Malta Stock Exchange as well as transfers of units relating to linked long-term business of insurance if the benefits derived by the units are wholly determined by reference to the value of, or income from, securities listed on the Malta Stock Exchange
- Transfers by nonresidents of units in Collective Investment Schemes

Rollover relief for assets used in business is also available if the asset has been used in the business for at least three years and if it is replaced within one year by an asset used only for a similar purpose.

Taxable capital gains are included in chargeable income and are subject to income tax at the normal income tax rates. Capital losses may be set off only against capital gains. Trading losses may be carried forward to offset capital gains in future years.

Provisional tax of 7% of the consideration or of the value of the donation must be paid by a seller on the transfer of property if the



transaction is subject to the capital gains regime. The Commissioner for Revenue may authorize a reduction in the rate of provisional tax if it can be proved that the capital gain derived from the transaction is less than 20% of the consideration. Provisional tax paid is allowed as a credit against the income tax charge.

If a company transfers property to its shareholders, or to an individual related to a shareholder, in the course of a winding up or distribution of assets, who own all of the share capital of the company transferring the property, the transfer is exempt from tax if certain conditions are satisfied.

**Property transfer tax.** In general, the transfer of immovable property in Malta is taxed at a rate of 8% on the higher of the consideration or market value of the immovable property on the date of the transfer. No deductions may reduce the tax base, except for agency fees subject to value-added tax (VAT). However different tax rates apply in certain circumstances. Broadly, the following are the circumstances in which the different rates apply:

- If the property transferred was acquired before 1 January 2004, the seller is taxed at 10% of the transfer value.
- A 5% rate applies if the property is transferred before five years from the date of acquisition or if the transferred property is a certain restored property.
- If immovable property was either acquired through a transfer *causa mortis* that occurred after 24 November 1992 or acquired through a donation more than five years from the date of transfer, a 12% rate applies to the excess of the transfer value over the acquisition value.

**Securitization.** The total income or gains of a securitization vehicle is realized or deemed to arise during the year in which such income or gains are recognized for accounting purposes. For purposes of calculating the chargeable income or gains of the securitization vehicle for income tax purposes, the following expenses are deductible:

- Relevant expenses provided under Article 14 of the Income Tax Act
- Amounts payable by the securitization vehicle to the originator or assignor
- Premiums, interest or discounts with respect to financial instruments issued or funds borrowed by the securitization vehicle
- Expenses incurred by the securitization vehicle with respect to the day-to-day administration of the securitization vehicle

Tax is chargeable on any remaining total income of the securitization vehicle, and a further deduction of an amount equal to the remaining total income may be claimed at the option of the securitization vehicle, subject to certain provisos and anti-abuse provisions.

**Administration.** The year of assessment is the calendar year. Income tax for a year of assessment is chargeable on income earned in the corresponding basis year, which is generally the preceding calendar year. A company may adopt an accounting period other than the calendar year, subject to approval by the Inland Revenue Department.

Companies with a January to June accounting year-end must file their income tax returns by 31 March (extended if filed elec-

tronically) of the year of assessment. Companies with other accounting year-ends must file their income tax returns within nine months after the end of their accounting year (extended if filed electronically).

A self-assessment system applies in Malta. The Inland Revenue Department issues an assessment only if it determines that a greater amount of income should have been declared or that the company omitted chargeable income from its tax return.

Companies must make three provisional payments of tax, generally on 30 April, 31 August and 21 December. The provisional payments are equal to specified percentages of the tax due as reported in the last income tax return filed with the Commissioner for Revenue on or before 1 January of the year in which the first provisional tax payment is due. The percentages are 20% for the first payment, 30% for the second and 50% for the third. Companies must pay any balance of tax payable on the due date for submission of the income tax return for that year of assessment.

Penalties are imposed for omissions of income, and interest is charged for late payments of tax. The Inland Revenue Department pays interest on certain late refunds.

*Advance Revenue Rulings.* Advance Revenue Rulings may be obtained from the Inland Revenue Department on certain transactions, activities and structures. Rulings survive any change in legislation for a period of two years. In all other circumstances, rulings are binding for five years. Renewals may be requested.

**Allocation and distribution of profits.** The distributable profits of a company are allocated to five tax accounts in the following order:

- Final Tax Account
- Immovable Property Account
- Foreign Income Account
- Maltese Taxed Account
- Untaxed Account

The Final Tax Account contains distributable profits that have been subject to a final tax. The Immovable Property Account contains profits connected with immovable property located in Malta. The Foreign Income Account contains, broadly, foreign-source passive income and foreign-source active income attributable to a permanent establishment located outside Malta. The Maltese Taxed Account contains profits that are not included in the Final Tax Account, Immovable Property Account or Foreign Income Account. The Untaxed Account contains an amount of profits or losses that is calculated by deducting the total sum of amounts allocated to the other accounts from the total amount of profits shown in the profit-and-loss account for that year.

The Full Imputation System applies to distributions from the Immovable Property Account, Foreign Income Account and Maltese Taxed Account. Under this system, the tax paid by the company is imputed as a credit to the shareholder receiving the dividends. Profits allocated to the Foreign Income Account and the Maltese Taxed Account result in tax refunds under the Refundable Tax Credit System (see *Refundable Tax Credit System*).

*Refundable Tax Credit System.* In 2007, the Maltese House of Representatives passed a law that implemented an agreement with the EU relating to a refundable tax system for all companies distributing dividends to shareholders. The imputation system under which the tax paid by a company is essentially treated as a prepayment of tax on behalf of the shareholder has been retained but a new refund system is introduced. The new refundable tax system applies both to profits allocated to a company's Maltese Taxed Account and to profits allocated to its Foreign Income Account and is available both to residents and nonresidents.

A person receiving a dividend from a company registered in Malta from profits allocated to its Maltese Taxed Account or its Foreign Income Account that do not consist of passive interest or royalties may claim a refund of six-sevenths of the tax paid by the distributing company on the profits out of which the dividends were paid. As a result of the introduction of the new system, the dividend recipient receives a full imputation credit plus a refund of six-sevenths of the tax paid by the distributing company.

Distributions of profits derived from passive interest or royalties or profits derived from a participating holding in a body of persons that does not satisfy the anti-abuse provision (see *Participation exemption and participating holding system*) do not qualify for the six-sevenths refund. Instead, they qualify for a refund of five-sevenths of the tax paid by the company.

The six-sevenths and five-sevenths refunds apply to distributions made by companies that do not claim any form of double tax relief. Dividends paid out of profits allocated to the Foreign Income Account with respect to profits for which the distributing company has claimed any form of double tax relief (double tax treaty relief, unilateral relief or the flat-rate foreign tax credit; see *Foreign tax relief*) are entitled to a refund equal to two-thirds of the tax that was suffered by the distributing company gross of any double tax relief. However, for the purposes of this calculation, the amount of tax suffered by the company is limited to the actual tax paid in Malta by the distributing company.

The refundable tax system is extended to shareholders of foreign companies that have Maltese branches. Tax paid in Malta by branches on profits attributable to activities performed in Malta is refunded when such profits are distributed.

Persons must register with the Commissioner for Revenue to benefit from the tax refunds described above.

**Participation exemption and participating holding system.** Before 1 January 2007, profits derived from a participating holding were taxed at the rate of 35%. On distribution of such profits to non-resident shareholders, such shareholders were entitled to receive a full refund of the tax paid by the company. Effective from 1 January 2007, the Maltese income tax system exempts from tax income and capital gains derived by a company registered in Malta from a participating holding or from the disposal of such holding. This exemption is referred to as the participation exemption. At the option of the shareholders, a full refund may still be obtained.

Effective from 2013, the participation exemption is extended to branch profits. This applies to income and gains derived by a

company registered in Malta that are attributable to a permanent establishment (including a branch) located outside Malta or that are attributable to the transfer of such permanent establishment, regardless of whether such permanent establishment belongs exclusively or in part to the particular company, including a permanent establishment operated through an entity or relationship other than a company.

A holding in another company is considered to be a participating holding if any of the following circumstances exist:

- A company holds directly at least 10% of the equity shares of a company whose capital is wholly or partly divided into shares, and such holding confers an entitlement to at least 10% of any two of the following:
  - Right to vote.
  - Profits available for distribution.
  - Assets available for distribution on a winding up.

The Commissioner for Revenue may determine that the above provisions are satisfied if the minimum level of entitlement exists in the circumstances referred to in the proviso to the definition of “equity holding.” See below for the definition of “equity holding.”

- A company is an equity shareholder in another company, and the equity shareholder company may at its option call for and acquire the entire balance of the equity shares not held by that equity shareholder company to the extent permitted by the law of the country in which the equity shares are held.
- A company is an equity shareholder in a company, and the equity shareholder company is entitled to first refusal in the event of a proposed disposal, redemption or cancellation of all of the equity shares of that company not held by that equity shareholder company.
- A company is an equity shareholder in a company and is entitled to either sit on the board or appoint a person to sit on the board of that company as a director.
- A company is an equity shareholder that holds an investment representing a total value, as of the date or dates on which it was acquired, of a minimum of EUR1,164,000 (or the equivalent sum in a foreign currency) in a company and that holding in the company is held for an uninterrupted period of not less than 183 days.
- A company is an equity shareholder in a company, the holding of such shares is for the furtherance of the equity shareholder’s own business, and the holding is not held as trading stock for the purpose of a trade.

A holding of a company in a body of persons or a collective-investment vehicle that provides for limited liability of investors constituted, incorporated or registered outside Malta, that is not resident in Malta and that is of a nature similar to a partnership *en commandite* (limited partnership) and whose capital is not divided into shares constituted under the Companies Act, is deemed to constitute a participating holding if it satisfies the provisions of any of the six bullets above.

For the purposes of the above rules, an “equity holding” is a holding of the share capital in a company that is not a property

company if the shareholding entitles the shareholder to at least any two of the following rights (equity holding rights):

- Right to vote
- Right to profits available for distribution to shareholders
- Right to assets available for distribution on a winding up of the company

The terms “equity shares,” “equity shareholder” and “equity shareholding” are construed in accordance with the above definition.

The Commissioner for Revenue may determine that an equity holding exists even if such holding is not a holding of the share capital in a company or does not consist solely of such a holding of share capital, provided that it can be demonstrated that at any time an entitlement to at least two of the equity holding rights exists in substance.

A “property company” is a company that owns immovable property located in Malta or any rights over such property, or a company that holds, directly or indirectly, shares or interests in a body of persons owning immovable property located in Malta or any rights over such property.

A company or body of persons carrying on a trade or business that owns immovable property located in Malta or rights over such property is treated as not owning the immovable property or rights over such property if all of the following conditions are satisfied:

- The property consists only of a factory, warehouse or office used solely for the purpose of carrying on such trade or business.
- Not more than 50% of its assets consist of immovable property located in Malta.
- It does not carry on an activity from which income is derived directly or indirectly from immovable property located in Malta.

The application of the participation exemption is subject to an anti-abuse provision. The participation exemption applies to participating holdings if the body of persons in which the participating holding is held satisfies any one of the following three conditions:

- It is resident or incorporated in a country or territory that forms part of the EU.
- It is subject to a foreign tax of at least 15%.
- It does not derive more than 50% of its income from passive interest or royalties.

If none of the above conditions is satisfied, both of the following two conditions must be fulfilled:

- The equity holding by the company registered in Malta in the body of persons not resident in Malta is not a portfolio investment. For this purpose, the holding of shares by a company registered in Malta in a company or partnership not resident in Malta that derives more than 50% of its income from portfolio investments is deemed to be a portfolio investment.
- The body of persons not resident in Malta or its passive interest or royalties has been subject to a foreign tax of at least 5%.

In addition, Malta has also incorporated the recent amendments to the EU Parent-Subsidiary Directive. Consequently, effective from 1 January 2016, the participation exemption on dividends does not apply if the relevant profits were deductible to the distributing company in the other EU member state.

The participation exemption applies only to gains or profits derived from transfers of holdings in companies resident in Malta. For this purpose, transfers encompass a wide scope of transactions, including, among others, assignment, sale, emphyteusis (a contract under which one of the contracting parties grants to the other a tenement in land for stated rent), sub-emphyteusis, partition, donation and transfer of assets by a company to its shareholders, in the course of winding up of the company or in the course of a distribution of assets to its shareholders in accordance with a scheme of distribution.

**Foreign tax relief.** Under tax treaty provisions and the domestic law, a tax credit against Maltese tax is granted for foreign tax suffered. The amount of the credit is the lower of Maltese tax on the foreign income and the foreign tax paid.

Maltese companies may also reduce their tax payable in Malta by claiming double tax relief with respect to British Commonwealth income tax.

Unilateral tax relief, which is another form of double tax relief, applies if treaty relief is not available and if the taxpayer has proof of the foreign tax suffered. The unilateral relief is also available for underlying tax.

Another form of double tax relief is a flat-rate foreign tax credit (FRFTC), which may be claimed by companies that have a special empowerment clause in their Memorandum and Articles of Association. The empowerment clause requirement applies to companies resident in Malta before 1 January 2007 and is effective from 1 January 2011. Companies, other than companies subject to the empowerment clause requirement, can currently claim the FRFTC. A company resident in Malta before 1 January 2007 could claim the FRFTC without an empowerment clause until 1 January 2011. The FRFTC, which is equivalent to 25% of the net income received (before any allowable expenses), applies to all foreign-source income that may be allocated to the Foreign Income Account. An auditor's certificate stating that the relevant income is foreign-source income is sufficient evidence that profits may be allocated to the Foreign Income Account. The FRFTC is added to chargeable income and credited against the Maltese tax charge. The credit is limited to 85% of the Maltese tax due before deducting the credit.

The interaction of the four types of double tax relief not only ensures that tax is not paid twice on the same income; it also reduces the overall effective rate of the Maltese tax.

### C. Determination of trading income

**General.** Chargeable income is the net profit reported in the companies' audited financial statements, subject to certain adjustments. Expenses incurred wholly and exclusively in the production of income are deductible.

Expenses that are not deductible include the following:

- Amortization of goodwill
- All types of provisions
- Voluntary payments
- Expenses recoverable under insurance

- Pretrading expenses (except for expenditure incurred with respect to staff training, salaries or wages and advertising within the 18 months preceding the date on which the company begins to carry on its trading activities)
- Unrealized exchange differences
- Other expenses that are not incurred in the production of income

**Inventories.** Inventories are normally valued at the lower of cost or net realizable value in accordance with generally accepted accounting principles.

**Tax depreciation (capital allowances).** Tax depreciation allowances include initial allowances and annual wear-and-tear allowances.

Initial allowances are granted at a rate of 10% with respect to new industrial buildings and structures.

Wear-and-tear allowances for plant and machinery are calculated using the straight-line method. Industrial buildings and structures are also depreciated using the straight-line method.

The following are the minimum number of years over which the principal categories of plant and machinery may be depreciated.

<b>Asset</b>	<b>Years</b>
Computers and electronic equipment	4
Computer software	4
Motor vehicles	5*
Furniture, fitting and soft furnishings	10
Other machinery	5
Other plant	10

\* The cost of non-commercial motor vehicles is limited to EUR14,000.

The annual straight-line rate for industrial buildings and structures, including hotels, is 2%. The Minister of Finance has announced that companies may start claiming wear-and-tear allowances for offices.

Capital allowances are generally subject to recapture on the sale of an asset to the extent the sale proceeds exceed the tax value after depreciation. Any amounts recaptured are added to taxable income for the year of sale or are used to reduce the cost of a replacement asset. To the extent sales proceeds are less than the asset's depreciated value, an additional allowance is granted. Capital allowances on assets for which investment allowances have been granted are not recaptured, and no additional allowances described in the preceding sentence are granted.

**Groups of companies.** A company that is part of a group of companies may surrender losses to another member of the group. Two companies are deemed to be members of a group of companies for tax purposes if they are resident in Malta and not resident in any other country for tax purposes, and if one of the companies is a 51% subsidiary of the other or both are 51% subsidiaries of a third company that is resident in Malta. A company is considered to be a 51% subsidiary of another company if all of the following conditions exist:

- More than 50% of the subsidiary's ordinary shares and more than 50% of its voting rights are owned directly or indirectly by the parent company.

- The parent company is beneficially entitled to receive directly or indirectly more than 50% of profits available for distribution to the ordinary shareholders of the subsidiary.
- The parent company is beneficially entitled to receive directly or indirectly more than 50% of the assets of the subsidiary available for distribution to the ordinary shareholders of the subsidiary in the event of a liquidation.

The group company surrendering the losses and the group company receiving the losses must have accounting periods that begin and end on the same dates, except for newly incorporated companies and companies in the process of liquidation.

**Relief for losses.** Tax losses incurred in a trade or business may be carried forward indefinitely to offset all future income. Unabsorbed tax depreciation may also be carried forward indefinitely, but may offset only income derived from the same source. A carry-back of losses is not allowed.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; standard rate	18
Stamp duty on various documents and transfers of ownership	
Sales of real property	5
Transfers of marketable securities	2
Life insurance policies	0.1
Other insurance policies	11
Excise duty, on various commodities including alcohol and alcoholic beverages, manufactured tobacco, energy products, mobile telephone services, cement, pneumatic tires, ammunition cartridges, chewing gum, water and other non-alcoholic beverages, and plastic sacks and bags; although levied on producers or importers when they distribute the products for general consumption, the duty is ultimately borne by consumers because it is included in the price of the products	Various

#### E. Miscellaneous matters

**Foreign-exchange controls.** When Malta became a member of the EU, it abolished foreign-exchange controls and introduced some reporting obligations under the External Transactions Act.

**Anti-avoidance legislation.** Maltese law includes no specific transfer-pricing rules. However, it does contain general anti-avoidance provisions to prevent the avoidance of tax through arrangements that are solely tax-motivated. Under these provisions, the Inland Revenue Department may ignore an arrangement and add an amount to chargeable income if it establishes that a transaction has the effect of avoiding or postponing tax liability.

**Debt-to-equity rules.** Malta does not impose any debt-to-equity requirements.



## F. Treaty withholding tax rates

Under Maltese domestic tax law, dividends, interest, discounts, premiums and royalties paid to nonresidents are not subject to withholding tax. Interest and royalties paid to nonresidents are exempt from income tax in Malta if they are not effectively connected with a permanent establishment in Malta through which the nonresidents engage in a trade or business.

Under Malta's tax treaties, the maximum tax rates applicable to dividends paid by Maltese companies to persons resident in the other treaty countries do not exceed the tax rate payable by the recipient companies in Malta.

The following table provides the maximum withholding tax rates for dividends, interest and royalties under Malta's tax treaties.

	Dividends		Required percentage for major shareholding %	Interest %	Royalties %
	Rate for minor shareholding %	Rate for major shareholding %			
Albania	15	5	25	5	5
Australia	15	15	– (a)	15	10
Austria	15	15	– (a)	5	10/– (c)
Azerbaijan	8	8	– (a)	8	8
Bahrain	0	0	– (a)	0	0
Barbados	15	5	5	5	5
Belgium	15	15	– (a)	10	10/– (c)
Bulgaria	0	0	– (a)	35	10
Canada	15	15	– (a)	15	10
China (mainland)	10	5	25	10	10
Croatia	5	5	– (a)	0	0
Cyprus	15	15	– (a)	10	10
Czech Republic	5	5	– (a)	0	5
Denmark	15	0	25	0	0
Egypt	10	10	– (a)	10	12
Estonia	15	5	25	10	10
Finland	15	5	10	0	0
France	15	0	10	5	10
Georgia	0	0	– (a)	0	0
Germany	15	5	10	0	0
Greece	10	5	25	8	8
Guernsey	–	–	– (a)	–	–
Hong Kong SAR	0	0	– (a)	0	3
Hungary	15	5	25	0/10	10
Iceland	15	5	10	0	5
India	10	10	– (a)	0/10	10
Ireland	15	5	10	0	5
Isle of Man	0	0	– (a)	0	0
Israel	15	0	10	5	–
Italy	15	15	– (a)	10	10/– (c)
Jersey	–	–	– (a)	–	–
Jordan	10	10	– (a)	10	10
Korea (South)	15	5	25	10/– (d)	10
Kuwait	0	0	– (a)	0	10
Latvia	10	5	25	10	10

	Dividends		Required percentage for major shareholding	Interest	Royalties
	Rate for minor shareholding	Rate for major shareholding			
	%	%	%	%	%
Lebanon	5	5	– (a)	0	5
Libya	15	5	10	5	5
Liechtenstein	0	0	– (a)	0	0
Lithuania	15	5	25	10	10
Luxembourg	15	5	25	0	10
Malaysia	–	–	– (a)	15	15
Mauritius	0	0	– (a)	0	0
Mexico	–	–	– (a)	5/10	10
Moldova	5	5	– (a)	5	5
Montenegro	10	5	25	10	5/10
Morocco	10	6.5	25	10	10
Netherlands	15	5	25	10/– (c)	10
Norway	15	0	10	–	–
Pakistan	15	15	20	10	10
Poland	10	0	10	5	5
Portugal	15	10	25	10	10
Qatar	0	0	– (a)	0	5
Romania	5	5	– (a)	5	5
Russian Federation	10	5	25	5	5
San Marino	10	5	25	0	0
Saudi Arabia	5	5	– (a)	0	5/7
Serbia	10	5	25	10	5/10
Singapore	–	–	– (a)	7/10	10
Slovak Republic	5	5	– (a)	0	5
Slovenia	15	5	25	5	5
South Africa	10	5	10	10	10
Spain	5	0	25	0	0
Sweden	15	0	10	0	0
Switzerland	15	0	10	10	0
Syria	–	–	– (a)	10	18
Tunisia	10	10	– (a)	12	12
Turkey	15	10	25	10	10
United Arab Emirates	–	–	– (a)	–	–
United Kingdom	–	–	– (a)	10	10
United States (b)	15	5	10	10	10
Uruguay	15	5	25	10	5/10
Vietnam	15	5	50	10	5/10/15
Non-treaty jurisdictions	0	0	– (a)	0	0

(a) Not applicable.

(b) These are the general rates, but other rates may apply in specified circumstances.

(c) The dash signifies that certain royalties are not taxable in the state where the royalties are deemed to arise.

(d) The dash signifies that certain interest payments are exempt from tax.

Malta has signed tax treaties with Andorra, Curaçao, and Ukraine and a protocol with Belgium, but these agreements are not yet in force.

# Mauritania

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (b)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	10
Interest	10
Royalties from Patents, Know-how, etc.	15 (c)
Directors' Fees	10
Payments for Services	3 (c)
Branch Remittance Tax	10 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) The minimum tax (Impôt Minimum Forfaitaire, or IMF) is 2.5% of annual turnover. However, the tax may not be less than MRO750,000.
- (b) The tax may be deferred (see Section B).
- (c) This tax applies to payments by residents to nonresidents. A tax treaty may reduce the rate applicable to nonresidents.
- (d) This tax applies to service fees paid to local (Mauritania-based) consultants. A failure to pay the 3% withholding tax results in the non-deductibility of the service fees paid to the consultants.
- (e) See Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Mauritanian companies are taxed on the territoriality principle. As a result, Mauritanian companies carrying on a trade or business outside Mauritania are not taxed in Mauritania on the related profits. However, profits deriving from export sales of goods or services of a Mauritania-based company are subject to tax in Mauritania. Foreign companies with activities in Mauritania are subject to Mauritanian corporate tax on Mauritanian-source profits only.

**Tax rates.** The regular corporate income tax rate is 25%. The minimum tax (Impôt Minimum Forfaitaire, or IMF) is 2.5% of turnover. However, the tax may not be less than MRO750,000.

Profits realized in Mauritania by branches of foreign companies are deemed to be distributed and, consequently, are subject to a branch withholding tax of 10% on after-tax income.

The Mauritanian investment code provides for a preferential tax regime for the following types of companies:

- Small Sized Companies
- Free Export Companies

Small Sized Companies qualify for a preferential tax regime if they invest between MRO50 million and MRO200 million. The preferential regime grants certain tax advantages during the installation phase (limited to three years) and the operation phase.

Free Export Companies qualify for a preferential tax regime if they satisfy the following conditions:

- They invest at least MRO500 million.
- They create at least 50 new permanent jobs.
- They intend to devote least 80% of their production to export sales.

Free Export Companies are eligible for certain tax exemptions and other tax advantages.

A simplified tax regime designed for the oil and gas sector provides for an 8% withholding tax. A simplified tax regime exists for foreign companies that carry out activities in Mauritania for a duration of less than six months. Companies that benefit from this tax regime are subject to a withholding tax of 15% on their Mauritanian-source revenue and are exempt from all other taxes (except taxes on salaries). This 15% withholding tax does not apply to supplies of goods if these supplies are separately invoiced.

**Capital gains.** Capital gains are taxed at the regular corporate income tax rate. However, the tax may be deferred if the proceeds are used to acquire new fixed assets in Mauritania in the following three fiscal years.

**Administration.** The fiscal year is the calendar year. Tax returns must be filed by 31 March of the year following the fiscal year.

Companies must pay the IMF (see *Tax rates*) in two equal installments, which are due on 31 March and 30 June of the year following the tax year. Companies must pay any balance of tax due by 30 April.

**Dividends.** Dividends are subject to a 10% withholding tax.

**Foreign tax relief.** Foreign tax credits are not allowed. Income subject to foreign tax that is not exempt from Mauritanian tax under the territoriality principle is taxable net of the foreign tax.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the National General Accounting Plan.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Interest paid on loans from shareholders to the extent that the rate exceeds the current rate of the central bank plus two percentage points and all of the interest on shareholder loans if the capital of the company is not fully paid
- Head-office expenses to the extent that they exceed 2% of annual turnover
- Corporate income tax and IMF (see Section B)
- Certain specified charges
- Taxes, penalties, gifts and most liberalities, as well as donations exceeding 3% of taxable income

**Inventories.** Inventory is normally valued at the lower of cost or market value.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they provide for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

**Capital allowances.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at maximum rates specified by the tax law. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Commercial buildings	4
Industrial buildings	5
Office equipment	10
Motor vehicles	25
Plant and machinery	20

Certain industrial assets may be depreciated using the declining-balance method. The Mauritanian tax law does not allow accelerated depreciation methods.

**Relief for tax losses.** Losses may be carried forward for five years. Losses may not be carried back.

**Groups of companies.** Fiscal integration of Mauritanian companies equivalent to a consolidated filing position is not allowed.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on sales of goods and services, and on imports and exports	
Standard rate	16
Business activity tax ( <i>patente</i> ); calculated based on the turnover of the business	Various
Registration duties, on transfers of real property or businesses	0.25 to 15
Social security contributions, on an employee's annual gross salary up to MRO70,000; paid by	
Employer	15
Employee	1

## E. Foreign-exchange controls

The Mauritanian currency is the ouguiya.

Effective from January 2018, Mauritania has changed its currency from the old ouguiya (MRO) to the new ouguiya (MRU). Mainly, the currency unit changes (MRO100,000 becomes MRU10,000). From a tax point of view, Mauritanian tax authorities have issued an internal memorandum that provides the following:

- Payments of taxpayers can be performed either in MRO or MRU up to 31 January 2018.
- Documents filed, such as financial statements and returns, should take into account the new currency units.
- Documents issued by revenue authorities to the attention of taxpayers should also refer to the new currency units.

Amounts mentioned in this chapter refer to the former currency because legal codes and documents referring to the currency have not yet been formally amended. However, in practice, payments should now be performed with the new Mauritanian currency.

Exchange-control regulations exist in Mauritania for foreign financial transactions.

**Transfer pricing.** The Mauritanian legal framework relating to transfer pricing has been significantly amended through the implementation of additional rules contained in the 2018 Finance Act. Under the act, important tax obligations are imposed on Mauritania-based entities that have annual net turnover or gross assets of MRO300 million or more and either of the following circumstances exists:

- At the end of the fiscal year, they hold, directly or indirectly, more than half of the share capital or voting rights of another company incorporated in Mauritania or abroad that meets the turnover condition mentioned above.
- At the end of the fiscal year, more than half of the share capital or voting rights of the entity are held, directly or indirectly, by another company meeting the turnover condition mentioned above.

The above companies are now required to take the following actions:

- They must file an annual transfer-pricing return (statement): This statement should be filed by 31 March of each year through an official form that Mauritanian tax authorities will be issuing in upcoming months. The return should include, among other items, general information on the group of related companies, including a general description of the business activities, the transfer-pricing policy, a list of immaterial assets, information on financial transactions (loans) and a statement of transactions performed between related parties.
- They must make available to the Mauritania tax authorities transfer-pricing documentation demonstrating compliance with the arm's-length principle. This documentation should be available to the tax authorities from the beginning of an on-site formal tax audit. In the event of a lack of production of complete documentation, a notice can be addressed to the taxpayer to provide requested information within a 15-day period.

A failure to submit the annual transfer-pricing return should trigger a tax fine of MRO25 million. A failure to submit documentation requested by the tax authorities should trigger a penalty of 0.5% of the amount of transactions related to the documents that have not been provided to the tax authorities. The minimum penalty is MRO5 million.

**F. Tax treaties**

Mauritania has entered into double tax treaties with France, the Maghreb Arab Union and Senegal.

# Mauritius

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## A. At a glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	0 (a)
Branch Tax Rate (%)	15 (a)
Withholding Tax (%)	
Dividends	0
Interest	15 (b)
Royalties	10/15 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) See Section B.  
(b) This withholding tax applies to interest paid to any person, other than a company resident in Mauritius, by a person, other than a Mauritian bank or a person authorized to carry on deposit-taking business in Mauritius. This rate may be reduced if the recipient is a tax resident of a treaty-partner country.  
(c) The withholding tax rate is 10% for royalties paid to residents. For nonresidents, the rate is 15% unless the recipient is resident in a treaty country and the applicable treaty provides for a lower rate. The withholding tax rate does not apply if the payer is a corporation holding a Category 1 Global Business License under the Financial Services Act 2007 and if it pays the interest out of its foreign-source income.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies resident in Mauritius are subject to income tax on their worldwide income. Resident companies are companies incorporated in Mauritius and companies with their central management and control in Mauritius. If a nonresident company has a branch carrying on business in Mauritius, the nonresident company is subject to tax on the income of the branch.

**Rates of corporate income tax.** The corporate income tax rate is 15% of the annual taxable net profits. A 3% rate applies to the taxable profits attributable to the export of goods, effective from 1 July 2017. Interest income on debentures and bonds issued by a company to finance renewable energy projects, the terms and conditions of which have been approved by the Mauritius Revenue Authority (MRA), is exempt from tax, effective from 1 July 2017.



A requirement to establish a Corporate Social Responsibility (CSR) fund applies to companies. Companies must set up a CSR fund equal to 2% of chargeable income for the preceding year. Companies use this fund to implement a CSR program in accordance with their own CSR framework. For this purpose, the CSR program must have as its object the alleviation of poverty, the relief of sickness or disability, the advancement of education of vulnerable persons or the promotion of any other public object beneficial to the Mauritian community.

If the contribution is less than the 2% minimum, the difference must be paid to the MRA when the company submits its annual tax return. Certain companies, such as Global Business Corporations set up under the Financial Services Act 2007 and companies that hold an Integrated Resort certificate referred to in the Investment Promotion (Real Estate Development Scheme) Regulations, 2007, are excluded from the purview of the CSR rules. Effective from the 2013 year of assessment, companies may spend up to 20% more than their statutory CSR obligation in any year but not more than two consecutive years and the excess CSR spending may then be offset in five equal consecutive annual installments against its future CSR liability. Subject to the approval of the CSR committee, up to 20% of the CSR liability may be carried forward to the following year.

Under amendments contained in the Finance (Miscellaneous Provisions) Act 2016 (FMPA 2016) and the Finance (Miscellaneous Provisions) Act 2017, at least 50% of any CSR fund set up during the period from 1 January 2017 to 31 December 2018 must be paid to the National CSR Foundation (CSR Foundation) through the MRA. Effective from 1 January 2019, the contribution to the CSR Foundation will be 75%. The balance must be applied to the entity's own CSR framework for CSR funds set up by 31 December 2018. Thereafter, the entity is allowed to contribute to a non-governmental organization implementing a CSR program in the following priority areas of intervention:

- Dealing with health problems
- Educational support and training
- Family protection, including gender-based violence
- Leisure and sports
- Peace and nation building
- Road safety and security
- Social housing
- Socio-economic development as a means of poverty alleviation
- Supporting people with disabilities
- Such other areas as the Minister of Finance and Economic Development may determine
- Fields of advocacy, capacity building and research for consideration relating to the other priority areas of intervention

The above priority areas target individuals and families registered under the Social Register of Mauritius and vulnerable groups under the Charter of the National CSR Foundation.

Otherwise, the balance must be remitted to the MRA at the time of submission of the annual tax return.

Any excess CSR contribution made before the change to the law contained FMPA 2016 can be offset against the CSR liability

that should be made to the CSR contribution, effective from the 2016-17 year of assessment over a period of five years.

The law now specifically provides that no CSR money can be specified regarding the following activities:

- Activities discriminating on the basis of race, place of origin, political opinion, color, creed or sex
- Activities promoting alcohol, cigarettes or gambling
- Activities targeting shareholders, senior staff or their family members
- Contributions to any government department or parastatal body
- Contributions to natural disasters mitigation programs
- Contributions to political or trade union activities
- Sponsorship for the purpose of marketing for companies
- Staff welfare and training of employees

A special levy is imposed on banks. The levy does not apply if, in the preceding year, the bank had incurred a loss or if its book profit did not exceed 5% of its operating income. For the 2009 through 2013 years of assessment, the levy equaled the sum of 3.4% of book profit and 1% of operating income. For the 2014, 2015, 2015-2016, 2016-2017 and 2017-2018 years of assessment, the tax base and rates remain unchanged for Segment B banking business. Segment B banking business refers to banking transactions with nonresidents and corporations that hold a Global Business License under the Financial Services Act 2007. The levy is computed at 10% of the chargeable income from other sources for the 2014, 2015, 2015-2016, 2016-2017 and 2017-2018 years of assessment. For the 2018-2019 and subsequent years of assessment, the levy will equal the sum of 1.7% of the book profit and 0.5% of operating income. For purposes of the levy, operating income is the sum of net interest income and other income before deducting any non-interest expenses.

“Telephony service providers,” defined as a provider of public fixed or mobile telecommunication networks and services, are subject to a solidarity levy for the 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2015-2016, 2016-2017 and 2017-2018 years of assessment. The levy equals the sum of 5% of book profit and 1.5% of turnover. The levy does not apply if, in the preceding year, the service provider incurred a loss or if its book profit did not exceed 5% of its turnover.

**Tax advantages for certain companies.** The following types of companies may qualify for tax advantages:

- Freeport companies
- Information and Communication Technology companies
- Companies engaged in innovation-driven activities
- Companies engaged in the manufacturing of pharmaceutical products, medical devices and high-tech products
- Companies engaged in the exploitation and use of deep sea ocean water activities for certain specific purposes
- Companies engaged in offshore activities
- Companies engaged in spinning, weaving, dyeing or knitting

*Freeport companies.* Freeport operators and private Freeport developers are exempt from corporate income tax on sales made to persons outside Mauritius for an indefinite time period.

*Information and Communication Technology companies.* Information and Communication Technology (ICT) companies are classified as tax-incentive companies. If the investment certificate of an ICT company is issued before 30 September 2006 and if the ICT company is engaged in business-process outsourcing and back-office operations or in the operation of call centers or contact centers, the ICT company may elect within 60 days of the date of the issuance of its investment certificate to have two-thirds of its net income exempted from tax up to and including the income year ended 30 June 2012. This reduces the effective tax rate to 5% of taxable income. Income derived by other ICT companies from nonresidents is exempt from tax through the income year ended 30 June 2012. Income derived from residents is taxable at the incentive rate of 15%. Losses incurred during the exemption period may be carried forward to years following the expiration of the exemption period.

*Innovation-driven activities.* The income of a company set up on or after 1 July 2017 that is involved in innovation-driven activities for intellectual property assets developed in Mauritius is exempt from tax from the year the company starts its innovation-driven activities for a period of eight years.

*Manufacturing of pharmaceutical products, medical devices and high-tech products.* Income of a company incorporated on or after 8 June 2017 from the manufacturing of pharmaceutical products, medical devices and high-tech products is exempt from tax for a period of eight years from the year the company begins its operations.

*Exploitation and use of deep ocean water.* Income of a company from the exploitation and use of deep sea ocean water for providing air conditioning installations, facilities and services is exempt from tax.

*Companies engaging in offshore activities.* Offshore business activities may be conducted through GBL1 companies or GBL2 companies. GBL2 companies must conduct their activities with nonresidents of Mauritius or GBL1 companies. Under the amendment contained in the Finance (Miscellaneous Provisions) Act 2010, GBL1 companies may conduct business within Mauritius. Under the amendment contained in the Economic and Financial Measures (Miscellaneous Provisions) Act 2012, GBL1 companies must seek the approval of the Financial Services Commission with respect to the following:

- Conduct of their business in Mauritius
- Dealings with GBL2 companies and Mauritian resident persons
- Holding of shares or other interests in Mauritian resident corporations

Mauritian residents, including GBL1 companies, are eligible for a foreign tax credit on their foreign-source income. The foreign tax credit is generally the lower of the Mauritian tax and the foreign tax. If the shareholding in the foreign company is 5% or more, an underlying tax credit can be claimed. A tax-sparing credit can also be claimed. A GBL1 company can compute its foreign tax based on a presumed amount of 80% of the Mauritian tax chargeable on foreign-source income (including local-source income derived in the course of its global business) if no written evidence is produced in support of the payment of foreign tax. This reduces the

effective tax rate to 3% of the chargeable income on the foreign-source income. Dividends paid to residents and nonresidents and royalties paid by GBL1 companies out of their foreign-source income to nonresidents are exempt from tax. Interest paid by GBL1 companies to nonresidents that do not have a place of business in Mauritius is exempt from tax to the extent that the interest is paid out of its foreign-source income. GBL1 companies may be considered residents of Mauritius for purposes of double tax treaties.

GBL2 companies are regulated by the Companies Act, 2001 and the Financial Services Act, 2007. To qualify as a GBL2 company, the company must be beneficially owned by nonresidents, operate exclusively outside Mauritius and meet certain other requirements. GBL2 companies are exempt from corporate income tax. Dividends paid by GBL2 companies are exempt from income tax. Interest, royalties and other payments made by GBL2 companies to nonresidents are exempt from income tax. GBL2 companies are subject to a more flexible regime than GBL1 companies, but they do not benefit from double tax treaties.

*Companies engaged in qualifying activities.* Companies engaged in dyeing, knitting, spinning, or weaving activities that began their operations before 30 June 2006 are exempt from income tax for a period of up to 10 income years. If a company began operations during the period of 1 July 2006 through 30 June 2008, its income is exempt from income tax up to and including the income year ending 30 June 2016. Losses incurred during the exemption period may be carried forward to years following the expiration of the exemption period.

A company that subscribes to the stated capital of a spinning company on or before 30 June 2008 for an amount of MUR60 million or more is granted a tax credit equal to 60% of the investment in share capital over a period of either four or six income years. This tax credit is also granted to a company subscribing to the stated capital of a company engaged in dyeing, knitting and weaving activities on or before 30 June 2008 for an amount of MUR10 million or more. The credit is available beginning in the income year preceding the income year in which the shares are acquired and is spread equally over the four- or six-year period. Any unused portion of the tax credit may be carried forward to subsequent income years, subject to a maximum period of five consecutive income years beginning with the income year of the investment.

Under an amendment contained in the FMPA 2016, a company that has invested MUR60 million or more or at least 20% in the stated capital of a spinning factory, whichever is higher, during the years of 2003 to 2008 is allowed an investment tax credit (ITC) of either 15% of the investment over a four-year period or 10% of the investment over six years. The credit is allowed from the year the investment is made and is reduced by any credit previously claimed with respect to the same investment. A similar form of credit applies to a company that has invested in the stated capital of a company engaged in dyeing, knitting and weaving activities during the same period; the minimum amount of the investment is MUR10 million or at least 20% of the stated capital of the company. The ITC may be carried forward for a consecutive period of six years from the year of the investment and may be applied against any past tax liability; however, no refund is

made for tax already paid. The ITC may be set off against the 30% of the tax claimed that was required to be paid for an objection to a notice of assessment to be valid; any excess ITC can be offset against any tax payable from 1 September 2016. The ITC can offset against any past tax liability for any case under dispute. If the ITC is offset against the tax liability for a pending case before any court, judicial or quasi-judicial body, the company should withdraw its case.

Manufacturing companies or companies producing “specified goods or products” can claim a tax credit on the total capital expenditure incurred on the acquisition of new plant and machinery (excluding motor cars) exceeding MUR100 million during the period of 1 January 2014 through 30 June 2016. The annual tax credit equals 5% of the cost of the plant and machinery. The credit is subtracted from the income tax liability in the year of acquisition and the two subsequent income years. Any unrelieved tax credit with respect to an income year may be carried forward to the following income year. The carryforward applies to a maximum of five consecutive income years following the income year in which the capital expenditure is incurred. The following are the “specified goods or products”:

- Computers
- Electrical equipment
- Film
- Furniture
- Jewelry and bijouterie
- Medical and dental instruments, devices and supplies
- Pharmaceuticals or medicinal chemicals
- Ships and boats
- Textile
- Wearing apparel

Under an amendment contained in the FMPA 2016, companies engaged in manufacturing activities or companies producing the “specified goods or products” are also allowed a credit in the year of acquisition and the subsequent two years at the following rates for capital expenditure incurred on the following new assets during the period from 1 July 2016 through 30 June 2020.

<b>Asset</b>	<b>Rate of credit (%)</b>
Computers	15
Electronic or optical products	5
Electrical equipment	5
Film	15
Furniture	5
Jewelry and bijouterie	5
Medical and dental instruments, devices and supplies	5
Pharmaceuticals or medicinal chemicals	15
Ships and boats	15
Textiles	15
Wearing apparels	15

Any excess credit may be carried forward to the next year. However, the credit cannot be used in a period beyond 10 years following the year in which the capital expenditure is incurred. If the asset is sold within five years from the date of its acquisition, the credit is clawed back.

A company that invests in the share capital of a subsidiary company engaged in the setting up and management of an accredited business incubator is allowed to claim a credit in the year of investment and the subsequent two years. The credit equals 15% of the amount invested, subject to a maximum amount of MUR3 million. Any excess can be carried forward to the next income year and is clawed back if the shares are disposed of within five years after the year of the investment.

**Alternative minimum tax.** The alternative minimum tax (AMT) no longer applies, effective from the 2015-16 year of assessment.

The AMT applied if a company either declared a dividend or distributed any shares instead of dividends and if the tax payable was less than 7.5% of the book profit. The AMT equaled the lower of 7.5% of the book profit or 10% of the sum of any dividends declared and amounts distributed instead of dividends. The tax payable by the company was the higher of the AMT or the tax payable under the normal rules.

For purposes of the AMT calculation, capital gains (losses) or revaluation of fixed assets, dividends received from companies resident in Mauritius and trading profits (losses) from the sale or revaluation of securities were excluded in the computation of the book profit. In addition, a foreign tax credit was not subtracted in computing the tax payable.

The AMT did not apply to companies that were exempt from tax and GBL1 companies.

For the 2013 and 2014 income years, manufacturing companies and companies operating hotels were outside the scope of the AMT.

**Capital gains.** Capital gains are not subject to income tax. The Finance (Miscellaneous Provisions) Act 2010 (FMPA 2010) introduced a capital gains tax regime for transactions in immovable properties or interests in immovable properties; however, it was repealed by the Finance (Miscellaneous Provisions) Act 2011, effective from 5 November 2011.

**Withholding taxes.** Withholding taxes apply to certain payments. The tax withheld at source is an interim tax payment that may or may not be the final tax liability. Amounts deducted are credited to the final tax liability of the taxpayer for the relevant tax year.

The following are the withholding tax rates.

<b>Payment</b>	<b>Rate (%) (a)</b>
Interest	15 (b)
Royalties	10/15 (c)
Rent for buildings	5
Payments to contractors and subcontractors	0.75
Payments to accountants or accounting firms, architects, attorneys, barristers, engineers, land surveyors, legal consultants, medical service providers, project managers in the construction industry, property valuers, quantity surveyors, solicitors, tax advisers and their representatives	3

Payment	Rate (%) (a)
Payments made by a ministry, government department, local authority, statutory body or the Rodrigues Regional Assembly on contracts, other than payments to contractor and subcontractors and payments to service providers specified in the preceding entry above	
For the procurement of goods and services under a single contract, if the payment exceeds MUR300,000	1
For the procurement of goods under a contract, if the payment exceeds MUR100,000	1
For the procurement of services under a contract, if the payment exceeds MUR30,000	3
Payments made to the owner of immovable property or agent, other than a hotel, unless the payments are made to a body of persons specified in Part I of the Second Schedule or a person exempt from income tax as a result of any other enactment, by a tour operator or travel agent, other than an individual, an Integrated Resort Scheme (IRS) or Real Estate Development Scheme (RES) company or a provider of property management services designated by an IRS or RES company, under the Investment (Real Estate Development) Regulations 2007, or any other agent, other than an individual, carrying on the business of providing services with respect to the leasing of properties	5
Payments made to nonresidents for services rendered in Mauritius	10
Payment of management fees	
To residents	5
To nonresidents	10
Payments to nonresident entertainers or sportspersons	10

- (a) The withholding taxes do not apply to a company, partnership or succession (estate of a deceased person) with an annual turnover MUR6 million or less, except for the award of a contract for construction works.
- (b) This withholding tax applies to interest paid by any person, other than by a bank or nonbank deposit-taking institution under the Banking Act, to any person, other than a company resident in Mauritius.
- (v) This withholding tax is imposed on residents and nonresidents. The withholding tax rate is 10% for residents and 15% for nonresidents. For a recipient of royalties that is resident in a treaty country, the treaty rate applies if it is lower than 15%. The treaty rate does not apply if the payer is a GBL1 company.

If a recipient of a payment proves to the Director-General of the MRA that the recipient is not liable for tax, the Director-General may, by written notice to the payer, direct that no tax be withheld from the payment to the recipient.

**Administration.** The income year is 1 July to 30 June of the year preceding the year of assessment. Companies may choose a financial year-end other than 30 June for tax purposes. The income year-end was previously 31 December.

Companies are generally required to file their tax returns within six months after their year-end. If the year-end of a company is 30 June and if the company does not have any tax payable, the tax return can be submitted by 15 January of the following year. A company with a 30 June year-end may submit its annual tax return by 31 January in the following year if it has submitted and paid tax for the quarter ending on 30 June.

The FMPA 2016 contains a section on amended tax returns. Under this section, an amended tax return is not allowed if it is submitted more than three years from the end of the year of assessment to which the return relates. The time limit of three years does not apply if the company has underdeclared its income. If an amended tax return is filed, the return for the relevant year is deemed to have been made on the date on which the amended tax return is made. As a result, interest and penalties may apply.

Any tax payable in accordance with the annual return must be paid at the time of filing the return. The Advance Payment System (APS) requires companies to pay tax on a quarterly basis. For purposes of the APS, companies can either use the taxable profits of the preceding tax year or the results of the relevant quarter. A company with annual turnover of MUR10 million or less is not required to pay tax under the APS. The APS requirement also does not apply if the company did not have any chargeable income in the preceding year. Under an amendment contained in the FMPA 2016 with respect to CSR, APS also applies to the contributions that must be made to the National CSR Foundation.

If a payment is late or an incorrect return is filed, a penalty of 5% of the tax payable is imposed. The penalty is reduced to 2% if the taxpayer is a small enterprise with an annual turnover of less than MUR10 million. Interest at a rate of 0.5% for each month or part of a month the tax remains unpaid also applies. In addition, a penalty of MUR2,000 is imposed for each month or part of a month that the annual tax return is late. The penalty is limited to a maximum amount of MUR20,000. The maximum penalty is reduced to MUR5,000 if the taxpayer is a small enterprise with an annual turnover of less than MUR10 million.

After the MRA issues a notice of assessment, the taxpayer may object to the assessment. For an objection to be valid, 10% of the total tax claimed must be paid to the MRA. If the MRA is satisfied that the taxpayer cannot pay the 10% tax, a bank guarantee may be provided.

**Dividends.** Dividends paid to residents and nonresidents are exempt from tax. Dividends should be paid in either cash or shares.

**Foreign tax relief.** Residents of Mauritius may claim a foreign tax credit (FTC), regardless of whether they may claim other tax credits. The FTC equals the lower of the Mauritian tax liability and the amount of the foreign taxes. In computing the FTC, all foreign-source income may be pooled. An underlying FTC is also available if the residents, including individuals and trusts, own directly or indirectly at least 5% of the share capital of the foreign company. The underlying FTC is extended to all previous tiers. The FTC takes into account any tax sparing credits granted to the payer of the dividends.



### C. Determination of trading income

**General.** Taxable income of resident companies and foreign branches comprises gross income less cost of goods sold and expenses incurred exclusively in the production of income, unless specifically excluded by law. Income and expenses are determined in accordance with generally accepted accounting principles.

**Inventories.** Inventories may be valued according to International Accounting Standard 2. However, the income tax rules provide that the last-in, first-out (LIFO) method of valuation may not be used.

**Provisions.** No provisions are allowed for tax purposes.

**Tax depreciation.** No deduction is allowed for book depreciation of non-current assets, but statutory depreciation (capital allowances) is granted. Mauritian law provides for investment allowances and annual allowances. However, the investment allowance and the additional investment allowances have been repealed and are now available only in limited cases under transitional rules.

Under the transitional rules, a company whose application has been approved under the Investment Promotion Act, or whose proposed activity has been approved under any other enactment, may elect by irrevocable notice in writing to the Director-General to claim annual allowances for capital expenditure incurred on or before 30 June 2009 at the rates prevailing on 30 June 2006. Manufacturing companies may claim additional investment allowances on state-of-the-art technological equipment for acquisitions made in the years ended 30 June 2007 and 30 June 2008. ICT companies may claim additional investment allowances on computer equipment and plant and machinery for acquisitions made on or before 30 June 2008.

The following investment allowances are provided.

Allowance	Rate (%)
Investment allowance on certain new assets, including industrial buildings, office equipment, plant and machinery, and buses with a seating capacity of at least 30	25
Additional investment allowance for a manufacturing company that has incurred capital expenditure on the acquisition of state-of-the-art technological equipment in the year ended 30 June 2008	10
Additional investment allowance for an ICT company that incurs capital expenditure on the acquisition of new plant and machinery or computer software	25

The following are the rates of annual allowances computed using the declining-balance method.

Asset	Rate (%)
Hotels	30
Plant and machinery	35
Heavy equipment (such as agricultural tractors or excavators)	35

<b>Asset</b>	<b>Rate (%)</b>
Computers and high precision equipment	50
Motor vehicles	25
Setting up of golf courses	15

The following are the rates of annual allowances computed using the straight-line method.

<b>Asset</b>	<b>Rate (%)</b>
Commercial premises	5
Green technology equipment	50
Landscaping and other earthwork for embellishment purposes	50
Industrial premises excluding hotels	5
Any item of a capital nature not listed above that is subject to depreciation under the normal accounting principles	5
Plant and machinery costing MUR30,000 or less	100
Aircraft and aircraft simulators leased by aircraft leasing companies	100

The following are the rates of annual allowances for capital expenditure incurred during the period from 1 January 2013 through 30 June 2018.

<b>Asset</b>	<b>Rate (%)</b>
Industrial premises dedicated to manufacturing	30
Plant and machinery costing MUR50,000 or less	100
Electronic and high-precision equipment	50
Plant and machinery, except passenger cars, acquired by a manufacturing company	50
Scientific research	50

Except for the annual allowance rates on industrial premises, the above rates will be applied on a straight-line basis.

To qualify as capital expenditure on green technology, it must be incurred on the following:

- Renewable energy
- Energy-efficient equipment or noise-control devices
- Water-efficient plant and machinery and rainwater harvesting equipment and systems
- Pollution-control equipment or devices, including wastewater recycling equipment
- Effective chemical hazard control devices
- Desalination plant
- Composting equipment
- Equipment for shredding, sorting and compacting plastic and paper for recycling

Any unused annual allowances that arise as a result of the above increased rates can be carried forward indefinitely. Expenditure on passenger cars is not eligible for increased annual allowances.

Capital allowances are subject to recapture on the sale of an asset to the extent the sales price exceeds the tax value after depreciation. Amounts recaptured are included in ordinary income and are subject to tax at the normal tax rate. To the extent that the sales price is lower than the depreciated value, an additional allowance is granted.

Under an amendment contained in the Finance (Miscellaneous Provisions) Act 2010, the total annual allowances on a motor car cannot exceed MUR3 million. The MUR3 million cap does not apply to persons engaged in the business of tour operator or car rental.

**Expenditure on deep ocean water air conditioning.** Expenditure on deep ocean water air conditioning is eligible for a 200% deduction over a period of five years from the year of the incurrance of the expenditure. This measure is effective as from 1 July 2017. A tax loss resulting from expenditure on deep ocean water air conditioning is not subject to the five-year restriction on the utilization of tax losses (see *Relief for losses*).

**Expenditure on water desalination plant.** Expenditure on the acquisition and setting up of a water desalination plant is eligible for a 200% deduction from 1 July 2017. A tax loss that results from expenditure on a water desalination plant is not subject to the five-year restriction on the utilization of tax losses (see *Relief for losses*).

**Research and development.** Any qualifying expenditure on research and development (R&D) incurred during the period of 1 July 2017 through 30 June 2022 (the qualifying period) is eligible for a 200% deduction if the relevant expenditure is directly related to an existing trade or business and if the R&D is carried on in Mauritius. If the qualifying expenditure incurred during the qualifying period does not relate to an existing trade or business, the MRA may allow the expenditure. The qualifying expenditure relates to any R&D and specifically includes expenditure on innovation, improvement or development of a process, product or service, staff costs, consumable items, computer software directly used in R&D and subcontracted R&D. The time limit of five years on the utilization of tax losses does not apply to a tax loss resulting from the 200% deduction.

**Relief for losses.** Losses can be offset against future corporate income in the following five income years. Losses attributable to annual allowances claimed with respect to assets acquired on or after 1 July 2006 can be carried forward indefinitely. Losses may not be carried back. Under an amendment contained in the FMPA 2016, the claiming of an excess loss is subject to a penalty of 5% of the excess amount.

If a company takes over a company engaged in manufacturing activities or if two or more companies engaged in manufacturing activities merge into one company, any unrelieved losses of the acquired company or merging companies may be transferred to the acquirer or to the company resulting from the merger in the income year of the takeover or merger, subject to certain conditions relating to the safeguarding of employment or to such other terms and conditions that may be established by the Minister of Finance and Economic Development. The loss transferred is withdrawn if, within three years from the date of the takeover or merger, more than 50% of the employees is made redundant. The FMPA 2016 has extended the scope of this provision to a transaction in which a company takes over or acquires the whole or part of the undertaking of another company if the Minister of Finance

and Economic Development has deemed such transaction to be in the public interest. If a change of more than 50% in the shareholding of a manufacturing company occurs, the tax loss may nevertheless be carried forward if the Minister of Finance and Economic Development certifies that the change in the shareholding is in the public interest and is satisfied that there is compliance with the conditions relating to the safeguard of employment.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	15
National pension fund, a statutory savings plan for employees' old-age retirement; monthly contribution imposed on gross salary; paid by Employer, limited to MUR1,020 Employee, limited to MUR510	6 3
Land transfer tax; payable by transferor based on the value of the immovable property transferred; also applies to transfers of shares that result in a change in control of a company that owns immovable property	5
Tax on transfer of leasehold rights in state land; based on the open market value of the leasehold rights; payable equally by the transferor and the transferee	20
Registration duty; payable on the registration of certain transactions, such as the sale of land; based on the value of the property transferred; payable by the transferee; certain transactions are not subject to the duty	5

#### E. Miscellaneous matters

**Foreign-exchange controls.** The Exchange Control Act was suspended in 1993. Consequently, approval of the Bank of Mauritius is no longer required for transactions involving foreign exchange.

**Anti-avoidance legislation.** Anti-avoidance provisions apply to interest on debentures issued by reference to shares, excessive remuneration to shareholders or directors, benefits to shareholders, excessive management expenses, leases with inadequate rent, rights over income retained and other transactions designed to avoid tax liability. Certain of these items are discussed below.

*Interest on debentures issued by reference to shares.* If a company issues debentures in the proportion of shares held by each shareholder, the interest on the debentures is treated as a dividend and is therefore not an allowable deduction for the company. The 2004 Finance Act provides that such interest on the debentures is not treated as a dividend for the shareholder.

*Benefits to shareholders.* If a benefit of any nature, whether in money or money's worth, is granted by a company to a shareholder or a party related to the shareholder, the value of the benefit is deemed to be a taxable benefit in the hands of the shareholder or the related party.

*Rights over income retained.* If a person transfers property or any right to income to a related party and retains or obtains power to enjoy income from the property or the right, the income is deemed to be derived by the transferor.

## F. Treaty withholding tax rates

Under Mauritian domestic law, dividends paid to residents and nonresidents and royalties paid by GBL1 companies (see Section B) to nonresidents are exempt from tax. Interest payments are exempt from tax if they are paid by Mauritian banks to nonresidents or if they are paid by GBL1 companies to nonresidents that do not have a place of business in Mauritius. The following table lists the tax rates for dividends, interest and royalties under the tax treaties entered into by Mauritius. However, Mauritian domestic law prevails if it exempts the payments from tax.

<b>Recipient's country of residence</b>	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Bangladesh	10	15	15
Barbados	5	5	5
Belgium	5 (i)	0/10	0
Botswana	5 (j)	12	12.5
Cape Verde (l)	0/5 (w)	10	7.5
China (mainland)	5	10 (f)	10
Congo (Republic of)	0/5 (s)	5	0
Croatia	0	0	0
Cyprus	0	0	0
Egypt	5 (v)	10	12
France	5 (a)	15 (f)	15 (g)
Germany	5 (r)	0	10
Ghana (l)	7	7	8
Guernsey	0	0	0
India	5 (a)	15 (f)	15
Italy	5 (b)	15 (f)	15
Kuwait	0	0	10
Lesotho	10	10	10
Luxembourg	5 (a)	0	0
Madagascar	5 (h)	10	5
Malaysia	5 (a)	15 (f)	15
Malta	0	0	0
Monaco	0	0	0
Mozambique	8/10/15	8 (f)	5
Namibia	5/10	10 (f)	5
Nepal	5/10/15 (o)	10/15 (p)	15
Oman	0	0	0
Pakistan	10	10	12.5
Qatar	0	0	5
Russian Federation (l)	5 (k)	0	0
Rwanda	10	10	10
Senegal	0	0	0
Seychelles	0	0	0
Singapore	0	0	0

<b>Recipient's country of residence</b>	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties %</b>
South Africa	5/10 (t)	0/10 (u)	5
Sri Lanka	10 (a)	10	10
Swaziland	7.5	5	7.5
Sweden	0 (i)	0	0
Thailand	10	10/15	5/15
Tunisia	0	2.5	2.5
Uganda	10	10	10
United Arab Emirates	0	0	0
United Kingdom	10 (c)	15 (f)	15 (d)
Zambia	5 (q)	10	5
Zimbabwe	10 (e)	10 (f)	15
Non-treaty jurisdictions	0	0/15 (m)	0/15 (n)

- (a) Applicable if the recipient has a direct shareholding of at least 10% of the capital of the Mauritian company; otherwise, the rate is 15%.
- (b) Applicable if the recipient has a direct shareholding of at least 25% of the capital of the Mauritian company; otherwise, the rate is 15%.
- (c) Applicable if the recipient has a direct or indirect shareholding of at least 10% of the capital of the Mauritian company; otherwise, the rate is 15%.
- (d) The reduced rate applies only if the royalties are subject to tax in the United Kingdom.
- (e) Applicable if the recipient controls directly or indirectly 25% of the voting power of the Mauritian company; otherwise, the rate is 20%.
- (f) The rate is 0% if the interest is paid to a bank resident in the treaty country (subject to additional conditions) and, under the France treaty, if the loan is made or guaranteed by the Banque Française du Commerce Extérieur.
- (g) The rate is 0% for literary, artistic or scientific copyright royalties and for royalties for the use of motion picture films or works recorded for broadcasting or television.
- (h) Applicable if the recipient is the beneficial owner of the dividends and if the payer of the dividends is a venture capital company; otherwise, the rate is 10%.
- (i) Applicable if the recipient is a company that holds at least 10% of the voting power of the company paying the dividends. Otherwise, the rate is 15% if the shareholder is the beneficial owner of the dividend income. The limitations-of-benefits clause of the tax treaty should be considered.
- (j) Applicable if the recipient has a direct or indirect shareholding of at least 25% of the capital of the Mauritian company; otherwise, the rate is 10%.
- (k) Applicable if the recipient has invested at least USD500,000 in the authorized capital of the payer of the dividends; otherwise, the rate is 10%.
- (l) This treaty has been signed, but it has not yet been ratified.
- (m) Interest paid by GBL1 companies to nonresidents or by Mauritian banks to nonresidents is exempt. Interest paid by other resident companies to nonresidents is taxed at a rate of 15%.
- (n) Royalties paid by GBL1 companies to nonresidents are exempt from tax. Royalties paid by other companies to nonresident companies are subject to tax at a rate of 15%.
- (o) The 5% rate applies if the recipient of the dividends holds directly at least 15% of the capital of the payer. The 10% rate applies if the recipient of the dividends holds directly at least 10%, but less than 15%, of the capital of the payer. The 15% rate applies to other dividends.
- (p) The 10% rate applies if the recipient of the interest is a financial institution or an insurance company. The 15% rate applies to other interest payments.
- (q) The 5% rate applies if the recipient is a company that owns at least 25% of the share capital of the paying company. Otherwise, the rate is 15%.
- (r) The 5% rate applies if the recipient is a company with a shareholding of at least 10%. Otherwise, the rate is 15%.
- (s) The 5% rate applies if the recipient owns less than 25% of the company paying the dividends.
- (t) The 5% rate applies if the recipient is a company with a shareholding of at least 10%. Otherwise, the rate is 10%.

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- (u) The 0% rate applies if the interest arises on a debt instrument listed on the Stock Exchange of Mauritius, the Johannesburg Stock Exchange or any other stock exchange agreed to by the competent authorities of the contracting states.
  - (v) The 5% rate applies if the recipient is a company with a direct or indirect shareholding of at least 25% in the share capital of the paying company. Otherwise, the rate is 10%.
  - (w) The 5% rate applies if the recipient is the beneficial owner of the dividends and owns less than 25% of the share capital of the company.

Tax treaties with Burkina Faso, Côte d'Ivoire and Jersey await signature. Mauritius is negotiating tax treaties with Algeria, Canada, the Czech Republic, Gibraltar, Greece, the Hong Kong Special Administrative Region, Iran, Lesotho (to replace the existing treaty), Mali, Montenegro, Portugal, St. Kitts and Nevis, Saudi Arabia, Spain, Sudan, Tanzania, Vietnam, Yemen and Zambia (to replace the existing treaty).

# Mexico

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**A. At a glance**

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	10 (c)
Interest	
Paid on Negotiable Instruments	10 (d)(e)
Paid to Banks	10 (d)(f)
Paid to Reinsurance Companies	15 (d)
Paid to Machinery Suppliers	21 (e)
Paid to Others	35 (d)
Royalties	
From Patents and Trademarks	35 (d)
From Know-how and Technical Assistance	25 (d)
From Railroad Cars	5 (d)
Branch Remittance Tax	10 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

- (a) A 10% tax is imposed for employee profit sharing (see Section D).  
(b) The capital tax rate for foreign residents may be 25% or 35% (see Section B).  
(c) This tax applies to dividends paid out of profits generated after 2013 (see Section B).  
(d) This is a final tax applicable to nonresidents. Payments to tax havens are generally subject to a 40% withholding tax.

- (e) This rate can be reduced to 4.9% if certain requirements are met.
- (f) A reduced rate of 4.9% is granted each year to banks resident in treaty countries.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Corporations resident in Mexico are taxable on their worldwide income from all sources, including profits from business and property. A nonresident corporation in Mexico is subject to profits tax on income earned from carrying on business through a permanent establishment in Mexico and on Mexican-source income. Corporations are considered residents of Mexico if their principal place of management is located in Mexico.

Corporations are taxed on profits in Mexico by the federal government only. Resident corporations are not subject to tax on dividends received from other Mexican residents. Dividends paid to individuals and nonresidents are subject to a 10% withholding tax.

The income tax law recognizes the effects of inflation on the following items and transactions:

- Depreciation of fixed assets
- Cost on sales of fixed assets
- Sales of capital stock (shares)
- Monetary assets and liabilities
- Tax loss carryforwards

The tax basis of investments in capital stock may be adjusted for inflation at the time of capital stock reductions or liquidation. Taxes are also indexed for inflation in certain circumstances.

**Tax rate.** Corporations are subject to federal corporate income tax at a rate of 30%.

**Capital gains.** Mexican tax law treats capital gains obtained by Mexican corporate residents as normal income and taxes them at the regular 30% tax rate. However, losses on sales of shares are restricted and may only be used to offset gains from the sale of shares. Nonresidents are subject to a 25% tax rate on gross income or a 35% rate on net income from the sale of shares. Capital gains derived from sales of publicly traded shares by individuals or non-Mexican residents are taxed at a rate of 10%. To determine the deductible basis for sales of real estate, fixed assets and shares, the law allows for indexation of the original cost for inflation.

**Administration.** The tax period always ends on 31 December and cannot exceed 12 months. The tax return must be filed by the end of the third month following the tax year-end. Monthly tax installments must be paid during the corporation's tax year.

**Dividends.** Resident individuals and nonresident shareholders of a Mexican corporation are subject to a 10% income tax on dividends received that are paid out of profits generated after 2013. Dividends are not subject to corporate income tax at the distributing company level if the distribution is from previously taxed earnings and if the distributing corporation has sufficient accumulation in its "net after-tax profit" (CUFIN) account to cover the dividend. If the dividend is in excess of the CUFIN account, the dividend is also taxed at the distributing company level at a rate of

30% on a grossed-up basis. The following is an illustration of how to compute the annual net after-tax profit for the CUFIN account.

	<b>MXN</b>
Corporate taxable income	1,000
Income tax (30%)	(300)
Nondeductible profit sharing to employees (estimated)	(150)
Nondeductible expenses	<u>(50)</u>
Net after-tax profit added to the CUFIN account	<u>500</u>

If the CUFIN balance is not sufficient to cover an earnings distribution, the remaining amount triggers corporate income tax on the dividend grossed up by a factor of 1.4286. The corporate income tax rate is then applied to the grossed-up dividend. The following is an illustration of the calculation.

	<b>MXN</b>
<i>Calculation of excess dividend</i>	
Amount of dividend	700
Dividend from CUFIN	<u>500</u>
Excess dividend	<u>200</u>
<i>Tax on excess dividend</i>	
Grossed-up income (Gross-up factor of 1.4286 x excess dividend of MXN200)	<u>285.72</u>
Tax at 30%	<u>85.72</u>

Income tax paid on distributed profits in excess of the CUFIN balance may be credited against corporate income tax in the year in which the dividend is paid and in the following two years.

Similar rules apply to remittances abroad by branches of foreign corporations.

**Foreign tax relief.** A tax credit is allowed for foreign income tax paid or deemed paid by Mexican corporations, but the credit is generally limited to the amount of Mexican tax incurred on the foreign-source portion of the company's worldwide taxable income. This calculation must generally be made on a country-by-country basis.

### C. Determination of trading income

**General.** Taxable profits are computed in accordance with generally accepted accounting principles, with certain exceptions, including the following:

- Nondeductibility of penalties and unauthorized donations
- Nondeductibility of increases to reserves for bad debts, obsolescence, contingencies, indemnities and so forth
- Monetary gain on debts, and monetary loss on credits, to recognize the effect of inflation
- Nondeductibility of 53% of exempt salaries (percentage may be decreased to 47% if the exempt salaries are not reduced from previous year)
- Nondeductibility of certain payments to tax havens or hybrid entities

Employee profit-sharing (see Section D) is effectively deductible.

**Inventories.** Inventories are deducted on a cost-of-sales basis.

**Depreciation.** The straight-line method is used to depreciate tangible fixed assets and to amortize intangible assets. Depreciation must be computed using the annual percentages set by law. The depreciation of new assets must be computed on a proportional basis relating to the months in which the assets are used. Depreciation is computed on original cost of fixed assets, with the amount of depreciation indexed for inflation as measured by price indices.

The following are the maximum annual depreciation rates for certain types of assets.

<b>Asset</b>	<b>Rate (%)</b>
Buildings	5
Motor vehicles	25
Office equipment	10
Computers	
Mainframe equipment	30
Peripheral equipment	30
Plant and machinery	
General rate	10
Machinery and equipment used in the generation and distribution of electricity	5
Machinery and equipment used in the mining industry	12
Machinery and equipment used in the construction industry	25
Machinery and equipment related to hydrocarbon infrastructure	10
Environmental machinery and equipment	100

**Relief for losses.** Net operating losses may be carried forward for 10 years.

**Groups of companies.** A Mexican holding company may obtain an authorization to effectively compute income tax on a consolidated basis (integration regime), but each company of the group is responsible for filing and paying the tax individually. This option is subject to several rules and limitations, including a recapture of benefits.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax, on any supply of goods or services and on imports	
General rate	16
Certain foods and medicines and exports	0
Excise tax, on the supply of goods or services, excluding exports, and on imports; goods and services subject to tax include food with high caloric density, alcoholic beverages, alcohol, tobacco, gasoline, diesel and telecom services	Various
Real estate acquisition tax; local tax on market value of real estate transferred (approximate rates)	2 to 4.5



Nature of tax	Rate (%)
State tax on salaries	2 to 3
Residence tax, on each employee's salary (approximate rate)	5
Employee profit sharing, on taxable profits of resident entities and permanent establishments of nonresident entities (loss carryforwards may not be deducted)	10
Social security contributions, on salaries up to a specified amount; paid by	
Employer (approximate rate)	15
Employee (approximate rate)	4

## E. Miscellaneous matters

**Foreign-exchange controls.** Mexico has no foreign-exchange controls.

**Transfer pricing.** Mexico has transfer-pricing rules based on Organisation for Economic Co-operation and Development (OECD) standards. Acceptable transfer-pricing methods include the comparable uncontrolled price method, the resale price method, the cost-plus method, the profit-split method, the residual profit-split method and the transactional net-margin method. In certain cases, specific appraisals are used. Transactions between related parties are subject to greater scrutiny. It may be possible to reach transfer-pricing agreements in advance with the tax authorities. These agreements may apply for a period of up to five years.

Under the 2016 tax reform, beginning in 2016, certain Mexican taxpayers must file additional transfer-pricing documentation, including a Local File, a Master File and Country-by-Country Reports, as inspired by Action 13 of the Base Erosion and Profit Shifting report.

**Debt-to-equity rules.** Interest deductions on cross-border related-party debt may be disallowed if the debt-to-equity ratio exceeds 3 to 1.

## F. Treaty withholding tax rates

	Dividends (I) %	Interest %	Patent and know-how royalties %
Argentina	10/15 (a)	12	10/15
Australia	0/15 (k)	10/15 (e)	10
Austria	5/10 (d)	10	10
Bahrain	— (v)	4.9/10 (n)	10
Barbados	5/10 (d)	10	10
Belgium	5/15 (a)	5/10 (n)	10
Brazil	10/15 (a)(b)	15 (b)	15 (b)
Canada	5/15 (d)	10	10 (g)
Chile	5/10 (u)	15 (b)	15 (b)
China (mainland)	5	10	10
Colombia	0 (w)	5/10 (n)	10 (b)
Czech Republic	10	10	10
Denmark	0/15 (a)	5/15 (n)	10
Ecuador	5	10/15 (m)	10
Estonia	0	4.9/10 (n)	10

	<b>Dividends (I)</b>	<b>Interest</b>	<b>Patent and know-how royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Finland	0	10/15 (h)	10
France	0/5 (c)	5/10/15 (b)(h)	10/15 (b)
Germany	5/15 (d)	5/10 (n)	10
Greece	10	10	10
Hong Kong SAR	0 (w)	4.9/10 (n)	10
Hungary	5/15 (d)	10	10
Iceland	5/15 (d)	10	10
India	10	10	10
Indonesia	10	10	10
Ireland	5/10 (d)	5/10 (n)	10
Israel	5/10 (f)	10	10
Italy	15	10/15 (b)	15
Japan	0/5/15 (o)	10/15 (e)	10
Korea (South)	0/15 (k)	5/15 (n)	10
Kuwait	0 (w)	4.9/10 (n)	10
Latvia	5/10 (d)	5/10 (n)	10
Lithuania	0/15 (k)	10	10
Luxembourg	8/15 (d)	10	10
Malta	0 (w)	5/10 (n)	10
Netherlands	0/5/15 (d)(s)	5/10 (p)	10
New Zealand	15 (b)	10	10
Norway	0/15 (a)	10/15 (t)	10
Panama	5/7.5 (a)	5/10 (n)	10
Peru	10/15 (a)	15	15
Philippines	5/10/15 (y)	12.5	15
Poland	5/15 (a)	10/15 (e)	10
Portugal	10	10	10
Qatar	0 (w)	5/10 (n)	10
Romania	10 (d)	15	15
Russian Federation	10	10	10
Saudi Arabia	5	10	10
Singapore	0	5/15 (n)	10
Slovak Republic	0	10	10
South Africa	5/10 (d)	10	10
Spain	0/10 (a)	5/10 (b)(h)	10 (b)(g)
Sweden	0/5/15 (d)	10/15 (q)	10
Switzerland	0/15 (d)	5/10 (p)	10
Turkey	5/15 (a)	10/15 (q)	10
Ukraine	5/15 (a)	10	10
United Arab Emirates	0 (w)	4.9/10 (n)	10
United Kingdom	0/15 (x)	5/10/15 (j)	10
United States	0/5/10 (b)(d)	4.9/10/15 (r)	10
Uruguay	5	10	10
Non-treaty jurisdictions	10	4.9/10/21/35 (i)	25/35 (i)

- (a) The lower rate applies if the recipient is a corporation owning at least 25% (20% under the Brazil treaty) of the shares of the payer. Under the Panama treaty, the lower rate applies if the recipient owns at least 25% of the shares of the payer.

- (b) These treaties have a most favorable nation (MFN) clause with respect to interest and/or royalties. Under the MFN clause in the Chile treaty, the withholding tax rate for interest may be reduced to 5% for banks or 10% for other recipients and the withholding tax rate for royalties may be reduced to 10%, if Chile enters into a tax treaty with another country that provides for a lower withholding tax rate than 15% for such payments. Under the MFN clause in the France treaty, the withholding tax rate for interest and royalties is reduced if Mexico enters into a tax treaty with an OECD member that provides for withholding tax rates that are lower than the rates under the Mexico-France treaty. However, the rate may not be lower than 10% if the OECD member country is not a member of the European Union (EU). Under the Italy treaty, the MFN clause applies only to interest. It may reduce the withholding tax rate for interest to as low as 10% only if Mexico enters into a treaty with an EU country that provides for a withholding tax rate for interest of less than 15%. Under the MFN clause in the Spain treaty, the withholding tax rates for interest and royalties may be reduced if Mexico enters into a tax treaty with an EU country that provides for withholding tax rates that are lower than the rates under the Mexico-Spain treaty. Under the Brazil treaty, if this country agrees with another country regarding a lower rate for dividends, interest or royalties, such rate will apply. For interest and royalties, the applicable rate may not be lower than 4.9% and 10%, respectively. Under the New Zealand treaty, if this country agrees with another country regarding a lower rate for dividends, such rate will apply. Under the MFN clause in the Colombia treaty, the withholding tax rate for royalties related to technical services and assistance will be automatically reduced if Colombia enters into a tax treaty with a third country that provides a lower rate. The standard rate for interest and for patent and know-how royalties under all of the above treaties is generally 15%. However, as a result of the operation of the MFN clause, the lower rates listed in the table may apply in certain circumstances.
- (c) The 0% rate applies if the recipient of the dividends is the effective beneficiary of the dividends. The 5% rate applies if the recipient is a company that is resident in France and if more than 50% of such recipient is owned by residents of countries other than France or Mexico.
- (d) The 5% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer. Under the US treaty, the 0% rate applies if the recipient owns 80% of the voting shares and if other requirements are met. Under the Switzerland treaty, the 0% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer or if the beneficiary of the dividend is a pension fund. Under the Sweden treaty, the 0% rate applies if the recipient is a corporation owning at least 25% of the voting shares of the payer of the dividends and if at least 50% of the voting shares of the company that is the effective beneficiary of the dividends is owned by residents of that contracting state. Under the Luxembourg treaty, the 8% rate applies to Mexico if the recipient is a corporation that owns at least 10% of the voting shares of the payer.
- (e) The 10% rate applies to interest derived from loans granted by banks and insurance companies. Under the Germany treaty, the 10% rate also applies to interest paid to pension funds. Under the Australia and Japan treaties, the 10% rate also applies to interest paid on bonds or with respect to sales by suppliers of machinery and equipment. Under the Poland treaty, the 10% rate also applies to interest paid on publicly traded securities.
- (f) The 5% rate applies if the recipient is a corporation that owns at least 10% of the shares of the payer and if the tax levied in Israel is not less than the corporate tax rate.
- (g) The effective beneficiary of royalties is subject to withholding tax on the gross payments. Royalties on cultural works (literature, music and artistic works other than films for movies or television) are not subject to withholding tax if they are taxed in the recipient's country.
- (h) A 10% rate applies to interest paid on bank loans or publicly traded bonds, as well as to interest paid with respect to sales by suppliers of machinery and equipment.
- (i) See Section A and the applicable footnotes in the section.
- (j) The 5% rate applies if the beneficial owner of the interest is a bank or insurance company or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to interest paid by a bank or by a purchaser with respect to a sale on credit of machinery if the seller is the beneficial owner of the interest. The 15% rate applies to other interest.
- (k) The 0% rate applies if the recipient is a corporation owning at least 10% of the shares of the payer.

- (l) Under Mexican domestic tax rules, dividends are subject to a 10% withholding tax rate. As a result, treaty rates in excess of the 10% rate should not apply.
- (m) Beginning in the sixth year the treaty is in effect, the 15% rate is reduced to 10% if the beneficial owner of the interest is a bank. For the first five years, however, the 15% rate applies to such interest.
- (n) The lower rate applies if the beneficial owner of the interest is a bank. Under the Colombia treaty, a 0% rate also applies if the beneficial owner of the interest is an insurance company. Under the Estonia treaty, the 4.9% rate also applies if the beneficial owner is a pension fund.
- (o) The 5% rate applies if the recipient is a corporation owning at least 25% of the shares of the payer. The 0% rate applies if the condition described in the preceding sentence is satisfied and if both of the following conditions are satisfied:
- The recipient's shares are regularly traded on a recognized stock exchange.
  - More than 50% of the recipient's shares are owned by one or any combination of the following:
    - The state of residence of the recipient.
    - Individuals resident in the state of residence of the recipient.
    - Corporations resident in the state of residence of the recipient if their shares are traded on a recognized stock exchange or if more than 50% of their shares are owned by individuals resident in the state of residence of the recipient.
- (p) The 5% rate applies if the interest is derived from loans granted by banks or insurance companies or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to other interest.
- (q) The 10% rate applies to interest derived from loans granted by banks.
- (r) The 4.9% rate applies if the beneficial owner of the interest is a bank or insurance company or if the interest is derived from bonds or securities that are regularly and substantially traded on a recognized securities market. The 10% rate applies to other interest.
- (s) Under a protocol to the treaty with the Netherlands, the 5% rate is reduced to 0% if the dividends are paid on a shareholding that qualifies for the participation exemption under the corporate tax law of the Netherlands.
- (t) The 10% rate applies if the beneficial owner of the interest is a bank.
- (u) The 5% rate applies if the recipient is a corporation owning at least 20% of the shares of the payer.
- (v) The treaty does not limit the withholding tax rate on this income.
- (w) Dividends are taxed only in the country of residence of the recipient.
- (x) In general, dividends are exempt if the beneficial owner is resident in the United Kingdom. However, if the dividend derives from rental income from real property located in Mexico through an investment vehicle and if the majority of the rents are distributed annually and are not subject to tax, the dividend rate may not exceed 15%.
- (y) The 5% rate applies if the recipient owns at least 70% of the capital of the distributing company. The 10% rate applies if the recipient owns at least 10%. The 15% rate applies in all other cases.

# Moldova

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## A. At a glance

Corporate Income Tax Rate (%)	12 (a)
Capital Gains Tax Rate (%)	6 (a)
Branch Tax Rate (%)	12 (a)
Withholding Tax (%)	
Dividends	6/15 (b)
Interest	
Payments to Resident Individuals	0/15 (c)
Payments to Nonresidents	12 (c)
Royalties	12 (d)
Services	7/10/12 (e)
Goods Acquired from Resident Individuals	5/7 (f)
Insurance Premiums	12 (g)
Winnings from Gambling, Advertising	
Campaigns and Lotteries	0/12/18 (h)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) See Section B.
- (b) In general, a 6% withholding tax applies to dividends paid to nonresidents and residents. A 15% rate applies to dividends related to the 2008 through 2011 fiscal years.
- (c) Interest on deposits and securities of individuals is not taxable until 2020. Interest on state securities is not taxable.
- (d) A 12% withholding tax rate applies to royalties paid to nonresidents and to resident individuals.
- (e) The 12% rate applies to services rendered by nonresidents. The 10% rate applies to rent paid to individuals, except for rent paid for agricultural land. The 7% rate applies to certain payments made to resident individuals.

- (f) The 5% rate applies to a list of agricultural products. The 7% rate applies to other types of goods acquired from resident individuals (with certain exceptions).
- (g) This withholding tax applies to insurance premiums paid to nonresidents.
- (h) The 12% rate applies to winnings from gambling and from advertising campaigns paid to nonresidents. The 18% rate applies to winnings from gambling paid to residents. The amount that exceeds MDL11,280 of winnings from advertising campaigns paid to residents is subject to an 18% withholding tax. A 0% rate applies to the amount of winnings from advertising campaigns paid to residents up to MDL11,280.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their worldwide income. Resident companies are companies with activities managed or organized in Moldova (an activity is organized in Moldova if it is carried out by a company that is registered in Moldova as a legal entity) and companies that carry out their business activities primarily in Moldova.

Permanent establishments of nonresident companies in Moldova are subject to tax on their income from Moldovan sources. For tax purposes, permanent establishments are considered to be resident entities.

**Rate of corporate income tax.** The rates of corporate income tax in Moldova are described below.

*Standard corporate income tax rate.* The standard corporate income tax rate in Moldova is 12%.

*Small and medium-sized companies (except for farmers and individual entrepreneurs) that are not registered as value-added taxpayers.* The following are the tax rates applicable to small and medium-sized companies (except for farmers and individual entrepreneurs):

- If the company is not registered as a value-added tax (VAT) payer, it must apply a 4% tax rate to the operational activity income obtained in the current fiscal reporting period.
- The company can choose to be taxed at a 4% tax rate applied to operational activity income obtained in the current reporting period or at the standard corporate income tax rate of 12% in the following cases:
  - If, in the previous fiscal reporting period (ending 31 December), the company obtained income from operational activities that are exempt from VAT or that are both exempt from VAT and VAT-taxable in an amount up to MDL1,200,000, provided that the supplies exempt from VAT exceed 50% of the VAT-taxable supplies.
  - If, in the previous fiscal reporting period (ending 31 December), the company did not obtain any income from operational activities.
  - The company is registered during the current fiscal reporting period.
- If the company becomes a VAT payer, it must apply the standard corporate income tax rate of 12%.

*Farmers.* The income tax rate for farmers is 7%.

*Individual entrepreneurs.* For individual entrepreneurs, the income tax rates are 7% of annual taxable income that does not exceed MDL33,000 and 18% of annual taxable income that exceeds MDL33,000.

**Tax incentives.** The main tax incentives available in Moldova are described below.

*Free-economic zones.* Residents of free-economic zones benefit from the following incentives:

- A 50% reduction of the standard corporate profits tax rate on income derived from the exportation outside Moldova of goods originating in the free-economic zone
- A 25% reduction of the standard corporate profits tax rate on income other than the income indicated in the preceding bullet
- A three-year exemption from corporate profits tax on income derived from the exportation of goods originating in a free-economic zone, beginning with the quarter following the quarter in which investments made in fixed assets or in the development of the free-economic zone infrastructure are at least of USD1 million
- A five-year exemption from corporate profits tax on income derived from the exportation of goods originating in a free-economic zone, beginning with the quarter following the quarter in which investments made in fixed assets or in the development of the free-economic zone infrastructure are at least of USD5 million

Residents that benefited from exemptions mentioned in the third and fourth bullets above and that make additional investments in fixed assets or in the development of the free-economic zone infrastructure are entitled to benefit repeatedly from a corporate profits tax exemption on income derived from the exportation of goods originating in a free-economic zone beginning with the quarter following the quarter in which the required amount of additional investments is reached, if the average number of employees registered in the calendar year following the year in which the required amount of additional investments is reached exceeds by 20% the average number of employees registered in the previous calendar year. The length of the exemption depends on the amount of invested capital. The following are the required amounts of the investments and the corresponding exemptions:

- Invested capital of least USD1 million: exemption for a one-year period
- Invested capital of at least USD3 million: exemption for a three-year period
- Invested capital at least USD5 million: exemption for a five-year period

*IT parks.* Companies that are residents of IT parks benefit from incentives.

A single tax in the amount of 7% is the only charge applied to sales revenue, which includes the following taxes and contributions:

- Corporate income tax
- Personal income tax (applied on salaries)
- Social security contributions due from employees and employers
- Health insurance contributions due from employees and employers
- Local taxes on real estate
- Tax on roads for vehicles registered in Moldova

The park residents pay the other taxes under the existing general rules.

The single tax of 7% must be declared and paid monthly, and it cannot be lower than 30% of the “average salary per economy forecasted” for the respective fiscal year multiplied by the number of employees hired by the company. The “average salary per economy forecasted” is an annual amount established by the government. For 2018, the average salary per economy forecasted is MDL6,150.

*Business entities that create new jobs.* Business entities can benefit from a reduction of taxable income if they increase annually the number of employees. The amount of taxable income subject to reduction is determined by multiplying the prior-year average national monthly salary with the increase in the average number of employees on payroll compared with the prior year.

**Capital gains.** Capital gains and losses on sales, exchanges or other transfers of capital assets are equal to the difference between amounts received and the cost bases of the assets. The amount of capital gains subject to income tax in a tax year equals 50% of the excess of capital gains over capital losses. Net capital losses may be carried forward to offset capital gains in the following five years.

**Administration.** In general, the tax year is the calendar year. A company may elect a different tax year. In particular, if, in accordance with the local accounting legislation, a company elects a financial reporting period that is different from the calendar year, the company’s tax year should correspond to the company’s financial reporting period.

The corporate income tax return must be filed by 25 March of the year following the tax year.

An amended tax return can be filed to correct errors contained in the original tax return if no tax audit was announced or performed by the tax authorities for the respective fiscal period.

Under the Moldovan Tax Code, companies may either obtain a refund of an overpayment of tax or offset the overpayment against existing or future tax liabilities.

All taxes in Moldova must be paid in Moldovan lei (MDL). To calculate the tax on income realized in foreign currency, the income must be converted into lei using the official exchange rate on the payment date.

**Dividends.** In general, a 6% withholding tax is imposed on dividends paid to nonresidents and residents. A 15% withholding tax continues to be imposed on dividends related to the 2008 through 2011 fiscal years.

**Foreign tax relief.** Companies may claim a credit against corporate income tax for foreign tax paid on income that is subject to tax in Moldova. The foreign tax credit is granted for the year in which the relevant income is subject to tax in Moldova.

### **C. Determination of trading income**

**General.** Taxable income includes income earned from all sources, less deductible expenses and allowances provided for by the tax law. In general, companies may deduct ordinary and necessary



expenses accrued during the tax year with respect to its business activities. However, they may not deduct the following items:

- Personal and family expenses of the company founders and employees
- Amounts paid for the acquisition of depreciable property
- Losses resulting from sales or exchanges of property, performance of works and provisions of services between related parties
- Unjustified expenses paid to related parties, including compensation, interest and rent
- Amounts paid to the holders of business patents
- Expenses related to exempt income
- Provisions for bad debts

**Inventories.** Assets valuation income is non-taxable. Assets valuation losses are nondeductible.

**Provisions.** If a court decision confirms that a debt owed to a company will not be recovered, the company may deduct for tax purposes the amount of the debt. Provisions for bad debts are not deductible for tax purposes.

**Tax depreciation.** For the 2018 tax year, taxpayers may choose between the declining-balance depreciation method and the straight-line depreciation method to calculate the tax depreciation of fixed assets used in business activities. The relevant rules are described below.

*Declining-balance method.* For the use of the declining-balance method, all fixed assets must be classified into five categories. The following are the categories and the applicable depreciation rates.

Category	Rate (%)
1	5
2	8
3	12.5
4	20
5	30

The allocation of the fixed assets to the above categories is based on the Catalogue of Fixed Assets approved by the Moldovan government.

The assets in Category 1 (real estate) are depreciated individually. The assets in the other categories are depreciated as groups.

*Straight-line method.* For the use of the straight-line depreciation method, records on fixed assets' depreciation must be maintained for each item separately. The depreciation rate for each fixed asset is determined as a ratio between 100% and its useful life set in the Catalogue of Fixed Assets approved by the Moldovan government.

**Relief for losses.** Companies incurring a tax loss may deduct the loss in the following five tax years. Losses may not be carried back.

**Groups of companies.** The Moldovan tax law does not contain any measures regarding groups of companies in Moldova. Conse-

quently, the filing of consolidated returns or the granting of relief for losses on a group basis is not permitted.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on goods and services delivered in or imported into Moldova	
Standard rate	20
Bread and bread products, milk and dairy products, medicines, natural and liquefied gases, beet sugar and agricultural products	8
Exports of goods and services, international cargo and passenger transport, certain distributions of electric power, thermic energy and hot water, and other specified goods and services relating to diplomatic missions and international organizations	0
Excise taxes, on certain consumption goods; tax is imposed at a fixed amount per unit of the good or by applying an ad valorem rate to the market value of the good	Various
Social security contributions, on remuneration; paid by	
Employer	23
Employee	6
Medical insurance contributions, on remuneration; paid by	
Employer	4.5
Employee	4.5
Customs duties; rates set by Customs Tariff Law	Various
Local taxes on real estate (other than real estate used for agricultural or dwelling purposes)	0.3

#### E. Foreign-exchange controls

The Moldovan leu (MDL) is the only currency that may be used to make payments in Moldova. The National Bank of Moldova (NBM) establishes the official exchange rate for the leu in relation to other foreign currencies. Both resident and nonresident companies may open leu or foreign currency accounts in authorized banks of Moldova.

Resident companies are not required to convert proceeds received in foreign currency into lei (plural of leu). However, they may not transfer foreign currency from their accounts to the accounts of other residents of Moldova, except for authorized banks.

Nonresidents may transfer abroad currency if the currency was registered in their account or if the funds were previously held in a leu deposit account with a Moldovan authorized bank.

Payments in currency by resident companies to nonresidents may be made only from foreign-currency accounts at authorized Moldovan banks (or at foreign banks that are authorized by NBM), and these payments may be made by bank transfer only.

For a distribution of profits during the year, a company should be ready to present to interested bodies the statutory act of the

company that indicates the amount of the distribution. For a distribution of profits at the end of the fiscal year, the company should have ready for inspection a copy of the filed annual tax return and the statutory act of the company that indicates the amount of the distribution.

## F. Treaty withholding tax rates

The following table shows the applicable withholding rates under Moldova's bilateral tax treaties.

	Dividends		Interest	Royalties
	A	B		
	%	%	%	%
Albania	10	5	5	10
Armenia	15	5	10	10
Austria	15	5	5	5
Azerbaijan	15	8 (a)	10	10
Belarus	15	15	10	15
Belgium	15	15	15	0
Bosnia and Herzegovina	10	5	10	10
Bulgaria	15	5	10	10
Canada	15	5 (b)	10	10
China (mainland)	10	5	10	10
Croatia	10	5	5	10
Cyprus	10	5	5	5
Czech Republic	15	5	5	10
Estonia	10	10	10	10
Finland	15	5	5	3/7 (c)
France (o)	15	5 (d)	5	2
Georgia (o)	15	5 (e)	10	10
Germany	15	15	5	0
Greece	15	5	10	8
Hungary	15	5	10	0
Ireland	10	5	5 (g)	5
Israel	10	5	5	5
Italy	15	5	5	5
Japan	15	15	10	0/10 (f)
Kazakhstan	15	10	10	10
Kuwait	5	5	2	10
Kyrgyzstan	15	5	10	10
Latvia	10	10	10	10
Lithuania	10	10	10	10
Luxembourg	10	5	5 (g)	5
Macedonia	10	5	5	10
Malta	5	5	5	5
Montenegro	15	5	10	10
Netherlands	15	0/5 (h)	5	2
Oman	5	5	5	10
Poland	15	5	10	10
Portugal	10	5	10	8
Romania	10	10	10	10/15 (i)
Russian Federation	10	10	0	10
Serbia	15	5	10	10
Slovak Republic	15	5	10	10
Slovenia	10	5	5	5
Spain	10	5 (j)	5	8
Switzerland	15	5	10 (k)	0

	Dividends		Interest	Royalties
	A	B		
	%	%	%	%
Tajikistan	10	5	5	10
Turkey	15	10	10	10
Turkmenistan	10	10	10	10
Ukraine	15	5	10	10
United Kingdom	10	5 (l)	5	5
Uzbekistan	15	5	10	15
Non-treaty jurisdictions	6/15 (m)	6/15 (m)	12 (n)	12

A These are the general dividend withholding tax rates.

B In general, the rates apply if the beneficiary of the dividends is a company that holds directly at least 25% of the share capital of the payer.

- (a) This rate applies if the effective beneficiary of the dividends is a company that has invested foreign capital of at least USD250,000 in the payer of the dividends.
- (b) This rate applies if the beneficiary of the dividends is a company holding directly at least 10% of the capital of the payer.
- (c) The 3% rate applies to royalties paid for the use of, or the right to use, patents, computer software, designs or models, plans, and secret formulas or processes, or for information concerning industrial, commercial or scientific experience. The 7% rate applies to other royalties.
- (d) This rate applies if the beneficiary of the dividends is a company holding directly at least 10% of the payer of the dividends.
- (e) This rate applies if the effective beneficiary of the dividends is a company (other than a society) that has invested more than USD300,000 in the capital of the payer of the dividends.
- (f) Royalties received for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films and films or tapes for radio or television broadcasting, are exempt from tax.
- (g) No tax is withheld if the effective beneficiary of the interest is a financial institution.
- (h) No tax is withheld if the effective beneficiary of the dividends is a company that directly holds at least 50% of the capital of the payer of the dividends and that has invested USD300,000 or an equivalent amount of national currency of a European Union (EU) member state in the capital of the payer of the dividends.
- (i) The 10% rate applies to royalties paid for the use of patents, trademarks, drawings or patterns, plans, secret formulas or manufacturing procedures as well as for industrial, commercial or scientific information. The 15% rate applies to other royalties.
- (j) No tax is withheld if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 50% of the capital of the payer of the dividends.
- (k) No withholding tax is imposed on interest paid on bank loans or on interest paid with respect to the following:
- Sales on credit of industrial, commercial or scientific equipment
  - Sales of goods between enterprises
- (l) No tax is withheld if either of the following conditions is satisfied:
- The beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the capital of the company paying the dividends and that has invested at least GBP1 million (or the equivalent amount in another currency) in the capital of the company paying the dividends at the date of payment of the dividends.
  - The beneficial owner of the dividends is a pension scheme.
- (m) In general, the withholding tax rate for dividends is 6%. For dividends related to the 2008 through 2011 fiscal years, the withholding tax rate is 15%.
- (n) Interest on deposits and securities of resident individuals is not taxable until 2020. Interest on state securities is not taxable.
- (o) This treaty has been signed, but it is not yet in effect.

# Monaco

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## A. At a glance

Corporate Income Tax Rate (%)	33.33
Capital Gains Tax Rate (%)	33.33
Branch Tax Rate	33.33
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited*

\* The amount of losses used in a given year may not exceed EUR1 million plus 50% of the taxable income exceeding this limit for such year.

## B. Taxes on corporate income and gains

**Corporate tax.** In accordance with Article 1 of the tax treaty between France and Monaco of 18 May 1963, the Principality of Monaco introduced corporate income tax.

The following entities are subject to corporate income tax:

- Companies of any legal status that carry out industrial or commercial activities and that generate at least 25% of their turnover outside Monaco
- Companies whose income relates to the sale or licensing of patents, trademarks, processes or formulas and to royalties from intellectual property rights

Administrative offices are also subject to this tax, but the tax is applied according to the specific terms relevant to their situation. The tax is determined by a flat rate, generally equal to 8% of the total annual operating expenses.

The legal form of the company is irrelevant with respect to the application of the corporate income tax. The nature of the activities and location of the transactions determine the liability for this tax.

**Rates of corporate tax.** The corporate income tax rate is 33.33%.

**Tax reliefs.** Under the business start-up scheme, enterprises created in Monaco and falling within the scope of corporate income tax that carry on a genuinely new business are exempt from corporate income tax for a period of two years and subsequently benefit from a favorable regime for the three following years. The following is the taxation under this scheme:

- First and second years: there is no corporate income tax.
- Third year: tax is calculated on 25% of the taxable income.
- Fourth year: tax is calculated on 50% of the taxable income.
- Fifth year: tax is calculated on 75% of the taxable income.
- Sixth and future years: tax is calculated on 100% of the taxable income.

A tax credit is granted for research and development.

Administrative offices are subject to corporate income tax and generally taxed at a reduced rate on a fixed basis, corresponding to the amount required for their operation. Under this measure, in practice, if the office has no activities outside the group and its activities are limited to internal management work, it is subject to tax at a rate of 2.66% (8% of 33.33%), which is applied to its operating expenses.

**Capital gains.** Capital gains are included in taxable income and subject to the corporate tax at a rate of 33.33%. However, capital gains from asset sales as part of business activities may, under certain conditions, be exempt if they are reinvested in the firm.

**Administration.** In general, companies must file a tax return within three months following the end of their financial year. If the period coincides with the calendar year, the tax return must be filed before 1 April of the following year.

Companies must pay provisional tax installments of corporate income tax. Payment of these installments must be made in the months of February, May, August and November of each year. Each installment equals 20% of the tax calculated on the taxable income for the preceding financial year.

The balance of corporate tax is due by the deadline date for filing the tax return, which is before 1 April if the period coincides with the calendar year.

In general, late filing is subject to a penalty averaging between EUR15 and EUR75. In case of the late payment of installments or of the balance of corporate tax, interest and a 3% penalty are applied. An additional 1% penalty is charged per month in case of additional delay of payment.

**Dividends.** In general, individuals and legal entities that pay investment income and interest on receivables, deposits or guarantees to individuals or legal entities domiciled or established in France or to persons of French nationality resident in Monaco who do not hold a certificate of residence must, within the first quarter of the year, declare to the Department of Tax Services the income or revenue earned by the beneficiaries in the preceding year.

Under the parent-subsidiary regime, dividends received by Monegasque companies from their Monegasque or foreign subsidiaries are exempt from corporate income tax, except for a 5%, 10% or 20% service charge computed on the gross dividend income that is added back to the recipient's taxable income.

**Foreign tax relief.** Any tax paid abroad on income may be offset against the amount of Monegasque tax on the same income.

An enterprise that receives foreign-source income, such as products of industrial, artistic or literary property or income from movable capital, subject to withholding tax or income tax in the country of realization of income, may deduct the tax paid abroad from the tax on the profits for which it is liable in Monaco on the same income, subject to the production of proof of payment of the tax.

For the calculation of the tax due in Monaco, the amount of the foreign tax is in such case added to the gross receipts of the company.

### C. Determination of trading income

**General.** The assessment is based on financial statements prepared according to Monegasque generally accepted accounting principles, subject to certain adjustments.

Taxable income is calculated according to the profits derived from activities of any nature carried out by the company. It is determined after the deduction of all costs. However, under specific rules, the salary of the owner or directors can only be deducted for individuals who carry out a real function within the company and at a total value that is reasonable for their roles. The owner's or directors' salaries can only be deducted from taxable income if the amount is not excessive in comparison to recognized practices on an international level, particularly within the European Union (EU).

For small businesses (defined as companies with a turnover of less than EUR3,500,000 for the provision of services or EUR7 million for other activities), a scale determines the maximum amount of deductible income per turnover bracket.

In general, interest payments are fully deductible. However, certain restrictions are imposed.

**Inventories.** Inventories must be valued at the lower of the cost or the market value at the closing date of the financial year. Work in progress is valued at cost.

**Reserves.** In determining accounting profit, companies must book certain reserves, such as reserves for a decrease in the value

of assets, risk of loss or expenses. These reserves are normally deductible for tax purposes, subject to conditions.

**Capital allowances.** In general, assets are depreciated using the straight-line method. The use of the declining-balance method, when possible, is always optional. Companies may depreciate assets falling within the scope of declining-balance method on a straight-line basis.

The following are some of the acceptable general straight-line rates.

<b>Asset</b>	<b>Rate (%)</b>
Commercial buildings	2 to 5
Industrial buildings	5
Office equipment	10 to 20
Motor vehicles	20 to 25
Plant and machinery	100

**Relief for tax losses.** Losses may be carried forward indefinitely. However, for fiscal years ending on or after 31 December 2012, the amount of losses used in a given year may not exceed EUR1 million plus 50% of the taxable income above that amount for such fiscal year (as is the case in France).

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value Added Tax (VAT); an indirect tax on consumption; all persons (companies or self-employed workers) regularly engaged in business transactions are subject to VAT; French and Monegasque territories, including their territorial waters, form a customs union organized by the Franco-Monegasque customs agreement of 18 May 1963; French customs regulations apply directly in Monaco; Monaco is incorporated into European customs territory (although it remains a third country with regard to the EU); goods and services in the Single European Market can therefore be accessed from Monaco; key transactions subject to VAT include transactions forming part of business activities that are performed for a charge by taxpayers, whatever their legal status, transactions specifically designated by the law (for example, self-supplies of goods, certain purchases and imports), transactions usually exempt that are taxed at the option of the person performing them (transactions performed by persons carrying out exempted non-commercial activities, transactions performed by banking and financial institutions and rentals of unfurnished property for industrial, commercial or professional use) and transactions contributing to the production and delivery of property	
General rate	20
Reduced rates	5.5/10



<b>Nature of tax</b>	<b>Rate (%)</b>
Registration duties; levied at either a fixed rate or a proportional rate, depending on the nature of the document; the fixed rate duty is usually EUR10; most commonly applied duties	
Tenancy agreement; levied on the annual rent plus charges	1
Conviction	2
Mortgage agreement document; for the engrossed copy	3
Sale of movable property (reduced to 2% for some sales at public auctions)	5
Sale of real estate	6.5
Transfer of business or customer list	7.5
Transaction fee for land publication	1
Transaction fee for mortgages	0.65

### **E. Country-by-Country Reports**

As part of its international agreements, Monaco has made enforceable the multilateral agreement between competent authorities on the exchange of Country-by-Country Reports (CbCRs) (Sovereign Ordinance No. 6.712, dated 14 December 2017).

This measure is part of the international project of fighting Base Erosion and Profit Shifting (BEPS), which led to the passing by the Organisation of Economic Co-operation and Development (OECD) of a set of measures (15 Actions), including the issuance of new rules regarding the documentation of the transfer pricing to increase the transparency for tax administrations (Action 13). Action 13 includes measures regarding CbCRs.

### **F. Tax treaties**

Monaco has entered into tax treaties with France, Guernsey, Italy, Luxembourg, Mali, Mauritius, Qatar, St. Kitts and Nevis, and Seychelles. It has also signed several tax agreements regarding the exchange of tax information.

# Mongolia

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*Mongolia is currently in the process of undergoing potentially significant tax reform. At the time of writing, it was not known what changes would be enacted. Because of this expected tax reform, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	10/25 (a)
Capital Gains Tax Rate (%)	10/25 (a)(b)
Nonresident Corporate Income Tax Rate (%)	10/25 (a)
Withholding Tax (%) (c)	
Dividends	20
Interest	20 (d)
Royalties	20
Rent	20
Management and Administrative Fees	20
Lease Interest	20
Use of Tangible and Intangible Assets	20
Goods Sold, Work Performed or Services Provided	20
Branch Profits Remittance Tax	20 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	2/4/8 (f)

- (a) The corporate tax system is progressive with annual taxable income of up to MNT3 billion subject to tax at a rate of 10% and taxable profits in excess of this amount taxed at a rate of 25%.
- (b) Gains derived from the sale of immovable property are subject to tax at a rate of 2%.
- (c) These withholding tax rates apply to payments to nonresidents.
- (d) A 10% rate applies to interest payments to nonresident bondholders on bonds issued by Mongolian commercial banks.
- (e) This is a technical tax because the Investment Law of Mongolia generally requires foreign companies to carry on business through a Mongolian limited liability company (LLC).

- (f) The general rule is that losses can be carried forward for two years, and the use of such losses is limited to 50% of taxable income in any year. For companies in the mining and infrastructure sector, losses can be carried forward for four to eight years, depending on the investment amount, and no restriction is imposed on the use of losses.

## B. Taxes on corporate income and gains

**Corporate income tax.** Permanent residents of Mongolia are taxed on their worldwide income. A company is regarded as a permanent resident of Mongolia in either of the following circumstances:

- It is incorporated in Mongolia.
- It is a foreign entity that has its head office located in Mongolia.

Permanent residents may qualify for a tax credit with respect to income generated from the production and planting of specified products (see *Tax incentives*).

Nonresidents of Mongolia are taxed on Mongolian-source income only. The term nonresident is generally defined to include foreign corporate entities that conduct business in Mongolia through a permanent establishment and foreign entities that generate income sourced in Mongolia other than through a permanent establishment.

**Rates of corporate tax.** The corporate tax system is progressive with annual taxable income of up to MNT3 billion subject to tax at a rate of 10% and taxable profits in excess of this amount taxed at a rate of 25%.

Certain types of income received by residents are taxed at different tax rates, as indicated in the following table.

Income	Rate (%)
Dividends	10
Royalties	10
Interest	10
Sale of rights (gross)	30
Gambling and lottery income	40
Sale of immovable property	2

**Tax incentives.** A 50% tax credit is available to taxpayers that generate income from the production and planting of the following:

- Cereal, potatoes and vegetables
- Milk
- Fruits and berries
- Fodder plants

A tax credit of 50% or 90% is available to taxpayers that are located in remote provinces. The credit is 50% for taxpayers that are 550 or more kilometers away from Ulaanbaatar and 90% for taxpayers that are 1,000 or more kilometers away from Ulaanbaatar. However, the following activities are excluded from this incentive:

- Exploring and mining of minerals
- Sale and importation of alcoholic beverages and tobacco
- Crude oil production, and wholesaling, trading and importing of gasoline and diesel fuel
- Providing communication services
- Construction of energy sources and networks, and production, sale and distribution of energy
- Aviation operations

- Construction and repair of roads
- Activities involving radioactive minerals and the nuclear energy field

A tax credit of 90% is available to taxpayers in the following sectors that have annual taxable income of not greater than MNT1.5 billion:

- Agriculture, livestock production and related auxiliary activities
- Production of food products
- Manufacturing of garments and clothing
- Manufacturing of construction materials

Double tax treaties offer additional tax credits for corporate entities taxed in foreign countries.

An exemption from corporate tax is available to investors that operate in the oil industry in Mongolia under a product-sharing contract with the Mongolian government.

Certain tax incentives are available to infrastructure developers in free-trade zones in Mongolia, subject to certain qualifying conditions, such as an investment threshold. They include tax incentives for projects with respect to power generation, heating facilities, sanitary facilities, auto roads, railways, airports and telecommunication infrastructure.

Both foreign and domestic companies may apply for a tax-stabilization certificate (subject to meeting certain criteria such as introducing new technology and creating stable jobs) to govern their investment in Mongolia. This certificate provides for stable tax conditions for a fixed term (consistent tax treatment regardless of changes in the tax law) across four different taxes; which are corporate income tax, customs duty, value-added tax (VAT) and tax on royalties. The term (5 years to 18 years) of a tax-stabilization certificate depends on the industry, the amount of investment and the geographical location of the investment. Previously, a tax stabilization certificate was granted for up to 30 years; however, this was limited to companies engaged in the mining industry under the Mineral Law of Mongolia.

**Capital gains.** Capital gains and losses are treated in the same manner as other taxable income and losses. Gains are subject to the progressive Mongolian corporate tax rates of 10% and 25%. The exception to this rule is that gains derived from the sale of immovable property are subject to tax at a rate of 2% on a gross basis.

**Administration.** The tax year in Mongolia is the calendar year.

Tax is generally calculated by the taxpayer on an accrual basis. The tax authorities deliver monthly and quarterly tax schedules to taxpayers that must pay tax before the 25th day of each month.

Taxpayers must also file quarterly returns within 20 days after the end of each quarter. An annual return is due on 10 February following the end of the tax year and the taxpayer must settle all outstanding liabilities by that date.

If it is necessary to withhold tax on dividends, royalties, sales of rights, transfers of profits overseas by permanent establishments

of foreign companies and other Mongolian-source income earned by nonresident taxpayers, the withholding tax must be remitted to the state within seven working days. Withholding tax on income received from the sale of immovable property must be remitted to the state within 10 working days after the sale of the property. All withholding tax statements must be submitted within 20 days after the end of the quarter, and an annual statement must be filed by 10 February following the end of the tax year.

On submission of the tax returns, the Mongolian tax authorities generally conduct an administrative check of the returns to ensure that all requirements have been satisfied with respect to the filing. At a later stage, the tax authorities can conduct a more detailed review of the returns through a tax audit.

**Dividends.** Dividends paid between permanent residents of Mongolia are subject to a 10% withholding tax. Dividend income received by a nonresident from a permanent resident is subject to withholding tax at a rate of 20%. This rate may be reduced under an applicable double tax treaty.

**Foreign tax relief.** The domestic law states that a foreign tax credit is generally available only if the foreign tax is paid in a country with which Mongolia has a double tax treaty.

### C. Determination of trading income

**General.** Taxable income is broadly defined as total revenue less the following:

- Deductible expenses
- Exempt income
- Tax losses

Taxable revenue falls under the following three categories:

- Income from operations. This is primarily income generated from business activity. However, it also includes, among other items, income from the sale of shares and securities, income from the sale of licenses, income from the sale of intangible assets and gains on foreign-currency exchange rates.
- Income associated with property. This includes rental income, royalties, dividends and interest income.
- Income from the sale of property. This includes the sale of movable and immovable property (with the exception of shares and securities).

Different sources of taxable income are taxed at different rates (see Section B).

The following types of income are exempt from tax:

- Interest earned on government bonds
- Income and dividends earned by taxpayers trading in the oil industry in Mongolia under a product-sharing contract and derived from the sale of its share of product
- Income earned by cooperatives from sales of their members' products through an intermediary
- Income earned by investment funds

The tax law provides a list of deductible expenses. Any items that are not listed as deductible in the tax law must be added back when computing taxable income.

The following are nondeductible expenses:

- Expenses incurred in earning exempt income
- Expenses not documented by the taxpayer
- Payments from which tax has not been withheld correctly
- Rental payments under finance leases
- Fines and penalties imposed by the tax authorities

Specific restrictions apply to the deductibility of the following:

- Regular maintenance expenses
- Voluntary insurance premium fees
- Reserves accumulated in the risk funds of banks and other non-banking financial institutions
- Per diem expenses
- Natural disaster restoration fees
- Depreciation of inventory

Third-party interest payments on loans to finance the company's primary and auxiliary production, operations, services and purchases of properties are generally deductible for tax purposes, subject to thin-capitalization rules.

Nonresidents carrying out trading activities in Mongolia through a permanent establishment may deduct business expenses in accordance with the rules applicable to permanent residents. However, expenses incurred outside of Mongolia and management and administrative expenses not related to the generation of business income are not deductible for tax purposes.

**Tax depreciation.** Tax depreciation of non-current assets is calculated using the straight-line method. The following are the useful economic lives of various non-current assets.

<b>Non-current assets</b>	<b>Useful economic life (years)</b>
Building and construction	40
Machinery and equipment	10
Computers, computer parts, software	3
Intangible asset with indefinite useful life	10
Intangible asset with definite useful life (includes licenses for mineral exploration and extraction)	Validity period
Other non-current assets	10

The depreciation value for a mineral exploration and extraction license is the sum of its purchase price and fees paid for ownership and transference of such license.

If an asset is only partially used in generating taxable profits, the tax depreciation claimed is accordingly prorated. If the taxpayer ceases to use its own depreciable assets to generate taxable profits, the asset is deemed sold and tax is levied on the higher of the book value or the market value of the asset. Land and inventory are non-depreciable assets.

**Relief for losses.** In general, tax losses can be carried forward for up to two years and the use of such losses is restricted to 50% of taxable profits in any tax year. For companies in the mining and infrastructure sector, losses can be carried forward for four to eight years, depending on the investment amount, and no restriction is imposed on the use of losses.

The carryback of losses is not allowed.

**Groups of companies.** Tax grouping is not allowed in Mongolia.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Royalties; paid on the sale of mining products; the two types of royalties are standard flat rate royalties and surtax royalties; the rates of the standard flat rate royalties depend on the type of minerals and whether they are sold within Mongolia; the rates of the surtax royalties vary depending on the type of minerals, their market prices and their degree of processing; surtax royalties are not imposed on minerals below a certain market price	
Standard flat rate royalties	
Coal and commonly occurring minerals sold in Mongolia for power plants	2.5
Coal sold abroad, commonly occurring minerals sold abroad and minerals that are not commonly occurring and that are sold in Mongolia or abroad	5
Surtax royalties	
Copper	0 to 30
Other minerals	0 to 5
Value-added tax (VAT); applicable to the supply of taxable goods and services in Mongolia and to goods imported into Mongolia; taxpayers must register for VAT if taxable turnover exceeds MNT50 million; taxpayers can voluntarily register for VAT if taxable turnover reaches MNT10 million; the tax law specifically indicates zero-rated and exempt items; taxable supplies are subject to VAT on the fair market value of the goods sold, work performed or services provided; the taxpayer is responsible for VAT on goods and services received from nonresidents; the Mongolian tax law allows VAT-registered taxpayers to offset output VAT with input VAT if this is supported by appropriate documentation; the excess of input VAT over output VAT can be carried forward for offset against future VAT or other tax liabilities; VAT exemptions are available in certain industries; VAT grouping is not possible; VAT is accounted for monthly and VAT payments must be made by the 10th day of the following month; VAT returns must be filed by the 10th day of each month	10
Excise tax; levied on individuals and legal entities that manufacture or import goods, such as alcoholic beverages, tobacco, gasoline and diesel fuel and automobiles; physical units of technical devices and equipment used for	

Nature of tax	Rate (%)
betting and gambling are also subject to excise tax; rate varies depending on the amount and the product	Various
Customs duty; levied on the majority of goods imported into Mongolia; information technology, medical equipment and pure-bred livestock are zero-rated and specified equipment imported into Mongolia by small and medium-sized enterprises and renewable energy sectors are exempt	5 to 40
Stamp duty; levied on various types of services; the rate depends on the type of services involved	Various
Immovable property tax; levied on the value of the immovable property; the value on which the tax is levied is the value registered with the government registration authority; if the property has not been registered, the insured value is used; if neither the registered nor the insured value is available, the accounting value is used in the calculation; rate depends on the size, location and market demand	0.6 to 1
Air pollution payment; applies to domestically produced raw coal, used or imported organic solvents and vehicles	Various
Social security taxes; applicable to Mongolian citizens and foreign citizens employed on a contract basis by economic entities, the government or religious or other organizations undertaking activities in Mongolia; consists of compulsory health and social insurance taxes; charges are capped at MNT240,000 per month for employees	12 to 14
Employers (The rates will be 12.5% to 14.5% for 2019 and 13.5% to 15.5% for 2020.)	11
Employees (The rates will be 11.5% for 2019 and 12.5% for 2020.)	

## E. Miscellaneous matters

**Foreign-exchange controls.** The Mongolian currency is the tugrik (MNT).

Foreign revenue and expenses must be converted into tugriks on the date of the transaction.

Realized foreign-exchange gains and losses are taxable and deductible, respectively.

**Transfer pricing.** Transactions between the taxpayer and a related party must follow arm's-length principles. If these principles are not followed, the tax authorities may seek to adjust the transaction to fair market value. The Ministry of Finance has released guidelines setting out the pricing methodologies that can be used by taxpayers and the documentation requirements for related-party transactions.

**Debt-to-equity rules.** Interest paid to certain related parties is subject to a debt-to-equity ratio of 3:1.



## F. Treaty withholding tax rates

The table below provides Mongolian withholding tax rates for dividends, interest and royalties paid from Mongolia to residents of various treaty countries. The rates reflect the lower of the treaty rate and the rate under domestic law. The table below is for general guidance only.

	Dividends %	Interest %	Royalties %
Austria	5/10 (a)	10	5/10 (b)
Belarus (c)	10	0/10 (d)	10
Belgium	5/15 (e)	10 (f)(q)	5 (q)
Bulgaria	10	10	10
Canada	5/15 (g)	0/10 (h)	5/10 (i)
China (mainland)	5	10	10
Czech Republic	10	0/10 (j)	10
France	5/15	0/10	0/5
Germany	5/10 (k)	0/10 (l)	10
Hungary	5/15 (m)	0/10 (n)	5
India	15	0/15 (o)	15
Indonesia	10	0/10 (p)	10
Kazakhstan	10	10	10
Korea (South)	5	5	10
Kyrgyzstan	10	10	10
Malaysia	10	10	10
Poland	10	0/10 (r)	5
Russian Federation	10	10	20 (s)
Singapore	0/5/10 (t)	5/10 (q)(u)	5
Switzerland	5/15 (v)	10	5
Thailand (c)	10	10/15 (w)	5/15 (x)
Turkey	10	10	10
Ukraine	10	0/10 (y)	10
United Kingdom	5/15 (z)	7/10 (aa)	5
Vietnam	10	10	10
Non-treaty jurisdictions	20	20	20

- (a) The 5% rate applies if the recipient of the dividends is a company (excluding partnerships) that holds directly at least 10% of the capital of the company paying the dividends. The 10% rate applies to all other dividends.
- (b) The 5% rate applies to royalties paid for patents, trademarks, designs or models, plans, secret formulas or processes, or information concerning industrial, commercial or scientific experience. The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films.
- (c) This treaty is not yet in force.
- (d) The 0% rate applies if the loan is provided to the government or the central bank. The 10% rate applies in all other cases.
- (e) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 10% of the capital of the company paying the dividends. The 15% rate applies to all other dividends.
- (f) The following types of interest are exempt from tax in the contracting state in which the interest arises:
- Interest on commercial debt claims
  - Interest paid with respect to loans made, guaranteed or insured by public entities or credits extended, guaranteed or insured by public entities, the purpose of which is to promote exports
  - Interest on loans granted by banking enterprises
  - Interest on deposits and interest paid to the other contracting state, or a political subdivision or local authority thereof
- (g) The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the voting power in the company paying the dividends (except in the case of dividends paid by a non-resident-owned investment corporation that is a resident of Canada). The 15% rate applies to other dividends.

- (h) The 0% rate applies to interest paid on loans made to the government or a political subdivision. The 10% rate applies in all other cases.
- (i) The 5% rate applies to copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or other artistic works (but not including royalties with respect to motion picture films or works on film or videotape or other means of reproduction for use in connection with television broadcasting) and royalties for the use of, or the right to use, computer software, patents or information concerning industrial, commercial or scientific experience (but not including royalties paid with respect to rental or franchise agreements). The 10% rate applies in all other cases.
- (j) The 0% rate applies to interest paid to (or by) the government (or specified institutions), subject to further conditions.
- (k) The 5% rate applies if the recipient of the dividends is a company (other than a partnership) that owns directly at least 10% of the capital of the company paying the dividends. The 10% rate applies to other dividends. Silent partnership income is taxed at the domestic rate of 25%.
- (l) The 0% rate applies to interest arising in Germany that is paid to the Mongolian government or a Mongolian bank.
- (m) The 5% rate applies if the beneficial owner is a company that holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies to other dividends.
- (n) The 0% rate applies to interest paid on loans to the government, the central bank, a political subdivision or a local authority. The 10% rate applies in all other cases.
- (o) The 0% rate applies to interest paid on loans to the government, the central bank, a political subdivision or a local authority, the Trade and Development Bank in Mongolia or the Industrial Development Bank of India or another recipient approved by the government. The 15% rate applies in all other cases.
- (p) The 0% rate applies to interest paid on loans to the government or central bank. The 10% rate applies in all other cases.
- (q) Please consult treaty for further details.
- (r) The 0% rate applies to interest arising in the contracting state and derived by the government of the other contracting state or a political subdivision, local authority or the central bank thereof or a financial institution wholly owned by that government or by a resident of the other contracting state, with respect to a debt claim indirectly financed by the government of that contracting state, a local authority or the central bank thereof or a financial institution wholly owned by the government.
- (s) Royalties may be taxed in the contracting state in which they arise and according to the laws of that state.
- (t) The 0% rate applies to dividends paid by a company that is resident in a contracting state to the government of the other contracting state. The 5% rate applies if the beneficial owner of the dividends is a company that holds directly 25% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (u) The 5% rate applies to interest received by banks or similar financial institutions. The 10% rate applies in all other cases. Interest is exempt from tax under certain circumstances.
- (v) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly 25% of the capital of the company paying the dividends. The 15% rate applies to all other dividends.
- (w) The 10% rate applies if the interest is received by a financial institution (including an insurance company). The 15% rate applies in all other cases.
- (x) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works. The 15% rate applies in all other cases.
- (y) The 0% rate applies to interest paid with respect to bonds, debentures or similar obligations of the government, political subdivisions, local authorities or the central bank. The 10% rate applies in all other cases.
- (z) The 5% rate applies if the beneficial owner of the dividends is a company that controls directly or indirectly at least 10% of the voting power in the company paying the dividends. The 15% rate applies to other dividends.
- (aa) The 7% rate applies to interest paid to banks and other financial institutions. The 10% rate applies in all other cases.

# Montenegro, Republic of

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The Union of Serbia and Montenegro ceased to exist on 25 May 2006. The following chapter provides information on taxation in the Republic of Montenegro only.

## A. At a glance

Corporate Income Tax Rate (%)	9
Capital Gains Tax Rate (%)	9
Branch Tax Rate (%)	9
Withholding Tax (%)	
Dividends	9 (a)
Interest	9 (b)
Royalties from Patents, Know-how, etc.	9 (b)
Capital Gains and Leasing Fees	9 (b)
Consultancy, Market Research and Audit Fees	9 (b)
Used Products, Semi-products and Agricultural Products	9 (c)
Performances of Art, Sports and Entertainment	9 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) This tax applies to resident and nonresident legal entities and individuals.  
 (b) This tax applies to nonresident legal entities. Individuals are taxed under the Personal Income Tax Law at rates of 9% and 11%.  
 (c) This tax applies to nonresident and resident individuals.  
 (d) This tax applies to nonresident legal entities.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies resident in the Republic of Montenegro (RM) are subject to tax on their worldwide income. A company is resident in the RM if it is incorporated in the RM or if its central management and control is actually exercised in the RM. Nonresident companies are subject to tax only on their income derived from the RM. Nonresident companies are companies registered in other countries that do not have its central

management and control in the RM, but have a permanent place of business in the RM.

**Rate of corporate income tax.** The rate of corporate income tax in the RM is 9%.

**Tax incentives.** Newly established companies that perform business activities in undeveloped municipalities are exempt from corporate profit tax for an eight-year period from the date of the commencement of their business activities.

The corporate profit tax liability of companies that have business units established in undeveloped municipalities that engage in production activities may be reduced proportionally based on the percentage of the business unit's profit in the total profit of the company. This tax relief can be claimed for an eight-year period from the date of the incorporation of the business unit. The total amount of the tax incentive cannot exceed EUR200,000. In addition, under the Corporate Income Tax Law, newly established companies who perform business activities in undeveloped municipalities may be exempt from paying salary tax (and the surtax on salary tax) for newly employed individuals and disabled persons under the conditions specifically mentioned in the legislation.

For a legal entity that is a non-governmental organization and is registered for business activities, the tax base is reduced by the amount of EUR4,000 if the profit is used to realize the purposes for which the entity was founded.

**Capital gains.** Capital gains derived from the disposal of land, real estate, industrial property rights, capital participations and shares and other securities are included in taxable income and are subject to tax at the regular corporate income tax rate.

Capital gains realized by a nonresident legal entity from another nonresident legal entity or a resident or nonresident individual in Montenegro is subject to a 9% capital gains tax (determined by a decision of the tax authorities), unless otherwise specified by a double tax treaty.

Capital gains realized by a nonresident legal entity from a resident legal entity in Montenegro is subject to a 9% withholding tax.

Capital gains may be offset by capital losses incurred in the same year, and net capital losses may be carried forward to offset capital gains in the following five years.

**Administration.** The tax year is the calendar year, except in the case of liquidation or the beginning of business activities during the year. A company may not elect a different tax year. Companies must file annual tax returns in electronic form and pay tax due by 31 March of the year following the tax year.

**Dividends.** Resident companies include dividends received from its nonresident affiliates in taxable income.

Corporate and dividend taxes paid abroad may be claimed as a tax credit up to the amount of domestic tax payable on the dividends. Any unused amount of the tax credit for dividend taxes paid abroad can be carried forward to offset corporate income tax in

the following five years. This tax credit applies only to dividends received by companies with a shareholding of 10% or more in the payer for at least one year before the date of submission of the tax return.

A 9% withholding tax is imposed on dividend payments.

An applicable double tax treaty may provide a reduced withholding tax rate for dividends (see Section F). To benefit from a double tax treaty, a nonresident must verify its tax residency status and prove that it is the true beneficiary of the income.

**Foreign tax relief.** Companies resident in the RM that perform business activities through permanent establishments outside the RM may claim a tax credit for corporate income tax paid in other jurisdictions. The credit is equal to the lower of the foreign tax and the Montenegrin tax paid on the foreign-source income.

### C. Determination of trading income

**General.** The assessment is based on the profit or loss shown in the financial statements prepared in accordance with Montenegrin accounting regulations, subject to certain adjustments for tax purposes.

Taxable income is the positive difference between income and expenses. Dividend income of taxpayers is not included in the tax base if the payer of the dividend is a taxpayer according to the Montenegrin Corporate Income Tax Law.

Tax-deductible expenses include expenses incurred in performing business activities. Expenses must be documented. Certain expenses, such as depreciation (see *Tax depreciation*) and donations, are deductible up to specified limits.

Salary costs, severance payments and redundancy payments to employees are recognized for tax purposes in the period in which the payment is made.

**Inventories.** Inventories must be valued using average prices or the first-in, first-out (FIFO) method.

**Write-offs (provisions).** Legal entities may claim deductions for adjustments or write-offs (provisions) of receivables if such actions are in conformity with the Accounting Law. This conformity exists if the following conditions are satisfied:

- It can be proved that the amounts of receivables were previously included in the taxpayer's revenues.
- The receivable is written off from the taxpayer's accounting books as uncollectible.
- The taxpayer can provide clear evidence that the litigation process has been started or that the receivables have been reported as a part of liquidation or bankruptcy proceedings against the debtor.
- The receivable is longer than 365 days.

Long-term provisions made for renewal of the natural resources, expenses payable in a guarantee period and expected losses on the basis of court disputes are recognized as expenses in accordance with the local accounting regulations. In addition, increases in provisions for receivables and loss provisions for off-balance

items made by banks that are in accordance with their internal regulations and with Montenegrin Central Bank regulations are recognized as expenses for tax purposes.

Severance and jubilee payments that are calculated but not paid are deductible up to the amount determined in the Labor Law.

Asset impairment costs are recognized as tax deductible in the period in which the impaired assets are disposed of or damaged due to force *majeure*.

**Tax depreciation.** Assets with the value over EUR300 are subject to tax depreciation. Intangible and fixed assets are divided into five groups, with depreciation and amortization rates prescribed for each group. A ruling classifies assets into the groups. Group I includes immovable assets.

The straight-line method must be used for Group I, while the declining-balance method must be used for the assets in the other groups.

The following are the depreciation and amortization rates.

Group of assets	Rate (%)
I	5
II	15
III	20
IV	25
V	30

**Relief for losses.** Tax losses incurred in business operations may be carried forward for five years.

Loss carrybacks are not allowed.

**Groups of companies.** Under group relief provisions, companies in a group that consists only of companies resident in the RM may offset profits and losses for tax purposes. Tax consolidation is available if a parent company holds directly or indirectly at least 75% of the shares of subsidiaries. To obtain group relief, a group must file a request with the tax authorities. If tax consolidation is allowed, the group companies must apply the group relief rules for five years. Each group company files its own annual income tax return and the parent company files a consolidated tax return based on the subsidiaries' tax returns. Any tax liability after consolidation is paid by the group companies with taxable profits on a proportional basis.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on supplies of goods and services in the RM and on imports of goods; certain tax exemptions with or without the right to deduct input VAT are granted; VAT taxpayers are legal entities and entrepreneurs who had turnover of goods and services in excess of EUR18,000 in the preceding 12 months or who expect to have annual turnover greater than the threshold	

Nature of tax	Rate (%)
Standard rate	21
Lower rate	7
Property tax; paid on rights over immovable property in the RM, including residential and business buildings, apartments, garages, buildings and rooms for resting and recreation, and other buildings; certain immovable property is exempt; tax credits are available for the dwellings of owners and their immediate families; the amount of tax due is determined by a tax authority's ruling, which should be issued by 30 April of the year for which the tax is rendered; the tax is payable in two installments, which are due on 30 June and 31 October; tax rate varies depending on the municipality in which the immovable property is located	0.25 to 5.5
Transfer tax; imposed on the transfer of the immovable property located in Montenegro; the tax base equals the market value of the transferred property at the time of acquisition; the acquirer of the property is the taxpayer; the tax is due within 15 days after the moment of transfer of the immovable property	3
Tax on income; paid by employee; higher rate applies to gross salary exceeding EUR720	9/11
Surtax on salary tax; paid by employer	13/15
Social security contributions (for health and pension/disability funds); paid by Employer	10.3
Employee	24
Additional contributions for the Association of Labor Unions of Montenegro, labor fund and chamber of commerce; total rate	0.67

## E. Miscellaneous matters

**Foreign-exchange controls.** The official currency in the RM is the euro (EUR).

Capital transactions (investments), current foreign-exchange transactions and transfers of property to and from the RM are generally free.

**Transfer pricing.** Under general principles, transactions between related parties must be made on an arm's-length basis. The difference between the price determined by the arm's-length principle and the taxpayer's transfer price is included in the tax base for the computation of corporate income tax payable.

## F. Treaty withholding tax rates

Montenegro became an independent state in June 2006. The government has rendered a decision that it will recognize tax treaties signed by the former Union of Serbia and Montenegro and the former Yugoslavia until new tax treaties are signed. The following table lists the withholding tax rates under the treaties of the former Union of Serbia and Montenegro and under the treaties of

the former Yugoslavia that remain in force. It is suggested that taxpayers check with the tax authorities before relying on a particular tax treaty.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Albania	5/15	10	10
Austria	5/10	10	5/10
Azerbaijan	10	10	10
Belarus	5/15	8	10
Belgium	10/15	15	10
Bosnia and Herzegovina	5/10	10	10
Bulgaria	5/15	10	10
China (mainland)	5	10	10
Croatia	5/10	10	10
Cyprus	10	10	10
Czech Republic	10	10	5/10
Denmark	5/15	0	10
Egypt	5/15	15	15
Finland	5/15	0	10
France	5/15	0	0
Germany	15	0	10
Hungary	5/15	10	10
Iran	10	10	10
Ireland	5/10	10	5/10
Italy	10	10	10
Korea (North)	10	10	10
Kuwait	5/10	10	10
Latvia	5/10	10	5/10
Macedonia	5/15	10	10
Malaysia	10	10	10
Malta	5/10	10	5/10
Moldova	5/15	10	10
Netherlands	5/15	0	10
Norway	15	0	10
Poland	5/15	10	10
Romania	10	10	10
Russian Federation	5/15	10	10
Serbia	10	10	5/10
Slovak Republic	5/15	10	10
Slovenia	5/10	10	5/10
Sri Lanka	12.5	10	10
Sweden	5/15	0	0
Switzerland	5/15	10	0/10
Turkey	5/15	10	10
Ukraine	5/10	10	10
United Arab Emirates	5/10	10	0/5/10
United Kingdom	5/15	10	10
Non-treaty jurisdictions	9	9	9



# Morocco

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*This chapter reflects the 2018 Finance Law, which introduced a progressive tax rate scale.*

## A. At a glance

Corporate Income Tax Rate (%)	31 (a)
Capital Gains Tax Rate (%)	31 (a)(b)
Branch Tax Rate (%)	31 (a)
Withholding Tax (%)	
Dividends	15 (c)
Interest	10/20/30 (d)
Royalties, Scientific Know-how Payments, Technical Assistance Fees and Remuneration for Most Services	10 (e)
Wages and Indemnities Paid to Non-permanent Employees	30 (f)
Rent on Equipment Used in Morocco	10 (e)
Branch Remittance Tax	15 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	4 (g)

- (a) Under the 2018 Finance Law, corporate income tax is imposed at progressive rates ranging from 10% to 31% (for details, see Section B). The corporate income tax rate is 37% for banks, financial institutions and insurance companies. Corporate income tax incentives are available (see Section B).
- (b) See Section B.
- (c) The dividend withholding tax is a final tax for nonresidents. Withholding tax does not apply to dividends paid to Moroccan companies subject to Moroccan corporate tax if a property attestation (a certificate containing the company's tax number and attesting that the company is the owner of the shares) is delivered by the beneficiary company.
- (d) The 10% rate applies to interest paid to nonresidents on loans or other fixed-interest claims. The 10% tax is a final tax. The 20% rate applies to interest paid to resident companies and interest paid to resident self-employed individuals in connection with a business conducted by the recipient. The 20% tax may be credited by recipients against their total income tax. The 30% rate applies to interest payments made to resident individuals if the payments are unrelated to a business conducted by the recipient. The 30% tax is a final withholding tax.

- (e) This is a final tax applicable only to nonresidents. Rental and maintenance of aircraft used for international transport are exempt from this withholding tax.
- (f) This withholding tax applies only to payments to persons who are not salaried employees and do not hold a special function in the company paying the indemnities. The rate is 17% for teachers.
- (g) Losses attributable to depreciation may be carried forward indefinitely.

## B. Taxes on corporate income and gains

**Corporate income tax.** The following companies are subject to corporate income tax:

- Resident companies (those incorporated in Morocco)
- Nonresident companies deriving taxable income from activities carried out in Morocco
- Nonresident companies deriving capital gains from sales of unlisted shares and bonds in Morocco (unless a double tax treaty between Morocco and the residence country of the beneficiary provides otherwise)
- Branches of foreign companies carrying on business activities independent of those performed by their head office

In general, only Moroccan-source income is subject to tax unless a provision of a double tax treaty provides otherwise.

**Tax rates.** Under the 2018 Finance Law, a progressive tax scale replaces the prior proportional tax scale. The following are the progressive tax rates.

Taxable income		Rate %
Exceeding MAD	Not exceeding MAD	
0	300,000	10
300,000	1,000,000	20
1,000,000	5,000,000	31

Banks, financial institutions and insurance companies are subject to tax at a rate of 37%.

The minimum tax equals the greater of the minimum fixed amount of MAD3,000 and 0.5% of the total of the following items:

- Turnover from sales of delivered goods and services rendered
- Other exploitation income (for example, directors' fees received when the company acts as an administrator of another company, revenues from buildings that are not used in the company's activities, and profits and transfers of losses with respect to shared operations)
- Financial income (excluding financial reversals and transfers of financial expenses)
- Subsidies received from the state and third parties

The rate of minimum tax is reduced to 0.25% for sales of petroleum goods, gasoline, butter, oil, sugar, flour, water and electricity. The minimum tax applies if it exceeds the corporate income tax resulting from the application of the proportional rates or if the company incurs a loss. New companies are exempt from minimum tax for 36 months after the commencement of business activities.

Before January 2016, if minimum tax is applied because of the incurrence of tax losses or because the minimum tax amount exceeded the corporate income tax, the minimum tax could be offset against the corporate income tax due in the following three years.

Effective from 1 January 2016, the minimum tax can no longer be offset against corporate income tax.

Nonresident contractors may elect an optional method of taxation for construction or assembly work or for work on industrial or technical installations. Under the optional method, an 8% tax is applied to the total contract price including the cost of materials, but excluding VAT.

**Tax incentives.** Morocco offers the same tax incentives to domestic and foreign investors. Various types of companies benefit from tax exemptions and tax reductions, which are summarized below.

*Permanent exemptions.* Permanent tax exemptions are available to agricultural enterprises and cooperatives with annual turnover of less than MAD5 million, excluding VAT.

Capital risk companies are exempt from corporate income tax on profits derived within the scope of their activities (these are profits related to purchases of companies' shares that support such companies' development and the sales of such shares thereafter).

*Total exemption followed by permanent reduction.* Export companies are exempt from corporate income tax on their profits related to their export turnover during the first five years following their first export transaction. These companies benefit from a reduced rate of 17.5% in subsequent years. Exporters of recycled metals cannot benefit from the 17.5% rate. For the exportation of services, the 17.5% rate applies if both of the following conditions are met:

- The related turnover must be realized in foreign currencies (other than dirhams) that is properly repatriated to Morocco.
- The currencies must be repatriated to the Moroccan bank account of the company.

Hotel companies benefit from a tax exemption and a tax reduction with respect to their profits corresponding to their foreign currency revenues that are generated by their hotels and are remitted to Morocco either directly or through travel agencies. Hotel companies are fully exempt from tax on such profits for the first five years following their first foreign currency sale operation, and they benefit from a reduced rate of 17.5% on such profits in subsequent years. Management companies of "real estate residences for tourism promotion" also benefit from this measure, under the same conditions. A "real estate residence for tourism promotion" is a residence assimilated to a hotel in which the housing units belong to one or more owners and of which a minimum percentage of the housing units (fixed by regulations at 70%) is managed by a licensed management company for at least 9 years.

Regional or international head offices that have Casablanca Finance City status are subject to a reduced 10% corporate income tax rate beginning on the date of obtaining such status. Other Casablanca Finance City companies benefit from a five-year exemption and subsequently a reduced rate of 8.75%.

*Permanent reductions.* Mining companies, including those that sell products to export companies, benefit from a reduced corporate income tax rate of 17.5%.

*Total exemption followed by temporary reduction.* Export companies established in Moroccan free zones (*zones franches*) are exempt from corporate income tax for the first 5 years of activity and are subject to corporate income tax at a rate of 8.75% for the following 20 years. This rule also applies to operations rendered between companies established in the same Moroccan free zone and between companies established in different Moroccan free zones.

*Temporary exemption.* Under a transitional measure, the following agricultural enterprises continue to benefit from the temporary corporate income tax exemption:

- From 1 January 2016 until 31 December 2017: agricultural enterprises with turnover of less than MAD20 million
- From 1 January 2018 until 31 December 2019: agricultural enterprises with turnover of less than MAD10 million

Companies holding a hydrocarbon exploration and exploitation permit are exempt from corporate income tax for 10 years from the beginning of hydrocarbon regular production.

Subject to certain conditions, real estate developers benefit from a total exemption from corporate income tax and other taxes with respect to construction programs for social housing under agreements entered into with the government. This temporary regime applies from 1 January 2010 through 31 December 2020.

*Temporary reduction.* Handicraft companies, private schools and educational institutes benefit from a reduced corporate income tax rate of 17.5% for their first five years of operations.

Banks and holding companies located in offshore zones benefit from a reduction in corporate income tax for the first 15 years of operation. Banks may elect to pay a minimum corporate income tax of USD25,000 or pay tax at a reduced rate of 10%. Holding companies pay a flat tax of USD5,000 per year.

*Tax-free intra-group restructuring.* The 2017 Finance Law introduced a new provision establishing a tax-neutrality mechanism for the sale of fixed assets between companies of the same group. This regime allows the transfer or sale of these assets without affecting the taxable income of the transferor. It applies if the concerned companies are part of a group created by a parent company and includes only companies in which it holds directly or indirectly at least 95% of the share capital. At the transferee level, depreciation on fixed assets is tax deductible, but such deduction is limited. These transactions are subject to a fixed registration duty of MAD1,000.

*Exemption for newly incorporated industrial companies.* To promote investment in the industrial sector, the 2017 Finance Law provides for an exemption from corporate income tax for newly created industrial companies for a period of five consecutive years from the starting date of business operations. The eligible industrial activities for this tax incentive will be defined by decree.

**Capital gains.** Capital gains on the sale of fixed assets are taxed at the proportional corporate tax rates (see *Tax rates*).

Nonresident companies are taxed on profits derived from sales of unlisted shares of Moroccan companies at the proportional corporate income tax rates, unless a double tax treaty between Morocco and the residence country of the beneficiary provides otherwise. In addition, they must file an income declaration before the end of the month following the month in which the sales occurred.

Special rules apply to mergers and liquidations of companies (see Section E).

**Administration.** Within three months after the end of their financial year, companies must file a corporate income tax return with the local tax administration where their headquarters are located. The companies' financial statements must be enclosed with the return.

Companies must make advance payments of corporate income tax. For companies with a 31 December year-end, the payments must be made by 31 March, 30 June, 30 September and 31 December. Each payment must be equal to 25% of the previous year's tax.

If the minimum tax does not exceed MAD3,000, it is fully payable in one installment. Payment of the minimum tax exceeding this amount is made in accordance with the rules applicable to the corporate income tax.

**Dividends.** Dividends are generally subject to a 15% withholding tax. However, withholding tax does not apply to dividends paid to Moroccan companies subject to Moroccan corporate tax if a property attestation is delivered by the beneficiary company. Such companies are also exempt from corporate income tax on the dividends.

**Foreign tax relief.** Foreign tax relief is granted in accordance with the provisions of Morocco's double tax treaties and the Moroccan Tax Code.

### C. Determination of trading income

**General.** The computation of taxable income is based on financial statements prepared according to generally accepted accounting principles, subject to modifications provided in the Moroccan Tax Code.

Business expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Interest paid on shareholders' loans in excess of the interest rate determined annually by the Ministry of Finance or on the portion of a shareholder's loan exceeding the amount of capital stock that is fully paid up. No interest on shareholders' loans is deductible if the capital stock is not fully paid up.
- Certain specified charges, gifts, subsidies, corporate income tax and penalties.

The tax base for coordination centers (*centers de coordination*) is equal to the sum of the following:

- Ten percent of their operating expenses
- Their income derived from non-current operations, such as sales of goods and services, and investments in securities

**Inventories.** Inventory is normally valued at the lower of cost or market value.

**Provisions.** Provisions included in the financial statements are generally deductible for tax purposes if they are established for clearly specified losses or expenses that are probably going to occur.

Provisions on bad debts are deductible if a court action is instituted against the debtor within 12 months after the booking of the provision.

**Depreciation.** Land may be amortized only if it contributes to production (for example, mining lands). Other fixed assets may be depreciated using the following two methods:

- The straight-line method at rates generally used in the sector of the activity.
- A declining-balance method with depreciation computed on the residual value by applying a declining coefficient that ranges from 1.5 to 3 and that is linked to the term of use. The declining-balance method may not be used for cars and buildings.

The following are some of the annual applicable straight-line rates.

<b>Asset</b>	<b>Rate (%)</b>
Commercial and industrial buildings	4 or 5
Office equipment	10 to 15
Motor vehicles (for vehicles used in tourism, the maximum depreciable value is MAD300,000 including VAT)	20 to 25
Plant and machinery	10 to 15

Certain intangible assets, such as goodwill, do not depreciate over time or by use and, consequently, are not amortizable.

**Relief for tax losses.** Losses may be carried forward for four years; losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** Moroccan law does not provide tax-consolidation rules for Moroccan companies.

## **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax, on goods sold and services rendered in Morocco	
General rate	20
Electric power, transport of tourists and certain other items	14
Restaurants, hotels, cooking salt, bank operations and certain other items	10
Utilities (water provided through public distribution network and oil), pharmaceuticals, sugar, preserved sardines and dried milk	7
Professional tax, on gross rental value of the business premises	10 to 30
Communal services tax (tax base similar to professional tax)	6.5/10.5
Registration duties, on transfers of real property or businesses	1 to 6

Nature of tax	Rate (%)
Professional training tax, on gross salaries including fringe benefits	1.6
Social security contributions, paid by employer	
For family allowances, on gross monthly remuneration (no maximum limit of remuneration applies)	6.4
For illness and pregnancy, on gross monthly remuneration, up to a maximum remuneration of MAD6,000 a month	8.6
For required medical care	3.5

## E. Miscellaneous matters

**Foreign-exchange controls.** Remittances of capital and related income to nonresidents are guaranteed. No limitations are imposed on the time or amount of profit remittances. The remittance of net profits on liquidation, up to the amount of capital contributions, is guaranteed through transfers of convertible currency to the Bank of Morocco.

As a result of the liberalization of foreign-exchange controls, foreign loans generally do not require an authorization from the exchange authorities. However, to obtain a guarantee for the remittance of principal and interest, notes are commonly filed at the exchange office, either through the bank or directly by the borrower. In general, if the loan's conditions are equivalent to those prevailing in foreign markets, the exchange office approves the loan agreement. The loan agreement must be filed with the exchange office as soon as it is established.

To promote exporting, Moroccan law allows exporters of goods or services to hold convertible dirhams amounting to 50% of repatriated currency. Exporters must spend these convertible dirhams on professional expenses incurred abroad. Such expenses must be paid through bank accounts of convertible dirhams, called "Convertible Accounts for the Promotion of Export" (Comptes Convertibles de Promotion des Exportations).

**Mergers and liquidations.** The Moroccan Tax Code provides two types of taxation for mergers, which are the common tax regime and the specific regime.

Under the common tax regime, the absorbed company is subject to tax on all profits and capital gains relating to the merger and on the profits realized between the beginning of the fiscal year and the effective date of the merger.

The specific regime, which was made permanent by the 2017 Finance Law, allows deferred taxation of profits related to goodwill and land, if certain conditions are met. This preferential regime also provides additional incentives such as an exemption for profits derived from share transfers at the level of the shareholders. The preferential regime also applies to total scissions of companies.

Liquidations of companies trigger immediate taxation in accordance with the tax rules described above and, if applicable, a 15% withholding tax on liquidation profit called "Boni de liquidation." The "Boni de liquidation" is the balance of assets that remains

for shareholders on the liquidation of a company after settlement of all liabilities, and the reimbursement of the share capital and reserves aged more than 10 years.

### F. Treaty withholding tax rates

	Dividends %	Interest %	Royalties %
Austria	5/10 (i)	10	10
Bahrain	5/10 (h)	10	10
Belgium	6.5/10 (j)	10	10
Bulgaria	7/10 (c)	10	10
Canada	15 (e)	15 (e)	5/10
China (mainland)	10 (e)	10	10
Côte d'Ivoire	10	10	10
Croatia	8/10 (k)	10	10
Czech Republic	10 (e)	10	10
Denmark	10/25 (e)	10	10
Egypt	10/12.5 (e)	10	10
Finland	7/10 (l)	10	10
France	15 (a)(e)	10/15 (e)	5/10
Gabon	15	10	10
Germany	5/15 (e)	10	10
Greece	5/10 (i)	10	10
Hungary	12 (e)	10	10
India	10 (e)	10	10
Indonesia	10	10	10
Ireland	6/10 (m)	10	10
Italy	10/15 (e)	10	5/10
Jordan	10	10	10
Korea (South)	5/10 (f)	10	5/10
Kuwait	2.5/5/10 (e)	10	10
Latvia	8/10 (k)	10	10
Lebanon	5/10 (h)	10	5/10
Luxembourg	10/15 (e)	10	10
Macedonia	10	10	10
Maghreb Arab Union (d)	– (b)	– (b)	– (b)
Malaysia	5/10 (h)	10	10
Mali	5/10 (i)	10	10
Malta	6.5/10 (j)	10	10
Netherlands	10/25 (e)	10/25 (e)	10
Norway	15 (e)	10	10
Oman	5/10 (h)	10	10
Pakistan	10	10	10
Poland	7/15 (c)(e)	10	10
Portugal	10/15 (e)	12 (e)	10
Qatar	5/10 (e)	10 (e)	10
Romania	10 (e)	10	10
Russian Federation	5/10 (f)	10	10
Senegal	10	10	10
Singapore	8/10	10	10
Spain	10/15 (e)	10	5/10
Switzerland	7/15 (c)(e)	10	10
Syria	7/15	10	10
Turkey	7/10 (c)	10	10
Ukraine	10	10	10
United Arab Emirates	5/10 (g)	10	10



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
United Kingdom	10/25 (e)	10	10
United States	10/15 (e)	15 (e)	10
Vietnam	10	10	10
Non-treaty jurisdictions	15	10	10

- (a) No withholding tax is imposed in France if the recipient is subject to tax on the dividend in Morocco.
- (b) Tax is payable in the country in which the recipient is domiciled.
- (c) The 7% rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 25% of the capital of the payer of the dividends. The higher rate applies to other dividends.
- (d) The Maghreb Arab Union countries are Algeria, Libya, Mauritania, Morocco and Tunisia.
- (e) Under Moroccan domestic law, the withholding tax rate for interest is 10%. Consequently, for interest paid from Morocco, the treaty rates exceeding 10% do not apply. In addition, the domestic withholding tax rate for dividends is 15%, effective from 1 January 2013. Consequently, for dividends paid from Morocco, the treaty rates exceeding 15% do not apply.
- (f) The 5% rate applies if the beneficiary of the dividends holds more than USD500,000 of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (g) The 5% rate applies if the beneficiary of the dividends holds directly at least 10% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (h) The 5% rate applies if the beneficiary of the dividends is a company that holds directly at least 10% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (i) The 5% rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 25% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (j) The 6.5% rate applies if the beneficiary of the dividends is a company, other than a partnership, that holds directly at least 25% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (k) The 8% rate applies if the beneficial owner of the dividend is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (l) The 7% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (m) The 6% rate applies if the beneficial owner of the dividends is a company that owns directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.

Morocco has ratified tax treaties with Albania, Ethiopia, Ghana, Madagascar, Mauritius, Rwanda, São Tomé and Príncipe, Saudi Arabia, Serbia, Slovenia, South Sudan and Yemen, but these treaties are not yet in force.

Morocco has signed tax treaties with Burkina Faso, Cameroon, Estonia, Guinea-Bissau, Iran, Lithuania and Zambia, but these treaties have not yet been ratified.

# Mozambique

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## A. At a glance

Corporate Income Tax Rate (%)	32
Capital Gains Tax Rate (%)	32
Branch Tax Rate (%)	32 (a)
Withholding Tax (%)	
Dividends	10/20 (b)
Interest	20
Royalties	20
Technical Services	10/20 (c)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) Income earned by nonresident companies or other entities without a head office, effective management control or a permanent establishment in Mozambique is generally subject to withholding tax at a rate of 20% (see Section B).
- (b) The 10% rate applies to dividends paid on shares listed on the Mozambique Stock Exchange.
- (c) The 10% rate applies to fees paid with respect to the rendering of telecommunication services and associated installation and assembling of equipment, international transport services, aircraft maintenance, freight services, and the chartering of fishing vessels and vessels used in coasting activities.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax (IRPC) is levied on resident and nonresident entities.

*Resident entities.* Resident entities are companies and other entities with their head office or effective management and control in Mozambique. Resident companies, including unincorporated entities, whose main activity is commercial, industrial or agricultural, are subject to IRPC on their worldwide income, but a foreign tax credit may reduce the amount of IRPC payable.

*Nonresident entities.* Companies and other entities operating in Mozambique through a permanent establishment are subject to IRPC on the profits attributable to the permanent establishment.

Companies and other entities without a permanent establishment in Mozambique are subject to IRPC on income deemed to be obtained in Mozambique.

**Tax rates.** The standard corporate income tax rate is 32%.

Income earned by nonresident companies or other entities without a head office, effective management control or a permanent establishment in Mozambique is generally subject to withholding tax at a rate of 20%. However, the rate is reduced to 10% for income derived from the rendering of telecommunication services and associated installation and assembling of equipment, international transport services, aircraft maintenance, freight services, and the chartering of fishing vessels and vessels used in coasting activities. Income that is subject to a 20% withholding tax includes, but is not limited to, the following:

- Income derived from the use of intellectual or industrial property and the providing of information in the industrial, commercial or scientific sectors
- Income derived from the use of, or the assignment of, rights to industrial, commercial or scientific equipment
- Income from the application of capital
- Income from the rendering of any services realized or used in Mozambique

**Tax incentives.** Mozambique offers various tax incentives to investors, which are summarized below.

The tax incentives described in the following three paragraphs are available for five tax years beginning with the tax year in which the company commences activities within the scope of an investment project approved by the Investment Promotion Agency.

Companies implementing investment projects benefit from the following main incentives:

- Tax credit for investment that ranges from 5% to 10%, depending on the location of the project
- Tax deductions ranging from 5% to 10% of the taxable income for investments with acquisition of state-of-the-art technology and training of Mozambican employees
- Tax deductions of up to 110% of investments for the construction and rehabilitation of public infrastructure
- Accelerated depreciation of buildings and equipment by increasing the normal rates by 50%

Companies implementing investment projects are also exempt from import duties and value-added tax on the importation of equipment classified as Class K in the Customs Manual.

Special tax incentives may be granted to the following projects:

- Projects in agriculture and tourism
- Projects with respect to basic infrastructure
- Projects located in Special Economic Zones
- Projects located in Industrial Free Zones
- Manufacturing

Special tax rules apply to manufacturing units that intend to operate under an Industrial Free Zone (IFZ) regime or in a Special Economic Zone. The main requirements for the IFZ regime are that at least 70% of production is exported and that a minimum of 250 workplaces are created. The government establishes the Special Economic Zones, which provide benefits similar to those of IFZs.

**Capital gains.** Capital gains derived by resident entities are combined with the other income of the taxpayer and taxed at the end of the financial year. Capital gains derived by nonresident entities are also taxable in Mozambique at a rate of 32%. Gains derived from direct or indirect transfers between two nonresident entities of shares or other participation interests or rights involving assets located in Mozambique are considered to be derived in Mozambique, regardless of the location of the transaction.

**Administration.** The tax year is the calendar year. However, companies may apply to the tax authorities for a different year-end if more than 50% of the company is held by entities that adopt a different financial year and if the different year-end is justified by the type of activity of the company.

Companies must make two types of provisional payments of corporate income tax. The two types are known as advance payments and special advance payments. The advance payments are made in three equal monthly installments in May, July and September of the tax year to which the tax relates. The total amount of these payments equals 80% of the tax assessed in the preceding year. The special advance payments are made in three equal monthly installments, in June, August and October. They equal the difference between 0.5% of the company's turnover and the total of advance payments made in the preceding tax year. The minimum amount of the special advance payments is MZN30,000, while the maximum amount of such payments is MZN100,000. Companies that have adopted a tax year other than the calendar year make advance payments in the 5th, 7th and 9th months of the tax year and make special advance payments in the 6th, 8th and 10th months of the tax year.

**Dividends.** Dividends are subject to a 20% withholding tax, except for dividends on shares listed on the Mozambique Stock Exchange, which are subject to a 10% final withholding tax.

**Foreign tax relief.** Foreign-source income derived by resident entities is taxable in Mozambique. However, foreign tax may be credited against the Mozambican tax liability up to the amount of IRPC allocated to the income taxed abroad. Foreign tax credits may be carried forward for five years.

### C. Determination of trading income

**General.** Taxable income is determined according to the following rules:

- For companies with a head office or effective management control in Mozambique that are mainly engaged in commercial, agricultural or industrial activities, taxable income is the net accounting profit calculated in accordance with Mozambican generally accepted accounting principles, adjusted according to the tax norms.

- For companies with a head office or effective management control in Mozambique that do not mainly engage in commercial, industrial or agricultural activities, taxable income is the net total of revenues from various categories of income as described in the Individual Income Tax (IRPS) Code, less expenses.

Expenses that are considered essential for the generation of profits or the maintenance of the production source are deductible for tax purposes. Nondeductible expenses include, but are not limited to, the following:

- Undocumented expenses (taxed separately at a rate of 35%)
- 50% of the rent paid by a lessee that is intended to be applied toward the purchase price of the leased asset
- Interest on shareholders loans that exceeds the Maputo Inter-Bank Offered Rate (MAIBOR) for 12 months plus 2%

Premiums paid for health, accident and life insurance and contributions to pension funds and other complementary social security schemes are deductible for tax purposes up to 10% of the salary fund. If the employees do not have the right to social security pensions, this limit can be increased to 20%.

**Inventories.** Inventories must be valued consistently by any of the following criteria:

- Cost of acquisition or production
- Standard costs in accordance with adequate technical and accounting principles
- Cost of sales less the normal profit margin
- Any other special valuation that receives the prior authorization of the tax authorities

Changes in the method of valuation must be justifiable and acceptable to the tax authorities. Any profits resulting from such a change are taxable.

**Provisions.** Provisions for the following items are deductible up to amounts considered reasonable by the tax authorities:

- Doubtful accounts as a percentage of accounts receivable
- Inventory losses
- Obligations and expenses that are subject to a judicial process
- Other provisions imposed by the central bank or General Insurance Inspection (the body that inspects insurance activities) for specific activities

**Depreciation.** In general, depreciation is calculated using the straight-line method. Maximum depreciation rates are fixed by law for general purposes and for certain specific industries. If rates below 50% of the official rates are used, the company cannot claim total allowable depreciation over the life of the asset. The following are some of the maximum straight-line depreciation rates fixed by law.

Asset	Rate (%)
Commercial buildings	2
Industrial buildings	2
Motor vehicles	20 to 25
Plant and machinery	10 to 16.66

**Relief for losses.** Tax losses may be carried forward for five years. No carryback is allowed.

**Groups of companies.** Mozambican law does not contain any measures allowing the filing of consolidated returns.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	17
Tax on specific consumption; levied on specified goods at the production stage and on imports of such goods; specified goods include vehicles and luxury goods; maximum rate	75
Social security contributions, on monthly salaries and wages; paid by	
Employer	4
Employee	3
Import duties	2.5 to 20
Property transfer tax (SISA); payable by purchaser of immovable property	2

#### E. Foreign-exchange controls

The central bank controls all transfers of capital (including direct investments) and payments into and out of Mozambique. An authorization from the central bank is required for the maintenance of local foreign-currency bank accounts. Service agreements with nonresident entities are subject to registration with the central bank. Loan agreements with nonresident entities are subject to the prior approval of the central bank.

In general, the repatriation of profits, dividends and proceeds from the sale or liquidation of an investment is permitted for foreign-investment projects if the investment has been registered and compliance with other requirements exists.

#### F. Treaty withholding tax rates

	Dividends %	Interest %	Royalties %
Botswana	10/12/15 (b)	10	10
India	7.5	10	10
Italy	15	10	10
Macau SAR	10	10	10
Mauritius (a)	8/10/15 (b)	8	5
Portugal (a)	10	10	10
South Africa	8/10/15 (b)	8	5
United Arab Emirates (a)	0	0	5
Vietnam	10	10	10
Non-treaty jurisdictions	20	20	20

(a) These rates apply to an effective beneficiary of the income that does not have a permanent establishment in Mozambique.

(b) The 8% (10% under the Botswana treaty) rate applies if the effective beneficiary of the dividends is a company that holds at least 25% of the share capital of the company distributing the dividends. The 10% (12% under the Botswana treaty) rate applies if the effective beneficiary of the dividends is a company that holds less than 25% of the share capital of the company distributing the dividends. The 15% rate applies to other dividends.

# Myanmar

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## A. At a glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	10 (a)
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	0
Interest	15 (b)(c)
Royalties from Patents, Know-how, etc.	10/15 (b)(d)
Payments for the Purchase of Goods in Myanmar and Payments for Services	2/2.5 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) The 10% rate applies to both resident and nonresident companies. However, entities in the oil and gas industry are subject to increased capital gains tax rates ranging from 40% to 50%.
- (b) Under Myanmar's tax treaties, certain types of interest and royalties are subject to reduced rates or are exempt from tax (see Section F).
- (c) This withholding tax applies to payments to nonresidents.
- (d) The 10% rate applies to residents, and the 15% rate applies to nonresidents.
- (e) The 2% rate applies to residents, and the 2.5% rate applies to nonresidents on each payment in kyats over MMK500,000 and on all payments in foreign currencies (the 2.5% rate is applied to the entire amount of the payment). Each payment for local purchases and services not exceeding MMK1,500,000 made by companies under the self-assessment system is not subject to withholding tax.

## B. Taxes on corporate income and gains

**Corporate income tax.** Myanmar resident companies are subject to corporate income tax on their worldwide income. Myanmar resident companies are those incorporated in Myanmar. Branches of foreign corporations are subject to Myanmar tax on their Myanmar-source income only.

**Rates of corporate tax.** Myanmar resident companies and Myanmar branches of foreign corporations are subject to corporate income tax at a flat rate of 25% on net taxable profits.

**Tax incentives.** Companies registered under the Myanmar Investment Law can be granted a wide range of tax incentives, including the following:

- Corporate income tax exemption for investments in the following locations:
  - Three years for developed regions
  - Five years for moderately developed regions
  - Seven years for less developed regions
- Corporate income tax exemption for profits reinvested within one year
- Deductions of accelerated depreciation
- Deductions of certain research and development expenditures
- Custom duty and commercial tax exemption for machinery, equipment, tools and machinery parts during the construction or expansion period
- Custom duty and commercial tax exemption for imported raw materials and semifinished goods for re-export finished goods
- Commercial tax exemption for export sales except for exports of crude oil and electric power (this incentive applies with or without a Myanmar Investment Commission [MIC] permit)
- Right to pay personal income tax for expatriates working for company with an MIC permit at the rate applicable resident citizens

**Capital gains.** Capital gains are assessed separately from business income and are subject to a flat rate of 10% for both Myanmar resident companies and non-Myanmar resident companies.

Resident companies must declare capital gains tax within one month after the date of the sale, exchange or transfer of capital assets.

**Administration.** The Myanmar fiscal year runs from 1 April to 31 March.

However, the fiscal year may be changed from 1 October to 30 September beginning with the 2018-2019 fiscal year.

Companies must file corporate income tax returns, together with audited financial statements, with the Myanmar Internal Revenue Department within three months after the end of the fiscal year (that is, by the end of June or the end of December in the future).

Companies must also file an annual year-end report (Form E) with audited accounts and minutes of the annual general meeting resolution with the Directorate of Investment and Company Administration. A newly established company must file Form E within 18 months after its incorporation date. Beginning with the second fiscal year, companies must hold the annual general meeting within 15 months (but not more than one full calendar year) and file Form E within 21 days of the meeting.

Myanmar's laws provide that tax payments must be made on a quarterly basis.

**Dividends.** Dividends paid are not subject to withholding tax.



**Foreign tax relief.** The Myanmar domestic tax law does not provide for a foreign tax credit. However, Myanmar has entered into double tax treaties with eight countries. In general, these treaties provide for a foreign tax credit that is limited to the lower of the foreign tax and the amount of Myanmar tax calculated on such income.

**C. Determination of trading income**

**General.** Corporate income tax is based on the audited financial statements, subject to certain adjustments.

In general, expenses are deductible for tax purposes if they are incurred wholly and exclusively for the purpose of generating income.

**Depreciation and amortization allowance.** A company may depreciate its fixed assets in accordance with the following depreciation rates prescribed by the Myanmar Income Tax Law and Regulations.

Asset	Percentage of initial cost per year (%)
Buildings	1.25 to 10
Furniture and fittings installed in buildings	5 to 10
Machinery and plant	5 to 10
Machine equipment	2.5 to 20
Waterway transport vehicles	5 to 10
Road transport vehicles	12.5 to 20
Miscellaneous (office equipment and others)	10 to 20
Other general work assets	2.5 to 20

**Relief for losses.** Operating losses can be carried forward and offset against profits in the following three consecutive years. Loss carrybacks are not allowed.

**Groups of companies.** The Myanmar tax law does not include any provisions for consolidated treatment under which companies within a group may be treated as one tax entity. Each individual company must file its income tax return and pay its taxes.

**D. Other significant taxes**

The following are other significant taxes.

Nature of tax	Rate (%)
Commercial tax; generally imposed on goods sold, services rendered and imports; certain items and services specified under the law may be exempt from commercial tax	
Value of goods sold in Myanmar except for 87 exempt goods	5
Value of services in Myanmar except for 29 types of exempt services	5
Landed cost of imported goods	5
Landed cost, including special goods tax of imported special goods	5
Sale amount, including special goods tax of special goods produced in Myanmar	5

Nature of tax	Rate (%)
Buildings developed and sold in Myanmar	3
Domestic airline passenger transportation	3
Sale proceeds from gold jewelry	1
Exports of certain goods	5 to 8
Special goods tax; imposed on 17 types of special goods, effective from 1 April 2017	
Importation of special goods into the country and domestic production of special goods	Various
Natural resources' special goods (natural gas, wood logs and conversions and precious stones) exported to other countries; the rates of special goods tax on export sales apply and the exporter can offset the input tax against the output tax	5 to 15
Stamp duty; imposed on various transactions; the most relevant rates are listed below	
Value of sale or transfer of immovable property	4
Value of average annual rent for rental of immovable property for one-to-three year contract periods	0.5
Value of average annual rent for rental of immovable property for contract periods longer than three years	2
Value of sale or transfer of shares	0.1

## E. Miscellaneous matters

**Foreign-exchange controls.** The repatriation and/or remittance of foreign currency out of Myanmar requires the permission of the Foreign Exchange Control Department of the Central Bank of Myanmar.

**Transfer pricing.** Myanmar does not have any transfer-pricing rules.

**Thin capitalization.** Myanmar does not have any formal thin-capitalization rules.

## F. Treaty withholding tax rates

The rates in the following table reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest %	Royalties %
India	0	15 (a)(b)	15 (f)
Korea (South)	0	15 (a)(b)	15 (g)(h)
Laos	0	15 (a)(b)	15 (f)
Malaysia	0	15 (a)(b)	15 (f)
Singapore	0	15 (a)(c)	15 (g)(h)
Thailand	0	15 (a)(b)	15 (h)(i)(j)
United Kingdom	0	15 (d)	15 (e)
Vietnam	0	15 (a)(b)	15 (f)
Non-treaty jurisdictions	0	15	15

(a) The following types of interest are exempt from tax:

- Interest paid to the government, a political subdivision or a local authority
- Interest paid to the central bank as prescribed under an applicable tax treaty

- 
- (b) The rate is reduced to 10% if the beneficial owner of the interest is a resident of a contracting state.
  - (c) The rate is reduced to 8% for Singapore if the recipient of the interest is a financial institution or a bank and to 10% in all other cases.
  - (d) The UK tax treaty does not provide for a reduced withholding tax rate for interest.
  - (e) Royalties are exempt from tax if the recipient does not have a permanent establishment in the other contracting state and if the amount of royalties represents a fair and reasonable consideration for the rights for which the royalties are paid.
  - (f) The rate is reduced to 10% if the beneficial owner of the royalties is a resident of India, Laos, Malaysia or Vietnam.
  - (g) The rate is reduced to 10% for royalties paid for patents, designs, models, plans, secret formulas or processes, industrial, commercial or scientific equipment or information concerning industrial, commercial or scientific experience.
  - (h) The rate is 15% for royalties in other cases.
  - (i) The rate is reduced to 5% for royalties paid for copyrights of literary, artistic or scientific works.
  - (j) The rate is reduced to 10% for royalties paid for services of a managerial or consultancy nature or for information concerning industrial, commercial or scientific experience.

Myanmar has signed tax treaties with Bangladesh and Indonesia, but these treaties have not yet been ratified.

# Namibia

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## A. At a glance

Corporate Income Tax Rate (%)	32 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	32 (a)
Withholding Tax (%)	
Dividends	10/20 (b)
Interest	10 (c)
Royalties from Patents, Know-how, etc.	10 (d)
Services	10/25 (e)
Branch Remittance Tax	0 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) This rate applies to years of assessment beginning on or after 1 January 2015.
- (b) This is a final tax applicable to nonresidents. Dividends paid to nonresidents are subject to a final 10% withholding tax if the recipient of the dividend is a company that holds at least 25% of the capital of the company paying the dividend and if it is the beneficial owner of the shares. For all other cases, the dividend withholding tax rate is 20%. Dividends paid out of oil and gas and insurance profits are exempt from withholding tax.
- (c) A 10% withholding tax applies to interest paid to all persons, excluding Namibian companies, by Namibian banking institutions and Namibian unit trust schemes. In addition, effective from 30 December 2015, a 10% withholding tax is imposed on interest paid to nonresidents. The legislation provides for certain exemptions, notably interest paid by Namibian banks to foreign banks and interest paid by the Namibian state to any person.
- (d) This withholding tax applies to royalties or similar payments to nonresidents. Effective from 30 December 2015, the scope of the withholding tax on royalties is extended to include payments for the use of commercial, industrial or scientific equipment.

- (e) The withholding tax on services applies to amounts paid by Namibian residents to nonresidents directly or indirectly for the following:
- Management, administrative, technical or consulting services (10% rate)
  - Directors' fees (25% rate)
  - Fees paid for entertainment including payments for cabaret, motion picture, radio, television, theater artists, musicians and sportspersons (25% rate)
- (f) In the absence of treaty protection, the 10% dividend withholding tax may be imposed on branch profits when the parent company declares a dividend.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies subject to tax include companies registered in Namibia and branches of foreign companies in Namibia deriving income from a Namibian source. Other associations (such as close corporations) registered or incorporated outside Namibia that carry on business or have an office in Namibia are taxed as companies. Corporate income tax is levied primarily on income from Namibian sources.

Namibia's taxing rights extend to the exclusive economic zone and the continental shelf.

**Rates of tax.** The tax rate for companies, other than those companies that have been awarded manufacturing status, is 32% for years of assessment beginning on or after 1 January 2015. The tax rate for companies that have been awarded manufacturing status is 18% for their first 10 years of registration as a manufacturer and 32% thereafter. The Receiver of Revenue, in consultation with the Ministry of Trade and Industry, reviews and approves applications to register as manufacturers. Approval is granted only if the company is engaged in manufacturing and if its activities economically benefit Namibia or its inhabitants (see Section C for information regarding special deductions available to registered manufacturers).

Mining companies are taxed at a rate of 37.5% for hard-rock mining and 55% for diamond mining. Companies that render hard-rock mining services are taxed at a rate of 37.5%. Companies that render diamond mining services are taxed at a rate of 55%. Petroleum exploration and production companies are taxed at a basic rate of 35% plus additional profit tax that is calculated in accordance with a complex formula.

Under the Export Processing Zones Act, entities that have been granted export processing status are exempt from corporate income tax. Value-added tax, transfer duty and stamp duty are not imposed in the zone.

**Capital gains.** Capital gains tax is not imposed in Namibia. However, please note the rules discussed below.

Amounts received as consideration for the alienation or disposal of a mineral license, as defined in the Minerals (Prospecting and Mining) Act, or the sale of shares in a company that owns such a license are specifically included in the gross income of a taxpayer. The scope of the provisions in terms of which mineral licenses and shares in companies owning such licenses are subject to tax have been widened to include in gross income amounts received from sales, donations, expropriations, cessions and grants of shares in companies owning such licenses as well as shares in companies that indirectly own such licenses. A measure provides

for the deductibility of costs incurred on the acquisition of mineral licenses.

Amounts received as consideration for the alienation or disposal of a petroleum license, as defined in the Petroleum (Exploration and Production) Act, or the sale of shares in a company that own such a license are specifically included in the gross income of a taxpayer. Amounts received from sales, donations, expropriations, cessions and grants of shares in companies owning such licenses, as well as shares in companies that indirectly own such licenses, are also included in gross income. A measure provides for the deductibility of costs incurred on the acquisition of petroleum licenses.

Amounts received for restraints of trade are taxable and whether these amounts are of a capital nature is no longer relevant because all such amounts are specifically included in gross income.

**Administration.** Annual financial statements must be prepared as of the last day of February, unless another date is agreed to by the tax authorities. In practice, permission to use the company's financial year-end is always granted. A company's tax year generally coincides with its financial year.

A company is required to make two provisional tax payments, the first payment six months after the start of the financial year and the second at the end of the year. Payments must be based on an estimate of the current year's taxable income and must be accurate to within 80% of the actual tax liability for the year for which the payment is due. A penalty for underestimation of the first or second provisional tax payment is imposed if the respective payments are less than the minimum payment required.

Companies must file an annual return within seven months after the tax year-end unless an extension is obtained. If the total provisional tax payments are less than the tax liability shown on the return, the balance of tax due must be paid within seven months after the end of the tax year, regardless of whether a company has obtained an extension to file its tax return. Interest accrues at a rate of 20% per year on any unpaid tax liability.

**Dividends.** Dividends received by a company are exempt from the regular company tax, and expenses incurred in the production of dividend income are not deductible in the determination of the company's taxable income. Dividends paid to nonresidents are subject to a final 10% withholding tax if the recipient of the dividend is a company that holds at least 25% of the capital of the company paying the dividend and if it is the beneficial owner of the shares. For all other cases, the dividend withholding tax rate is 20%. Dividends paid out of oil and gas profits or long-term insurance business profits are not subject to dividend withholding tax. A tax treaty may reduce the rate of dividend withholding tax.

**Foreign tax relief.** In the absence of treaty provisions, a unilateral tax credit is available for foreign direct and withholding taxes paid on dividends and royalties. The credit may not exceed the Namibian tax attributable to such income. The credit is denied to the extent that a refund of the foreign tax is possible.

### C. Determination of trading income

**General.** Taxable income includes both trade and non-trade income (interest) not of a capital nature. Revenue amounts and realized foreign-exchange gains are subject to tax. Taxable income rarely coincides with profit calculated in accordance with accepted accounting practice.

To be eligible for deduction, expenditures must be incurred in the production of taxable income in Namibia, must be for purposes of trade and must not be of a capital nature. However, realized foreign-exchange losses are deductible even if they are of a capital nature.

Scientific research expenditures are deductible if the research is undertaken for the development of business or is contributed to an institution approved by the Council for Scientific and Industrial Research.

**Special deductions.** The following special deductions are available to registered manufacturers:

- An additional deduction of 25% of the wages paid to their manufacturing staffs
- An additional deduction of 25% of approved training expenses for their manufacturing staffs
- An additional deduction of 25% of export marketing expenses
- An additional deduction of 25% of expenses incurred to transport by road or rail raw materials and equipment used in the manufacturing activity for the first 10 tax years as a manufacturer

Losses resulting from these special deductions may not be used to offset other income.

Taxable income derived from exports of manufactured goods, excluding fish and meat products, is reduced by 80% if the goods are manufactured in Namibia. This allowance is available to trading houses and manufacturers, provided that the goods are manufactured in Namibia. For manufacturers, this allowance applies in addition to the special deductions listed above. For the first 10 years of operation, the tax rate for registered manufacturers that export all goods manufactured is 3.6%. After the 10-year period, the rate increases to 6.4%.

**Inventories.** Trading stock includes all goods, materials or property acquired for manufacture or sale, including packaging but excluding consumables and machinery parts. The value of stock is based on original cost plus the costs of preparing stock for sale. The last-in, first-out (LIFO) method of stock valuation may be applied on approval by the Minister of Finance, subject to various conditions.

**Provisions.** Deductible expenses must be actually incurred, and consequently, provisions are not deductible. However, an allowance for doubtful accounts may be established equal to 25% of the debts that the Minister of Finance is satisfied are doubtful. The amount of irrecoverable debts written off is allowed as a deduction if the debts were once included as taxable income or if the write-off can be construed as an operating loss incurred in the production of income (for example, the write-off of casual loans to staff members who are unable to repay).

**Tax depreciation (capital allowances)**

*Machinery, equipment and vehicles.* The cost of machinery, motor vehicles, utensils, articles, ships and aircraft may be deducted in three equal annual amounts, beginning in the year of acquisition. No amount may be deducted in the year of disposal of the asset.

*Buildings.* An initial allowance of 20% of construction cost is permitted for commercial buildings in the year the buildings are first used. An allowance of 4% is permitted in each of the following 20 years. For industrial buildings of a registered manufacturer, an initial allowance of 20% and an annual allowance of 8% are allowed. No allowance is granted for employee housing.

*Patents, designs, trademarks and copyrights.* If used in the production of income, the cost of developing, purchasing or registering patents, designs, trademarks, copyrights and similar property is allowed in full if such cost is not more than NAD200, or the cost can be amortized over the estimated useful life or 25 years, whichever is shorter, if the acquisition cost is more than NAD200.

*Mining including oil and gas.* Prospecting and development expenses incurred in mining operations are not subject to the tax depreciation rules described above. In general, prospecting expenses may be deducted in the year production begins. Costs incurred on infrastructure may be deducted over three years, beginning in the year production begins.

*Recapture.* Capital allowances are generally subject to recapture to the extent the sales proceeds exceed the tax value after depreciation. In addition, capital allowances are recaptured if assets are withdrawn from a business or removed from Namibia, regardless of whether the assets are sold. The market value of the assets is used to determine the amount recaptured if no proceeds are received.

**Relief for trading losses.** Companies may carry forward unused losses indefinitely to offset taxable income in future years if they carry out a trade. Losses may not be carried back. Companies that carry on mining operations may offset current-year and prior-year trading losses from mining against other trade income and vice versa. However, such losses must be apportioned on a pro rata basis between mining and other trade income to determine taxable income from each source in the current year. Oil and gas companies may not offset losses from oil and gas activities against other trade income, or vice versa, in any year.

**Groups of companies.** A group of companies is not taxed as a single entity in Namibia, and an assessed loss of one company cannot be offset against the taxable income of another company in the group. An assessed loss of a branch of a foreign company may be transferred to a Namibian subsidiary under certain circumstances.

**D. Value-added tax**

Value-added tax (VAT) is levied on supplies of goods or services, other than exempt supplies, made in Namibia and on imports of goods and certain services.

The standard VAT rate is 15%. The following items are zero-rated:

- Exports of goods



- Certain services rendered to nonresidents who are not registered for VAT
- Disposals of going concerns
- Local supplies of fuel levy goods (petrol and diesel)
- Maize meal, fresh or dried beans, sunflower cooking oil, fried animal fat used for the preparation of food, bread and bread or cake flour, if these items are not served as cooked or prepared food, fresh milk and white or brown sugar

Local public passenger transport, medical services, services supplied by registered hospitals, educational services and long-term residential rentals are exempt from VAT.

## E. Miscellaneous matters

**Exchange controls.** Namibia is a member of the Common Monetary Area, which also includes Lesotho, South Africa and Swaziland. Consequently, it is subject to the exchange control regulations promulgated by the Reserve Bank of South Africa. If Namibia withdraws from the Common Monetary Area, it is likely to introduce its own exchange control restrictions along similar lines.

Exchange controls are administered by the Bank of Namibia, which has appointed various commercial banks to act as authorized foreign-exchange dealers.

The Namibian dollar (NAD) is the Namibian currency. The Namibian dollar and the South African rand (ZAR) are convertible one for one (that is, ZAR1 = NAD1), and this rate does not fluctuate.

**Debt-to-equity rules.** The tax law includes measures that counter thin capitalization by adjusting both the interest rate and the amount of the loan based on arm's-length principles. Although no guidelines have been published in this area, a debt-to-equity ratio of up to 3:1 is generally acceptable.

**Transfer pricing.** The Namibian Income Tax Act includes transfer-pricing measures, which are designed to prevent the manipulation of prices for goods and services, including financial services (loans), in cross-border transactions between related parties.

**Anti-avoidance legislation.** Namibian legislation contains a general anti-avoidance provision to attack arrangements that are primarily tax-motivated and, in certain respects, abnormal when considered in the context of surrounding circumstances. In general, the Bank of Namibia requires a debt-to-equity ratio of 3:1 when approving foreign investment into Namibia. Another anti-avoidance provision deals with transactions involving companies (including changes in shareholdings) that are designed to use a company's assessed loss, usually by diverting income to, or generating income in, that company.

## F. Treaty withholding tax rates

Namibia has entered into double tax treaties with Botswana, France, Germany, India, Malaysia, Mauritius, Romania, the Russian Federation, South Africa and Sweden. In addition, it has a treaty with the United Kingdom, which is the 1962 treaty between the United Kingdom and South Africa as extended to Namibia.

The treaties provide for withholding tax rates on dividends, interest and royalties paid to residents of the other treaty countries as indicated in the following table.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %	<b>Services</b> %
Botswana	10	10	10	0/15 (h)
France	5/15 (a)	10	10	0
Germany	10/15 (b)	0	10	0
India	10	10	10	0/10 (i)
Malaysia	5/10 (c)	10	5	0/5 (j)
Mauritius	5/10 (c)	10	5	0
Romania	15	15	15	0
Russian Federation	5/10 (d)	10	5	0
South Africa	5/15 (c)	10	10	0
Sweden	5/15 (a)	10	5/15 (e)	0/15 (h)
United Kingdom	5/15 (f)	20	5	0
Non-treaty jurisdictions (g)	10/20	10	10	10

- (a) The 5% rate applies if the recipient is a company that owns at least 10% of the payer of the dividends. The 15% rate applies to other dividends.
- (b) The 10% rate applies if the recipient is a company that owns at least 10% of the payer of the dividends. The 15% rate applies to other dividends.
- (c) The 5% rate applies if the recipient owns at least 25% of the payer of the dividends. The 10% rate applies to other dividends.
- (d) The 5% rate applies if the recipient is a company that owns at least 25% of the payer of the dividends and has invested at least USD100,000 in the share capital of the payer. The 10% rate applies to other dividends.
- (e) The 5% rate applies to royalties paid for patents, secret formulas or information relating to industrial or scientific experience. The 15% rate applies to other royalties.
- (f) The 5% rate applies if the recipient is a company that controls directly or indirectly more than 50% of the voting power of the payer of the dividends. The 15% rate applies to other dividends.
- (g) For further details, see Section A.
- (h) The 15% rate applies to payments for administrative, technical, managerial or consultancy services performed outside Namibia.
- (i) The 10% rate applies to technical, managerial or consultancy fees paid by Namibian residents.
- (j) The 5% rate applies to technical, managerial or consultancy fees paid by Namibian residents.

Namibia has a signed tax treaty with Canada, but the treaty has not yet been ratified. Namibia is negotiating tax treaties with Lesotho, Seychelles, Spain, Zambia and Zimbabwe.

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**A. At a glance**

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	15 (b)
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1
Carryforward	9

- (a) A tax rate of 20% applies to the first EUR200,000 of taxable income. For 2019, the corporate income tax rates will decrease from 25% to 21% (second bracket) and from 20% to 16% (first bracket of EUR200,000 of taxable income; for further details, see *Tax rates*). An effective tax rate of 7% is available for income related to certain intellectual property (Innovation Box). For details regarding the Innovation Box, see Section B.
- (b) This rate may be reduced to 0% if the recipient is a parent company established in a European Union (EU) member state, European Economic Area (EEA) state or a country that has entered into a tax treaty with the Netherlands covering dividends, provided that certain anti-abuse requirements are met. Dividends paid by a Dutch Cooperative, which is a specific legal entity, are not subject to Dutch dividend withholding tax if the Dutch Cooperative does not predominantly operate as a holding or financing company. For further details, see Section B. In addition, the Dutch dividend withholding tax rate is typically reduced under the extensive Dutch tax treaty network (see Section F), to as low as 0%.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Corporate income tax is levied on resident and nonresident companies. Resident companies are those incorporated under Dutch civil law, European Companies (*Societas Europaea*, or SEs) and European Co-operative Societies (*Societas Cooperativa Europaea*, or SCEs) established in the Netherlands, even if their management and statutory seat are located abroad. In addition, companies are resident if incorporated under foreign law, but effectively managed and controlled in the Netherlands. Resident companies are subject to tax on their worldwide income. Nonresident companies, primarily branch offices of foreign companies doing business in the Netherlands, are taxable only on specific income items, such as real estate and business profits generated in the Netherlands.

**Tax rates.** The standard corporate tax rate is 25%. A tax rate of 20% applies to the first EUR200,000 of taxable income. For 2019, the corporate income tax rates will decrease by one percentage point, followed by an additional decrease of one and one-half percentage points in both 2020 and 2021. Consequently, the standard corporate tax rate will be decreased to 16% (first bracket) and 21% (second bracket) by 2021. An effective tax rate of 7% is available for income related to certain intellectual property (IP). For details regarding this IP regime, see *Innovation Box*.



**Innovation Box.** If certain conditions are met, a taxpayer can elect to apply the Innovation Box. The aim of this box is to encourage innovation and investment in research and development (R&D), including software development.

In the Innovation Box, net income from qualifying intellectual property is effectively taxed at a rate of 7%. The rate was increased from 5% to 7%, effective from 1 January 2018. The 7% rate applies only to the extent that the net earnings derived from the self-developed intangible assets exceed the development costs. The development costs are deductible at the statutory tax rate of 25% (see Section A) and form the so-called threshold. The Innovation Box regime can be elected with respect to a particular intangible asset; it is not required to include all intangibles. Advance Tax Rulings (ATRs) and Advance Pricing Agreements (APAs) are available (see *Administration*).

An important condition for the application of the Innovation Box is that the taxpayer must have been granted an R&D declaration from the Netherlands Enterprise Agency (Rijksdienst voor Ondernemend Nederland, or RVO; part of the Ministry of Economic Affairs) for a qualifying intangible asset created by or for the risk and account of the taxpayer.

In line with recommendations by the Organisation for Economic Co-operation and Development (OECD), effective from 1 January 2017, the definition of qualifying intangible assets is limited for so-called “large groups” (groups that have five-year revenues exceeding EUR250 million and five-year income from intangible assets exceeding EUR37,500,000). For large groups, qualifying intangible assets are limited to patents or plant variety rights, software, marketing authorizations for human or animal medicines, intangible assets with a supplemental protection certificate from the Netherlands Patent Office, intangible assets with a registered utility model for the protection of innovation or an exclusive license for the use of the assets mentioned above.

For taxpayers that do not form part of a large group, other intangible assets can also qualify for the Innovation Box. In addition, other intangible assets can qualify for taxpayers forming part of a large group if such intangible assets are connected with intangible assets that fall within one of the above categories. For example, this connection between two or more intangible assets can be present if the intangible assets have been developed by the same research department or applied in the same product (group). Trademarks, logos and similar assets do not qualify.

Effective from January 2017, the OECD’s modified nexus approach should be taken into consideration for purposes of calculating the income that can be taxed under the Innovation Box. Under the modified nexus approach, the proportion of eligible income is determined by reference to the ratio of “qualifying expenditures” compared to “overall expenditures” for the development of the qualifying intangible asset. This is expressed by the following formula:

$$\text{Qualifying income} = \frac{\text{Qualifying expenditures} \times 1.3}{\text{Overall expenditures}} \times \text{Income from intangible assets}$$

The income from intangible assets can include all types of income, including royalties, capital gains and embedded income (for example, the sales price of a product).

Foreign royalty withholding tax can normally be credited against Dutch corporate income tax, but the amount of the credit is limited to the Dutch corporate income tax attributable to the relevant net royalty income.

The following grandfathering rules have been put in place to facilitate the transition from the pre-2017 Innovation Box to the current Innovation Box:

- The pre-2017 regime remains applicable to intangible assets that have been self-developed before 1 July 2016 if the taxpayer opts to apply the Innovation Box in the tax return that includes the aforementioned date. This grandfathering rule will be discontinued for tax years beginning on or after 1 July 2021.
- Intangible assets developed before 1 January 2017 for which a patent or a plant variety right has been granted will qualify for the current Innovation Box, even if no R&D-declaration has been granted.
- Specific rules have been put in place to determine the nexus ratio in the first years of the new regime. These rules will be discontinued for tax years beginning on or after 1 January 2021.

**R&D tax credit.** An employer established in the Netherlands that is performing R&D is eligible for the R&D tax credit (*Wet Bevordering Speur-en Ontwikkelingswerk*, or WBSO), regardless of its size or industry. The WBSO is a tax incentive, which offers an immediate benefit on wage costs and other costs and expenses for R&D activities. All R&D cost and expenses will be settled through a reduction of the payroll tax due from an employer.

An R&D declaration must be obtained from the RVO. The benefit from the WBSO can amount up to 40% of the qualifying costs and expenditures. For R&D costs and expenditures that are not labor costs, a company can choose a fixed rate or a calculation of the actual amount of costs and expenses.

**Capital gains.** No distinction is made between capital gains and other income. In certain cases, capital gains are exempt (for example, if the participation exemption described in Section C applies) or a rollover is available based on case law or under the reinvestment reserve (see the discussion in *Provisions* in Section C).

**Administration.** The standard tax year is the financial year (as indicated in the articles of association of a taxpayer).

An annual tax return must be filed with the tax authorities within 5 months after the end of the tax year, unless the company applies for an extension (normally, an additional 11 months based on an agreement between the tax advisors and the tax authorities).

Companies must make partial advance payments of corporate income tax during the year, based on preliminary assessments. The preliminary assessments are based on the expected final assessment. For 2018, assuming the tax year corresponds to the calendar year, the assessments are levied according to the following schedule:

- The first preliminary assessment is generally imposed on 31 January 2018. The tax administration may estimate the

profit by applying a percentage to the average fiscal profit of the previous two years. If the taxpayer can plausibly show that the expected final assessment will be a lower amount, the preliminary assessment is based on that amount.

- The second preliminary assessment is generally imposed at the end of the eighth month of 2018. This preliminary assessment is derived from an estimate made by the taxpayer.

These preliminary assessments may be paid in as many monthly installments as there are months remaining in the year. It is important that taxpayers provide a timely and accurate estimate of the taxable income. If the preliminary corporate income tax liability is understated, this may result in a charge of tax interest when the tax assessment appears to be higher. Tax interest is calculated for the period that begins six months after the tax year to which the tax liability relates and is based on the amount of additional tax due. If the preliminary corporate income tax liability is overstated, this may not result in a tax interest refund when the tax assessment appears to be lower.

The final assessment is made within three years (plus any extensions granted) from the time the tax liability arises.

The tax authorities may impose *ex officio* assessments if the taxpayer fails to file a return or fails to meet the deadline to file a return. Penalties may apply.

Additional assessments may be imposed if, as a result of deliberate actions by the taxpayer, insufficient tax has been levied. A penalty of 100% of the additional tax due may be levied. Depending on the degree of wrongdoing, this penalty is normally reduced to 25% or 50%.

*Rulings.* Rulings are agreements concluded with the tax authorities confirming to the Dutch tax consequences of transactions or situations involving Dutch taxpayers. Rulings are based on Dutch tax laws that apply at the time of the request.

For certainty in advance regarding general transfer-pricing matters (see Section E), an APA can be concluded with the tax authorities. APAs provide taxpayers with upfront certainty regarding the arm's-length nature of transfer prices. All Dutch APAs are based on OECD transfer-pricing principles and require the taxpayer to file transfer-pricing documentation with the tax authorities. APAs can be entered into on a unilateral, bilateral or multilateral basis (that is, with several tax administrations). APAs may cover all or part of transactions with related parties, including transactions involving permanent establishments.

For most other matters (for example, the applicability of the participation exemption) or the existence or nonexistence of a permanent establishment in the Netherlands or abroad, an ATR can be concluded.

The benefit of an APA or ATR is that companies can obtain certainty in advance regarding their Dutch tax position (for example, before the investment is made).

The ruling process with the tax authorities may require a pre-filing meeting. In general, rulings are concluded for a period of

four or five years, but facts and circumstances may allow for a longer or shorter term. If the facts and legislation on which the APA or ATR is based do not change, in principle, the APA or ATR can be renewed indefinitely. No fees are required to be paid when filing an APA or ATR request with the Dutch tax authorities.

The time required for the total process from initiation of the ruling process to conclusion of the ruling depends on the circumstances. However, in general, it takes between 6 to 10 weeks from the date of the filing of the ruling request to obtain the ruling. It is often possible to expedite the process if required from a commercial perspective (for example, merger and acquisition transactions).

In line with the OECD's Base Erosion and Profit Shifting (BEPS) Action 5 and the EU directive on the automatic exchange of information on tax rulings, the Netherlands has commenced the exchange of information with respect to certain tax rulings in 2016. To facilitate the exchange of information on tax rulings, specific templates that cover generic information and a high-level summary of the agreed-upon ruling should be submitted to the Dutch tax authorities during the ruling process.

**Dividend withholding tax.** The statutory withholding tax rate for dividends is 15%. However, several exemptions and reductions, as described below, can apply. Under the extensive Dutch treaty network (see Section F), the Dutch dividend withholding tax rate is typically reduced to a rate as low as 0%. Under the participation exemption (see Section C) or within a Dutch fiscal unity (see Section C), dividends paid by resident companies to other resident companies are usually exempt from dividend withholding tax.

Effective from 1 January 2018, a broader domestic dividend withholding tax exemption is available for dividend distributions made by Dutch resident entities to the following:

- EU/EEA member state resident investors that are not treated as a resident outside the EU/EEA under a tax treaty between the EU/EEA state and a third state
- Investors that are resident in a country that has entered into a tax treaty with the Netherlands covering the treatment of dividends

The domestic dividend withholding tax exemption applies if the recipient holding an interest in the Dutch dividend distributing entity would qualify for the Dutch participation exemption benefits if that investor resided in the Netherlands and if certain anti-abuse rules that target, among other items, hybrid recipients, are met. For this purpose, the EEA is limited to the countries of Iceland, Liechtenstein and Norway. The withholding tax exemption does not apply if the foreign shareholder fulfills a function similar to a Netherlands fiscal investment company or tax-exempt investment company.

To apply the domestic withholding tax exemption for dividend distributions, the Dutch taxpayer should notify the Dutch tax inspector that all of the requirements listed above are met. Such notification should take place within one month after assessing the dividend resolution.

Effective from 1 January 2018, dividend distributions made by Dutch Cooperatives that predominantly perform holding and/or financing activities are subject to a 15% dividend withholding tax. The new dividend withholding tax rules aim to eliminate the difference in the treatment of Dutch Cooperatives compared to Dutch limited liability companies that were already subject to 15% withholding tax. Effective from 1 January 2018, Dutch Cooperatives can use the new expanded domestic dividend withholding tax exemption described above, if they meet the requirements outlined above. The new rules do not apply to Dutch Cooperatives that do not predominantly perform holding and/or financing activities and that have operational activities and the relevant substance to carry out these activities. Dividend distributions made by these type of Dutch Cooperatives are not subject to Dutch dividend withholding tax based on domestic law.

On 23 February 2018, the Dutch government published its fiscal policy agenda for the upcoming years. In the policy agenda, it announced that the current 15% Dutch dividend withholding tax will be abolished as of 1 January 2020. At the same time, a conditional dividend withholding tax will be introduced that applies only to dividend distributions to companies tax resident in a jurisdiction with a low tax rate, or a jurisdiction listed on the EU blacklist for non-cooperative countries. In addition, a conditional withholding tax on interest and royalty payments to companies resident in a non-treaty jurisdiction with a low tax rate, or a jurisdiction listed on the EU blacklist for non-cooperative countries, will be introduced. At the time of writing, no legislative proposal had been submitted; taxpayers should contact their professional advisor for an update on this matter.

*Measures to combat dividend stripping.* The Dividend Withholding Tax Act provides measures to combat dividend stripping. Under these measures, a reduction of dividend withholding tax is available only if the recipient of the dividends is regarded as the beneficial owner of the dividends. The measures provide that a recipient of dividends is generally not regarded as the beneficial owner if the following circumstances exist:

- The dividend recipient entered into a transaction in return for the payment of the dividends as part of a series of transactions.
- It is likely that the payment of the dividends benefits a person who would have been entitled to a lesser (or no) reduction, exemption or refund of dividend tax than the recipient.
- The person benefiting from the dividends directly or indirectly maintains or acquires an interest in the share capital of the payer of the dividends that is comparable to the person's position in the share capital before the series of transactions.

*Share repurchases.* Publicly listed companies are not required to withhold dividends tax when they repurchase their own shares if certain requirements are met. One of these requirements is that the company must not have increased its share capital in the four years preceding the repurchase. This requirement does not apply if the share capital was increased for bona fide business reasons.

*Credit for dividend withholding tax.* A Dutch intermediate company may credit a portion of the foreign dividend withholding tax imposed on dividends received against any Dutch withholding

tax due on its dividend distributions if certain conditions are satisfied. The credit is generally 3% of the gross amount of qualifying dividends received. However, if the dividends received are not passed on in full by the Dutch intermediate company, the credit is 3% of the dividend distribution made by the Dutch intermediate company.

**Foreign tax relief.** Under unilateral provisions in the corporate income tax act, the Netherlands exempts foreign business profits derived through a permanent establishment, profits from real estate located abroad and certain other types of foreign income from corporate income tax. If the income is derived from a tax treaty country, the exemption applies with consideration of the relevant treaty provisions (for example, a “subject-to-tax” requirement). If such foreign (operational) income is derived from a non-treaty country, no “subject to tax” requirement applies. To the extent that the foreign business income is negative, this amount does not reduce Dutch taxable income unless the foreign business is terminated (object exemption/territorial system). A credit is available for profits allocable to low-taxed portfolio investment/passive branches.

### C. Determination of taxable income

**General.** The fiscal profit is not necessarily calculated on the basis of the annual financial statements. In the Netherlands, all commercial accounting methods have to be reviewed to confirm that they are acceptable under fiscal law. The primary feature of tax accounting is the legal concept of “sound business practice.”

Expenses incurred in connection with the conduct of a business are, in principle, deductible. However, certain expenses are not deductible, such as fines and penalties, and expenses incurred with respect to a crime. Certain expenses are partially deductible, such as meals, drinks, and conferences. If expenses exceed normal arm’s-length charges and are incurred directly or indirectly for the benefit of shareholders or related parties, the excess is considered a nondeductible expense (a deemed dividend or informal capital contribution). Restrictions are imposed on the deductibility of certain related-party interest expense (see Section E).

**Functional currency.** Taxpayers must calculate their taxable income in euros. On request, Dutch corporate tax returns may be calculated in the functional currency of the taxpayer, provided the financial statements of the relevant financial year are prepared in that currency. The financial statements may be expressed in a foreign currency if it is justified by the company’s business or the international nature of the company’s group. If this regime is applied, in principle, the functional currency must be used for at least 10 years. Only currencies listed by the European Central Bank qualify for the regime.

**Inventories.** Inventories are generally valued at the lower of cost or market value, but the last-in, first-out (LIFO) and the base stock methods of valuation are acceptable if certain conditions are fulfilled. Both of these make it possible to defer taxation of inventory profits. Valuation under the replacement-cost method is not accepted for tax purposes.

**Provisions.** Dutch law permits the creation of tax-free equalization and reinvestment reserves.

The equalization reserve may be established in anticipation of certain future expenditure that might otherwise vary considerably from year to year, such as ship maintenance, overhauling, pension payments or warranty costs.

If certain conditions are met, the tax book profit arising from the disposal of a tangible or intangible business asset may be carried forward and offset against the acquisition cost of a reinvestment asset. This is known as a reinvestment reserve. The reinvestment asset must be purchased within three years after the year in which the reinvestment reserve was established. If a reinvestment asset is not purchased within three years after the establishment of the reinvestment reserve, the amount in the reinvestment reserve is included in taxable income for corporate income tax purposes in the third year following the year in which the reinvestment reserve was established. The offset of the book profit may not reduce the book value of the reinvestment asset below the book value of the asset that was sold. An amount that cannot be offset as a result of the rule described in the preceding sentence may continue to be carried forward if the condition of the same economic function for the reinvestment does not apply (see below). If the depreciation period for the reinvestment asset is more than 10 years or if the reinvestment asset is not depreciable, the reinvestment asset must fulfill the same economic function as the asset that was sold. The condition of the same economic function for the reinvestment does not apply to reinvestment assets with a depreciation period of 10 years or less.

**Participation exemption.** All companies resident in the Netherlands (except qualified investment companies that are subject to a corporate income tax rate of 0%), including holding companies, are in principle exempt from Dutch corporation tax on all benefits connected with certain qualifying shareholdings (participations). Benefits include cash dividends, dividends-in-kind, bonus shares, “hidden” profit distributions and capital gains realized on disposal of the shareholding. A capital loss that might result from the disposal of the shareholding is similarly nondeductible (however, a liquidation loss of a subsidiary company may be deductible under certain circumstances).

The participation exemption applies to all (rights to) interests of 5% or more in the nominal paid-up capital of the subsidiary, unless the participation is a “portfolio investment” (determined through the motive test; see below). A less than 5% direct shareholding may be a qualifying participation if a related company owns an interest of at least 5% in the same subsidiary. If the shareholding is reduced to less than 5% (for example, as a result of a dilution or another event), the participation exemption may still apply for a period of three years from the date the 5% threshold is no longer met. A condition for applying the participation exemption during the three-year period is that the shareholding must have been owned by the Dutch shareholder for more than one year during which the Dutch shareholder was able to fully benefit from the Dutch participation exemption. If the participation can be considered a “portfolio investment” on a particular

date, the Dutch shareholder may no longer benefit from the participation exemption as of such date.

The motive test is applied to determine whether a participation is a “portfolio investment.” In general, the motive test is met if the shares in the subsidiary are not merely held for the return that can be expected from normal asset management. In a limited number of specific situations, the participation is deemed to be held as a portfolio investment, which is generally determined based on the function, turnover, profit and assets of the subsidiary. However, even if the motive test is not met, the Dutch taxpayer may still benefit from the participation exemption if the reasonable tax test or the asset test is met.

The reasonable tax test is satisfied if the direct subsidiary is subject to a profit tax that results in a reasonable levy of profit tax in accordance with Dutch tax standards. Based on the parliamentary history, in principle, the local tax system needs to be compared with the Dutch tax system. The primary elements that are taken into account for this assessment are the tax base and the local statutory corporate income tax rate. In general, a statutory profit tax rate of at least 10% qualifies as a reasonable levy if no significant deviations exist between the local tax system and the Dutch tax system. Such significant deviations include, among others, a tax holiday, a cost-plus tax base with a limited cost base and the absence of limitation provisions with respect to the interest deduction.

The asset test is satisfied if less than half of the assets of the direct subsidiary usually consist of, directly or indirectly, low-taxed “free” portfolio investments on an aggregated basis. The portfolio investments are considered “free” if the investments are not used in the course of the business of the company. Real estate and rights directly or indirectly related to real estate are excluded from the definition of a portfolio investment. As a result, the participation exemption normally applies to benefits from real estate participations.

Subject to prior approval of the Dutch tax authorities, a taxpayer can apply the participation exemption to the foreign-exchange results relating to financial instruments that hedge the foreign-exchange exposure on qualifying participations.

*Compartmentalization reserve.* Under rules that were introduced in 2013, companies claiming exemption from corporate income tax (under the 2007 revised participation exemption rules) for dividends received from foreign subsidiaries must apportion the income to the year in which it originated. The change applies retroactively to 14 June 2013, when the proposed rules were first announced. It prevents companies from claiming the exemption on income originating from a non-exempt period (so-called compartmentalization rules). Under these rules, a taxpayer must create a fiscal “Compartmentalization reserve” if it holds a (share) interest in a company to which the participation exemption no longer applies and if the participation exemption did apply until that moment (and vice versa). Taxpayers should consult their Dutch tax advisors to obtain further details regarding these rules.

*Hybrid loans.* Effective from 1 January 2016, the participation exemption is no longer available for certain benefits derived from



so-called hybrid loans. Under this amendment, the participation exemption does not apply to income derived from participations to the extent that the corresponding payments are, directly or indirectly, deductible at the level of the participation. No compartmentalization can be applied to benefits that relate to the period before 1 January 2016, but are paid or accrued after that date.

**Tax depreciation.** In principle, depreciation is based on historical cost, the service life of the asset and the residual value. Depreciation is limited on buildings, goodwill and other assets.

*Buildings.* Buildings (including the land and surroundings on which they were erected) can be depreciated only for as long as the tax book value does not drop below the threshold value. Buildings may not be depreciated to a tax book value lower than the threshold value. The threshold value of buildings held as a portfolio investment equals the value provided in the Law on Valuation of Real Estate (*Wet Waardering Onroerende Zaken*), known as the WOZ value. The threshold value of buildings used in the taxpayer's business or a related party's business equals 50% of the WOZ value. In principle, the WOZ value approximates the fair market value of the real estate. The local municipality determines annually the WOZ value. If the threshold value increases, tax depreciation that had been previously claimed is not recaptured.

*Goodwill and other assets.* Goodwill must be depreciated over a period of at least 10 years. As a result, the maximum annual depreciation rate is 10%. If the goodwill is useful for a longer period, this period must be taken into account. For other assets such as inventory, cars and computers, the depreciation is limited to an annual rate of 20% of historical cost.

**Groups of companies.** Under the Dutch fiscal unity regime, a group of companies can be treated as one taxpayer for Dutch tax purposes. The fiscal unity regime has the following characteristics:

- To elect a fiscal unity, among other requirements, Dutch taxpayers must be connected to each other through at least 95% of the entire legal and economic ownership of shares. A connection can be established through a common (indirect) parent company that is either a Dutch resident company that forms part of the fiscal unity itself, or a common (indirect) parent that is resident in an EU/EEA country. In the case of indirect ownership, the intermediate owner of the shares must also either be a Dutch resident company that forms part of the fiscal unity itself or a company resident in an EU/EEA country.
- Both Dutch and certain foreign companies may be included in a fiscal unity if their place of effective management is located in the Netherlands, and if the foreign company is comparable to a Dutch BV or *naamloze vennootschap* (NV).
- A permanent establishment in the Netherlands of a company with its effective management abroad may be included in, or can be the parent of, a fiscal unity.
- A subsidiary may be included in the fiscal unity from the date of acquisition or incorporation.

Advantages of such group treatment include the following:

- Losses of one subsidiary may be offset against profits of other members of the group.

- Reorganizations, including transfers of assets with hidden reserves from one company to another, have no direct fiscal consequences.
- Intercompany profits between members of a Dutch fiscal unity may be fully deferred.

Because only Dutch resident entities can be included in a Dutch fiscal unity and this can have several advantages, two cases were initiated at the European Court of Justice (ECJ). In these cases, the ECJ needs to decide whether the Dutch fiscal unity is in accordance with EU rules and the EU freedom of establishment. On 25 October 2017, the Advocate General (AG) of the ECJ of the EU issued an opinion with respect to these cases. According to the AG, some benefits should also be granted in cross-border situations. On 22 February 2018, the EU Court of Justice ruled that certain elements of the Dutch fiscal unity regime are violating EU law and the EU principle of freedom of establishment.

The Ministry of Finance announced in a press release that it will issue emergency response legislation if the ECJ follows the opinion of the AG. The measures in this legislation are intended to apply certain tax rules (such as the interest deduction limitation rule to prevent base erosion, excessive participation debt rules and loss relief rules in case of a change in ownership) as if no fiscal unity exists. These measures will be implemented into law with retroactive effect from 25 October 2017. Taxpayers making use of the fiscal unity regime should consult their Dutch tax advisors to discuss the impact of these rules in more detail.

**Relief for losses.** Losses of a company may be carried back one year and carried forward nine years.

Restrictions on loss relief apply to holding and financing companies. The restrictions apply to a company if holding activities and direct or indirect financing of related parties account for at least 90% of the company's activities during at least 90% of the financial year.

A company meeting the above condition may offset losses from a financial year against profits earned in another financial year only if its activities in both financial years consist of (or almost exclusively consist of) holding activities and the direct or indirect financing of related parties. This rule is designed to prevent companies from offsetting losses incurred in years in which they primarily engaged in holding and financing activities against profits of other activities that are subsequently commenced or acquired.

A second restriction provides that the balance of the related-party receivables and the related-party payables of the company during the financial year in which the profits are realized may not exceed this balance in the financial year in which the losses were incurred. This rule is designed to prevent companies from using losses by increasing the profitable finance activities. However, the company may make a case that the balance of the receivables and payables has increased for business reasons and not only for the purpose of using the loss carryforwards. If a taxpayer has at least 25 employees engaged in activities other than holding or financing, this ring-fencing rule does not apply.

The Corporate Income Tax Act contains specific rules to combat the trade in so-called “loss companies.” If 30% or more of the ultimate interests in a Dutch taxpayer changes among ultimate shareholders or is transferred to new shareholders, in principle, the losses of the company may not be offset against future profits. However, many exceptions to this rule exist (for example, the going-concern exception). The company has the burden of proof with respect to the applicability of the exemptions. A similar rule applies to companies with a reinvestment reserve and other attributes (such as tax credit carryforwards).

#### **D. Value-added tax**

Value-added tax is imposed on goods delivered and services rendered in the Netherlands other than exempt goods and services. The general rate is 21%. Other rates are 0% and 6%.

#### **E. Miscellaneous matters**

**Dutch intermediate companies.** The Netherlands may be used as a base for intermediate companies. These are primarily finance companies, licensing companies and leasing companies. Companies that perform these activities within a group must bear a certain level of risk with respect to these activities. A safe-harbor test involving a requirement with respect to minimum equity at risk determines whether sufficient risk is involved.

The Netherlands does not impose withholding tax on interest and royalty payments (see Section A). In addition, dividend withholding tax is typically reduced to 0% (see Section B). Because of the participation exemption (see Section C), a Dutch intermediate company is usually exempt from Dutch corporate tax on dividends from, and capital gains connected with, a foreign shareholding.

Effective from 1 January 2014, Dutch tax law contains substance requirements for companies principally engaged in intercompany financing and/or licensing activities. Dutch companies that claim the benefits of a tax treaty or EU Directive (treaty benefits) must now declare in their annual corporate income tax return whether the taxpayer meets a defined set of substance requirements. If one or more of these requirements are not met and if the company has claimed the benefits of a tax treaty, the Dutch tax authorities notify the foreign tax authorities. This is a simple notification. It is up to the foreign tax authorities to take action regarding this notification. Taxpayers should consult their Dutch tax advisors to discuss these rules in more detail.

**Ultimate Beneficial Owner Register.** Based on the Anti-Money Laundering Directive, EU member states are required to register the ultimate owner or stakeholder of corporate and legal entities incorporated in their territory in the Ultimate Beneficial Owner Register.

EU member states needed to implement the directive by 26 June 2017. In the Netherlands, a consultation document was published on 31 March 2017 and was open for comments until 28 April 2017. Draft legislation is expected in the first half of 2018.

**Foreign-exchange controls.** No real restrictions are imposed on the movement of funds into and out of the Netherlands.

**Debt-to-equity rules and other restrictions on deductibility of interest**

*Statutory thin-capitalization rules.* Effective from 1 January 2013, the statutory thin-capitalization rules were abolished.

*Other anti-base erosion provisions.* The deduction of interest paid, including related costs and currency exchange results, by a Dutch company on a related-party loan is disallowed to the extent that the loan relates to any of the following transactions:

- Dividend distributions or repayments of capital by the taxpayer or by a related Dutch company to a related company or a related individual resident in the Netherlands
- Capital contributions by the taxpayer, by a related Dutch company or by a related individual resident in the Netherlands into a related company
- The acquisition or extension of an interest by the taxpayer, by a related Dutch company or by a related individual resident in the Netherlands in a company that is related to the taxpayer after this acquisition or extension

This interest deduction limitation does not apply if either of the following conditions is satisfied:

- The loan and the related transaction are primarily based on business considerations. Effective from 1 January 2018, Dutch tax law specifically states that the test as to whether the loan is predominantly business driven and based on business considerations should be satisfied for both loans to related entities and loans that can be linked to third parties.
- At the level of the creditor, the interest on the loan is subject to a tax on income or profits that results in a levy of at least 10% on a tax base determined under Dutch standards, disregarding the Innovation Box (see Section B). In addition, such interest income may not be set off against losses incurred in prior years or benefit from other forms or types of relief that were available when the loan was obtained. In addition, the loan may not be obtained in anticipation of losses or other types of relief that arise in the year in which the loan was granted or in the near future. Even if the income is subject to a levy of at least 10% on a tax base determined under Dutch standards at the level of the creditor, interest payments are not deductible if the tax authorities can demonstrate it to be likely that the loan or the related transaction is not primarily based on business considerations. The measure described in the preceding sentence applies to loans that were in existence on 1 January 2008, with no grandfathering.

*Hybrid loans.* Interest expense incurred on loans that are (deemed) to function as equity for Dutch tax purposes is not deductible and may be subject to Dutch dividend withholding tax.

*Acquisition interest limitation.* Effective from 1 January 2012, the deduction of interest expense related to the acquisitions of a Dutch company that is subsequently included in a fiscal unity with its Dutch acquirer (or merged) is restricted. In such a transaction, the interest expense incurred by the Dutch acquirer with respect to the acquisition is tax deductible without limitation only if the acquirer has “stand-alone” taxable income.

If the acquirer does not have sufficient “stand-alone” taxable income, limitations to the amount of deductible acquisition interest

expense may apply. This is the case if the acquisition interest exceeds an amount of EUR1 million and if the fiscal unity has “excess liabilities.” To determine whether the fiscal unity has “excess liabilities,” the amount of outstanding liabilities related to an acquisition, expressed as a percentage of the initial purchase price, is reviewed annually. In the first year, “excess liabilities” are recognized only if more than 60% of the purchase price is financed with (any) debt, and the deductibility of interest expenses is limited to the amount of the “excess liabilities.” This percentage is reduced by 5% per year. Taxpayers should consult their Dutch tax advisors to discuss these rules in more detail. The restriction was introduced with a grandfathering provision. Under this provision, if the target is included in a fiscal unity with the acquirer before 15 November 2011 or if it was merged before that date, the limitations do not apply.

*Participation interest limitation.* The participation interest limitation applies to fiscal years beginning on or after 1 January 2013. It seeks to limit the deduction of “excessive interest” paid by a Dutch corporate taxpayer with respect to “participation debt,” which is debt (deemed to be) used to finance assets generating income that is exempt under the Dutch participation exemption. Such assets primarily include participations (such as share interests of at least 5%). The rule applies only if the interest exceeds EUR750,000 (only the excess above EUR750,000 would potentially be limited).

Under the rule, “participation debt” exists if the average cost price (that is, the combined amount of the purchase prices of the subsidiaries held by the Dutch taxpayer) of a Dutch taxpayer’s participations exceeds the taxpayer’s equity for Dutch tax purposes. Excess interest is calculated using the following formula:

$$\text{Excess interest} = \frac{\text{Total interest and costs at the level of the taxpayer}}{\text{Total amount of debt}} \times \frac{\text{Participation debt}}{\text{Total amount of debt}}$$

Certain exceptions exist. The cost price of a subsidiary is not taken into account for purposes of calculating the participation debt (that is, a purchase price is excluded from the combined amount of purchase prices of the subsidiaries held by the Dutch taxpayer) if and to the extent that the interest held in an operational subsidiary can be considered an expansion of the operational activities of the group (expansion investment escape). This exception does not apply in certain situations that the legislation deems abusive. Taxpayers should consult Dutch tax advisors to discuss these rules in more detail.

A grandfathering rule applies for subsidiaries held by the Dutch taxpayer on or before 1 January 2006. These subsidiaries are deemed to be an expansion investment for 90%. The Dutch taxpayer can still substantiate that the subsidiary should be considered an expansion investment for 100%.

Another exception is made for active financing activities. When calculating the excess interest, the interest and costs relating to payables held with respect to active financing are excluded from the total amount of interest and costs. In addition, payables that relate to active financing lower the average total debt that is

needed to calculate the excessive amount of interest. For this active financing rule to apply, a taxpayer must demonstrate that the payables as well as the receivables connected thereto are held with respect to the active financing activities. This is subject to specific criteria.

**Transfer pricing.** The Dutch tax law includes the arm's-length principle (codified in the Corporate Income Tax Act) and contains specific transfer-pricing documentation requirements. Transactions between associated enterprises (controlled transactions) must be documented. Such documentation should include a description of the terms of the controlled transactions, the entities (and permanent establishments) involved and a thorough analysis of the so-called five comparability factors (both from the perspective of the controlled transactions and companies and uncontrolled transactions and companies), of which the functional analysis is the most important. The documentation must establish how transfer prices were determined and provide a basis for determining whether the terms of the intercompany transactions would have been adopted if the parties were unrelated. If such information is not available on request in the case of an audit or litigation, the burden of proof with respect to the arm's-length nature of the transfer prices shifts to the taxpayer. As a result, the taxpayer is exposed to possible non-compliance penalty charges. Taxpayers can use the Dutch transfer-pricing decrees for guidance. These decrees provide the Dutch interpretation of the OECD transfer-pricing guidelines.

Additional transfer-pricing requirements in the Dutch tax law took effect on 1 January 2016. In line with the OECD's report on Action Point 13 of the BEPS plan, new standards for transfer-pricing documentation are introduced. These new standards consist of a three-tiered structure for transfer-pricing documentation that includes a master file, a local file and a template for a Country-by-Country (CbC) Report.

The CbC Report applies to Dutch tax resident entities that are members of a multinational enterprise (MNE) group with consolidated group turnover exceeding EUR750 million in the tax year preceding the tax year to which the CbC Report applies. In addition, Dutch tax resident entities of a MNE group also have to prepare a master file and a local file if the group has consolidated group turnover exceeding EUR50 million in the tax year preceding the tax year for which the tax return applies.

A Dutch tax resident that is a member of a MNE group must notify the Dutch tax authorities as to which entity within the MNE group will file the CbC Report by the last day of the reporting year (for example, if the reporting year is the calendar year, a notification must be filed by 31 December 2018). This is a recurring requirement.

The Dutch government has also issued further guidance on the master, local file and CbC reporting requirements through Ministerial Regulations. Taxpayers should consult their Dutch tax advisors to discuss these rules in more detail in order to ensure that they are compliant with their reporting and documentation obligations.

APAs can be concluded with the Dutch tax authorities with respect to transfer pricing (see Section B).

**F. Treaty withholding tax rates**

The rates reflect the lower of the treaty rate and the rate under Dutch domestic law.

	<b>Dividends (a)</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Albania	0/5 (b)(t)	0	0
Argentina	10 (b)	0	0
Armenia	0/5 (c)(u)	0	0
Aruba	5/7.5 (b)(aa)	0	0
Australia	15	0	0
Austria	0/5 (b)(g)	0	0
Azerbaijan	5/10 (s)	0	0
Bahrain	0 (c)	0	0
Bangladesh	10 (c)	0	0
Barbados	0 (c)	0	0
Belarus	0/5 (b)(p)	0	0
Belgium	0/5 (c)(g)	0	0
Bonaire, St. Eustatius and Saba (BES-Islands)	0 (c)	0	0
Brazil	15	0	0
Bulgaria	0/5 (b)(g)	0	0
Canada	5 (b)	0	0
China (mainland)	5 (b)	0	0
Croatia	0 (c)	0	0
Curaçao	0/5/15 (c)(bb)	0	0
Czech Republic	0/10 (b)(g)	0	0
Denmark	0 (c)(g)	0	0
Egypt	0 (b)	0	0
Estonia	0/5 (b)(g)	0	0
Ethiopia	5/15 (cc)	0	0
Finland	0 (f)(g)	0	0
France	0/5 (b)(g)	0	0
Georgia	0/5 (c)(o)	0	0
Germany	0/5 (c)(g)	0	0
Ghana	5/10 (c)	0	0
Greece	0/5 (b)(g)	0	0
Hong Kong SAR	0/10 (q)	0	0
Hungary	0/5 (b)(g)	0	0
Iceland	0 (c)(g)	0	0
India	5/10/15 (c)(k)	0	0
Indonesia	5 (b)(gg)	0	0
Ireland	0 (b)(g)	0	0
Israel	5 (b)	0	0
Italy	0/5/10 (c)(g)(ff)	0	0
Japan	0/5 (c)(v)	0	0
Jordan	0/5 (c)(l)	0	0
Kazakhstan	0/5 (c)(v)	0	0
Korea (South)	10 (b)	0	0
Kuwait	0 (c)	0	0
Latvia	0/5 (b)(g)	0	0
Lithuania	0/5 (b)(g)	0	0
Luxembourg	0/2.5 (b)(g)	0	0
Macedonia	0 (c)	0	0
Malaysia	0 (b)	0	0
Malta	0/5 (b)(g)	0	0
Mexico	5 (c)	0	0

	Dividends (a) %	Interest %	Royalties %
Moldova	0/5 (b)(r)	0	0
Morocco	10 (b)	0	0
New Zealand	15	0	0
Nigeria	12.5 (c)	0	0
Norway	0 (b)(g)	0	0
Oman	0 (c)	0	0
Pakistan	10 (b)	0	0
Panama	0/15 (e)	0	0
Philippines	10 (c)	0	0
Poland	0/5 (c)(g)	0	0
Portugal	0/10 (g)	0	0
Qatar	0 (h)	0	0
Romania	0/5 (c)(g)	0	0
Russian Federation	5/15 (b)(m)	0	0
Saudi Arabia	5 (c)	0	0
Singapore	0 (b)	0	0
Sint Maarten	0/5/15 (c)(bb)	0	0
Slovak Republic	0/10 (b)(g)	0	0
Slovenia	0/5 (c)(g)	0	0
South Africa	0/5 (c)(dd)	0	0
Spain	0/5 (g)(ee)	0	0
Sri Lanka	10 (b)	0	0
Suriname	7.5 (b)	0	0
Sweden	0 (b)(g)	0	0
Switzerland	0 (c)	0	0
Taiwan	10	0	0
Thailand	5 (b)	0	0
Tunisia	0 (c)	0	0
Turkey	5 (b)	0	0
Uganda	0/5 (z)	0	0
Ukraine	0/5 (d)(r)	0	0
USSR (i)	15	0	0
United Arab Emirates	5 (c)	0	0
United Kingdom	0 (c)(g)	0	0
United States	0/5 (c)(y)	0	0
Uzbekistan	0/5 (b)(x)	0	0
Venezuela	0/10 (b)(w)	0	0
Vietnam	5/7 (b)(n)	0	0
Yugoslavia (j)	5 (b)	0	0
Zambia	5 (b)	0	0
Zimbabwe	10 (b)	0	0
Non-treaty jurisdictions	15	0	0

- (a) The dividend withholding tax rates in this table are based on the lowest available treaty rates.
- (b) The rate is increased to 15% (China, Czech Republic, Slovak Republic and Venezuela, 10%) if the recipient is not a corporation owning at least 25% of the distributing company.
- (c) The rate is increased to 15% (or other rate as indicated below) if the recipient is not a corporation owning at least 10% of the distributing company.
- |         |     |              |     |                      |     |
|---------|-----|--------------|-----|----------------------|-----|
| Bahrain | 10% | Kuwait       | 10% | South Africa         | 10% |
| Ghana   | 10% | Oman         | 10% | United Arab Emirates | 10% |
| Japan   | 10% | Saudi Arabia | 10% |                      |     |
- (d) The treaty withholding rate is increased to 15% if the recipient is not a corporation owning at least 20% of the distributing company.
- (e) The treaty withholding rate is increased to 15% if the recipient is not a corporation owning at least 15% of the distributing company and if other conditions are met.



- (f) The treaty withholding rate is increased to 15% if the recipient is not a corporation owning at least 5% of the distributing company.
- (g) A dividend withholding tax exemption is available to EU/EEA member state resident investors (who are not treated as a resident outside the EU/EEA under a tax treaty between the EU/EEA state and a third state) holding an interest in a Dutch dividend distributing entity that would qualify for participation exemption benefits. For this purpose, the EEA is limited to the countries of Iceland, Liechtenstein and Norway. The withholding tax exemption does not apply if the foreign shareholder fulfills a similar function as a Netherlands fiscal investment company or tax-exempt investment company. No minimum holding period applies.
- (h) The treaty withholding rate is increased to 10% if the recipient is not a corporation owning at least 7.5% of the distributing company.
- (i) The former USSR tax treaty continues to apply to Kyrgyzstan, Tajikistan and Turkmenistan.
- (j) The former Yugoslavia tax treaty continues to apply to Bosnia and Herzegovina, Kosovo, Montenegro and Serbia.
- (k) The treaty withholding rate is 15% but contains a most-favorite-nation clause. The 10% rate is based on the treaty withholding rate with Germany. The 5% rate is based on the treaty withholding rate with Slovenia and requires ownership of at least 10% of the distributing company.
- (l) The 0% rate applies if the recipient is exempt from tax on the dividend.
- (m) The 5% rate applies if the recipient has invested at least EUR75,000 in the capital of the distributing company and has an interest of at least 25% in the distributing company.
- (n) The 5% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the distributing company or has invested more than USD10 million, or the equivalent in local currency, in the distributing company. The 7% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 25% but less than 50% of the distributing company and if, under the provisions of the Netherlands Corporate Income Tax Act and future amendments thereto, a company that is a resident of the Netherlands is not charged to Netherlands corporate income tax with respect to dividends received by the company from a company that is a resident of Vietnam.
- (o) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 50% of the distributing company and has invested more than USD2 million or the equivalent in euro or Georgian currency in the capital of the distributing company.
- (p) The 0% rate applies if the recipient is a corporation that owns at least 50% of the distributing company and has invested EUR250,000 in the share capital of the distributing company or if the recipient is a corporation owning at least 25% of the shares of the distributing company and the capital of the distributing company is guaranteed or insured by the government.
- (q) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the distributing company and if certain other conditions are met. Please consult your Dutch tax advisor for further details.
- (r) The 0% rate applies if either of the following circumstances exists:
- The recipient of the dividends owns at least 50% of the distributing company, and the recipient has invested at least USD300,000, or the equivalent in local currency, in the capital of the distributing company.
  - The investment of the recipient of the dividends in the capital of the company paying the dividends is guaranteed or insured by the government of the other contracting state, the central bank of the other contracting state or any agency or instrumentality (including a financial institution) owned or controlled by that government.
- (s) The 5% rate applies if the beneficial owner is a company that holds directly 25% of the capital of the company paying the dividends and has invested at least EUR200,000 in the capital of the distributing company.
- (t) The 0% rate applies if the beneficial owner is a company that holds directly or indirectly at least 50% of the capital of the distributing company that is wholly or partly divided into shares and if the beneficial owner has invested more than USD250,000 in the capital of the distributing company.
- (u) The 0% rate applies if the profits out of which the dividends are paid have been effectively taxed at the normal rate for profits tax and if the dividends are exempt from tax in the hands of the company receiving such dividends.
- (v) The 0% rate applies if the beneficial owner is a company that has directly or indirectly owned shares representing at least 50% of the voting power of the distributing company for the six-month period ending on the date on which entitlement to the dividends is determined and if other conditions are met.

- (w) The 10% rate applies if, according to the law in force in Venezuela, taxation of the dividends in Venezuela results in a tax burden of less than 10% of the gross amount of the dividends.
- (x) The 0% rate applies if under the provisions of the Netherlands Company Tax Act and the future amendments thereto, a company that is a resident of the Netherlands is not charged to Netherlands company tax with respect to dividends the company receives from a company that is a resident of Uzbekistan.
- (y) The 0% rate applies if the recipient is a company that directly owns shares representing 80% or more of the voting power in the payer of the dividends and if other conditions are met. The 5% rate applies if the recipient is a company that holds directly at least 10% of the voting power of the payer of the dividends.
- (z) The 0% rate applies if the recipient is a company owning at least 50% of the distributing company with respect to investments made, including increases of investments, after the entry into force of this treaty on 10 September 2006. The 5% rate applies if the recipient is a company that owns less than 50% of the distributing company. The competent authorities of the contracting states regulate in an agreement the application of the reduced rates.
- (aa) The 5% rate applies if the recipient of the dividend is subject to profit taxation at a rate of at least 5.5%.
- (bb) Under the new bilateral tax arrangements between the Netherlands and Curaçao and Sint Maarten, the reduced rate of 0% is available if certain requirements are met. If the conditions are not met, a 15% withholding tax rate should apply. However, under grandfathering rules, a 5% withholding tax rate applies for existing situations until the end of the 2019 financial year.
- (cc) These are the rates under a new tax treaty between the Netherlands and Ethiopia, which was signed on 10 August 2012. The effective dates are 1 January 2017 for the Netherlands (including the BES-Islands) and 8 July 2017 for Ethiopia. The 5% rate applies if the beneficial owner of the dividends holds at least 10% of the capital of the distributing company or is a pension fund.
- (dd) The treaty withholding rate is 5% but contains a most-favorite-nation clause. The 0% rate is based on a ruling from a Dutch district court and the Netherlands' treaties with Kuwait and Sweden. The court ruling provides an opportunity to apply a dividend withholding tax exemption under the Netherlands-South Africa tax treaty if the corporate shareholder holds at least 10% of the capital of the company paying the dividends.
- (ee) The 5% treaty withholding tax rate applies if either of the following circumstances exists:
- The receiving company owns 50% or more of the capital of the company paying the dividends.
  - The receiving company owns 25% or more of the capital of the company paying the dividends, provided that at least one other company that is a resident of Spain also owns 25% or more of that capital.
- Otherwise, the rate is increased to 15%.
- (ff) The 5% rate applies if the recipient of the dividends owned at least 50% of the distributing company for a period of 12 months preceding the date on which the dividends are declared.
- (gg) A 10% rate applies if the beneficial owner is a pension fund that is recognized and controlled according to the statutory provisions of Indonesia and if the income of the pension fund is generally exempt from tax.

The Netherlands is in continuous negotiations with other countries to conclude new tax treaties or amend existing ones. During 2017, the Netherlands continued discussions with Algeria, Australia, Bangladesh, Belgium, Brazil, Bulgaria, Denmark, Canada, Chile, Colombia, Cyprus, Egypt, France, Georgia, Guernsey, India, Iran, Iraq, Ireland, Kyrgyzstan, Moldova, Mongolia, Morocco, Mozambique, New Zealand, Nigeria, Pakistan, Philippines, Poland, Senegal, South Africa, Spain, Sri Lanka, Switzerland, Tajikistan, Thailand, Uganda, Ukraine, Uruguay, the United States, Vietnam and Zimbabwe. In addition, in 2017, the Netherlands contacted Andorra, Liechtenstein and Panama to begin tax treaty negotiations or renegotiate existing treaties.

# New Caledonia

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## A. At a glance

Corporate Income Tax Rate (%)	15/30/35 (a)
Capital Gains Tax Rate (%)	15/25/30 (a)
Withholding Tax (%)	
Dividends	18 (b)
Interest	8 (b)
Royalties from Patents, Know-how, etc.	0
Branch Withholding Tax	18 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) For resident companies, surtaxes are imposed on the corporate income tax. For further information and for details concerning these rates, see Section B.
- (b) This is the withholding tax rate under New Caledonia domestic law. The New Caledonia-France tax treaty may reduce or eliminate the withholding tax. For further information, see Section B.
- (c) Profits derived in New Caledonia by branches of nonresident companies are deemed to be distributed, normally resulting in a branch withholding tax of 18% on after-tax income. This tax may be reduced or eliminated by a tax treaty.

## B. Taxes on corporate income and gains

**Corporate tax.** The taxation of New Caledonian companies is based on a territorial principle. As a result, New Caledonian companies carrying on a trade or business outside New Caledonia are generally not taxed in New Caledonia on the related profits and cannot take into account the related losses. Profits derived in New Caledonia by branches of nonresident companies are deemed to be distributed, normally resulting in a branch withholding tax of 18% on after-tax income. It may be reduced or eliminated by a tax treaty.

**Rates of corporate tax.** The standard corporate tax rate is 30%. A higher corporate tax rate of 35% applies to companies related to the mining industry. A reduced corporate tax rate of 15% applies

to taxable income not exceeding XPF5 million of small or medium enterprises if the following conditions are met:

- The turnover of the company is less than XPF200 million.
- At least 75% of the company is owned by individuals.
- The share capital of the company is entirely paid up.

An Additional Social Contribution (Contribution Sociale Additionnelle) is due from companies other than companies engaging in mining activities that have taxable income of more than XPF200 million. The following are the progressive tax rates:

- Taxable income between XPF200 million and XPF300 million: a 5% rate applies
- Taxable income between XPF300 million and XPF400 million: a 10% rate applies
- Taxable income above XPF400 million: a 15% rate applies

The contribution is not tax deductible, and no tax credit can offset the contribution.

Under certain conditions, mining activities companies are entitled to income tax exemptions or rebates during the construction and exploitation phases of the project.

**Tax incentives.** Mining companies may benefit from various tax incentives for mining or metallurgical investments projects in New Caledonia under the New Caledonian Tax Code and the French Tax Code.

Other tax incentives exist for investments in certain sectors, such as tourism, new energy sources and hotels.

**Capital gains.** Capital gains derived from the sale of fixed assets are divided into short-term and long-term gains.

Short-term capital gains are gains derived from the sale of fixed assets that have been held for less than two years and parts of the gains on depreciable assets that have been held for more than two years that corresponds to the depreciation. Short-term capital gains are subject to corporate income tax at the normal 30% rate. Taxation may be spread over three years.

Long-term capital gains are taxed at rates of 15% (mainly sales of non-depreciable assets held for more than two years and sales of patents) and 25% for gains deriving from construction property and shares of companies whose main assets consist of land and buildings.

The 15% and 25% reduced rates are subject to the condition that the company allocates, respectively, 85% and 75%, of the capital gains to a special long-term gains reserve. Any distribution of such a long-term gains reserve is added back to taxable income in order for the distribution to be subject to the 30% normal tax rate.

Short-term capital losses are deductible for the purposes of calculating taxable income. Long-term capital losses can be offset against long-term capital gains in the following 10 tax periods.

**Administration.** In general, companies must file a tax return within four months following the end of their financial year.

Corporate income tax is prepaid in two installments that are payable by the end of the 7th and 11th months of the financial year. They are calculated based on 1/3 of corporate income tax paid the previous tax year. The balance of corporate tax is due four months after the end of the financial year. The rules governing the payment of corporate income tax also apply to the payment of the Contribution Sociale Additionnelle.

In general, late payment and late filing are subject to a 10% penalty. If additional tax is payable as a result of a reassessment of tax, interest is charged at 0.4% per month (4.8% per year). Many specific rules apply to interest and penalties.

**Dividends.** Dividends received from resident companies are exempt from tax. Dividends received from nonresident companies are subject to corporate income tax at the standard rate based on the gross amount of dividends. Any withholding tax levied in the source country gives rise to a tax credit.

Distributions of dividends are subject to an 18% withholding tax, which is the Tax on Income Derived from Securities (Impôt sur le Revenu des Valeurs Mobilières, or IRVM). This withholding tax applies to dividends paid to resident and nonresident companies and individuals. However, the New Caledonia-France double tax treaty reduces the rate to 5% for companies and 15% for individuals.

If the recipient is a New Caledonian company, IRVM is not due for the portion of profits corresponding to dividends initially received by the distributing company from which IRVM was withheld.

Distributions are also subject to the Social Caledonian Contribution (Contribution Calédonienne de Solidarité, or CCS) at the rates of 2% for residents and 5% for nonresidents. This contribution is not withheld at source. A return together with a payment is required.

Effective from 1 January 2015, a 3% Additional Contribution to Corporate Income Tax (Contribution Additionnelle à l'Impôt sur les Sociétés, or CAIS) is levied on the gross amount of distributions of dividends in excess of XPF30 million. This contribution is not withheld at source. A return together with a payment is required.

**Withholding taxes on interest and royalties.** Under New Caledonia domestic law, interest income received from New Caledonian resident companies and New Caledonian permanent establishments on their deposits, intragroup loans when the beneficiary is a resident company and current accounts, is subject to the Withholding Tax on Receivables, Deposits and Guarantees (Impôt sur le Revenu des Créances, Dépôts et Cautionnement, or IRCDC) at a rate of 8% of the gross revenue. CCS at a rate of 2% is also due. Some exclusions are provided, including current accounts financing real estate operations.

Interest charged on loans to a nonresident company is not subject to IRCDC.

No withholding tax is levied on royalties.

## C. Determination of trading income

**General.** The assessment is based on financial statements prepared according to accepted accounting principles, subject to certain adjustments.

**Deductibility of interest.** In general, interest payments are fully deductible. However, certain restrictions are imposed.

Interest accrued by a New Caledonian entity with respect to loans from its direct shareholders may be deducted from the borrower's taxable income only if the share capital of the borrower is fully paid-up. In addition, the deduction of interest paid to shareholders is denied to the extent the interest rate exceeds the greater of the following:

- Legal interest rate in force for the period in which the interest is due, as provided in Article L.313-2 of the French Financial and Monetary Code (FFMC). For the second half of 2017, the legal interest rate is set at 0.90%.
- Legal interest rate in force for the period in which the interest is due, as provided in Article L.313-2 of the FFMC plus 3%, but not to exceed 5%. For the second half of 2017, this rate is set at 3.90%.

In addition, interest paid to a nonresident company that is domiciled or established in a jurisdiction where it benefits from a privileged tax regime (that is, the taxation of the company is less than 50% of the taxation in New Caledonia) is deductible only if the debtor provides evidence that the expenditure corresponds to actual transactions and that the expenditure is not abnormal or exaggerated in nature.

**Inventories.** Inventory is normally valued at the lower of cost or market value. Cost must be determined under a weighted average cost price method. A first-in, first-out basis is also generally acceptable, but a last-in, first-out basis is not permitted.

**Reserves.** In determining accounting profit, companies must book certain reserves, such as reserves for a decrease in the value of assets, risk of loss or expenses. These reserves are normally deductible for tax purposes.

**Capital allowances.** Assets are depreciated using the straight-line method or the declining-balance method.

**Relief for tax losses.** Losses incurred may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** New Caledonia does not have a tax group regime.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
General Consumption Tax (Taxe Générale sur la Consommation, or TGC); New Caledonia introduced the TGC on 1 April 2017 to replace normally from 1 July 2018 the current import duties and the Solidarity Tax on	

<b>Nature of tax</b>	<b>Rate (%)</b>
Services; the TGC is similar procedurally to the European value-added tax (VAT) system. The trial period for the TGC runs from 1 April 2017 to 30 June 2018; the regime normally enters into force on 1 July 2018; the trial period rates are listed in in this table; when the regime enters into force, the potential rates are 3%, 6%, 11% and 22%	0.25/0.35/0.5/1
Solidarity Tax on Services	5
Business license fees (fixed and variable); the variable fee corresponds to 1.2% of the Cost, Insurance, Freight [CIF] value of imports of the company	Various
Registration duty	1 to 9

## **E. Miscellaneous matters**

**Foreign-exchange controls.** The currency in New Caledonia is the CFP franc (XPF).

No specific exchange-control regulations are imposed in New Caledonia.

**Payments to residents of tax havens.** Under Article 21VI of the New Caledonian Tax Code, specified payments that are paid or payable by individuals or legal persons domiciled or established in New Caledonia to individuals or legal persons who are domiciled or established outside New Caledonia in a jurisdiction where they benefit from a privileged tax regime (that is, the taxation of which is less than 50% of that in New Caledonia) are deductible only if the debtor provides evidence that the payments correspond to actual transactions and that are not abnormal or exaggerated in nature. The following are the specified payments:

- Interest payments
- Other income from bonds, receivables and deposits
- Royalties for the assignment or grant of operating licenses, patents, trademarks, processes or manufacturing formulas and similar rights
- Remuneration for services

**Reorganizations.** On election by the companies involved, mergers, spin-offs, split-offs and dissolutions without liquidation may qualify for a special rollover regime.

## **F. Tax treaty**

New Caledonia's only tax treaty is with France. Under the provisions of this tax treaty, dividends are taxable at source at a maximum rate of 5% (if the beneficiary is a corporation) or 15% (if the recipient is an individual). Interest expenses are not subject to withholding tax in the source state. Royalties are subject to a maximum 10% withholding tax.

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**A. At a glance**

Corporate Income Tax Rate (%)	28
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	28
Withholding Tax (%)	
Nonresidents	
Dividends	30 (a)
Interest	15 (b)
Royalties from Patents, Know-how, etc.	15 (c)
Payments to Contractors	15 (d)
Branch Remittance Tax	0

Residents	
Dividends	33 (e)
Interest	33 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (g)

(a) This is a final tax. If dividends are fully imputed (see Section B), the rate is reduced to 15% (for cash dividends) or to 0% (for all non-cash dividends and for cash dividends if nonresident recipients have direct voting interests of at least 10% or if a tax treaty reduces the New Zealand tax rate below 15%). The rate is also reduced to 15% to the extent that imputation credits are passed on to foreign investors through the payment of supplementary dividends under the foreign investor tax credit regime.

(b) This is a final tax if the recipient is not associated with the payer. For an associated person, this is a minimum tax (the recipient must report the income on its annual tax return, but it may not obtain a refund if the tax withheld exceeds the tax that would otherwise be payable on its taxable income). Under the Income Tax Act, associated persons include the following:

- Any two companies in which the same persons have a voting interest of at least 50% and, in certain circumstances, a market value interest of at least 50% in each of the companies
- Two companies that are under the control of the same persons
- Any company and any other person (other than a company) that has a voting interest of at least 25% and, in certain circumstances, a market value interest of at least 25% in the company

Interest paid by an approved issuer on a registered security to a non-associated person is subject only to an approved issuer levy (AIL) of 2% of the interest payable. An AIL rate of 0% applies to interest paid to nonresidents on certain widely offered and widely held corporate bonds that are denominated in New Zealand currency. New legislation made changes to the nonresident withholding tax (NRWT) and AIL rules affecting associated person and branch lending. The changes generally apply from 30 March 2017 or, for existing arrangements, from the beginning of the borrower's income year following 30 March 2017. The changes include the following:

- A new concept of "nonresident financial arrangement income" applies to certain financial arrangements between associated parties. If the borrower and lender are associated, the New Zealand borrower is required to perform a calculation to ensure that NRWT is being paid at approximately the same time the interest is deducted.
- The concepts of associated person and related-party debt are extended to include funding provided by a member of a "nonresident owning body," as well as indirect associated funding such as certain back-to-back loans and multiparty arrangements.
- New limits are imposed on the onshore and offshore branch exclusions from NRWT under which interest payments from a New Zealand resident (or a New Zealand branch of a nonresident) to a nonresident are subject to NRWT or AIL, regardless of whether the funding is channeled through a branch.

(c) This is a final tax on royalties relating to literary, dramatic, musical or artistic works. For other royalties, this is a minimum tax.

(d) This is neither a minimum nor a final tax and is paid on account of any annual income tax liability. Effective from 1 April 2017, labor-hire firms are required to withhold tax from all payments made to contractors, and contractors can elect their own withholding rate without having to apply to the Inland Revenue Department for a special tax code (subject to a minimum withholding rate of 10% for resident contractors and 15% for nonresident contractors).

(e) See Section B.

(f) The 33% rate is a default rate if recipients' tax file numbers are not supplied. Individuals may elect rates of 10.5% (if their expected annual income does not exceed NZD14,000), 17.5%, 30% or 33%. The basic rate for interest paid to companies is 28%, but companies may elect a 33% rate.

(g) See Section C.

## B. Taxes on corporate income and gains

**Income tax.** Resident companies are subject to income tax on worldwide taxable income. Nonresident companies carrying on business through a branch pay tax only on New Zealand-source income.

A company is resident in New Zealand if it is incorporated in New Zealand, if it has its head office or center of management in New Zealand or if director control is exercised in New Zealand.

**Rate of income tax.** Resident and nonresident companies are subject to tax at a rate of 28%.

**Capital gains.** No capital gains tax is levied in New Zealand. However, residents may be taxed on capital gains derived from many types of financial arrangements, and all taxpayers may be taxed on capital gains derived from certain real and personal property transactions. These gains are subject to tax at the standard corporate tax rate.

**Administration.** The income year is from 1 April to 31 March. A company with an accounting period that ends on a date other than 31 March may apply to the Commissioner of Inland Revenue for permission to adopt an income year that corresponds to its accounting period. If the Commissioner approves an alternative income year, income derived during that year is deemed to have been derived during the year ending on the nearest 31 March. For this purpose, year-ends up to 30 September are deemed to be nearest the preceding 31 March, and year-ends after 30 September are deemed to be nearest the following 31 March.

Companies with year-ends from 1 April to 30 September must file tax returns by the seventh day of the fourth month following the end of their income year. All other companies must file their returns by 7 July following the end of their income year. If the company has a tax agent, the filing deadline is extended to the following dates:

- If the return is for the year ending 31 March, the due date is the following 31 March.
- If the return is for any year ending on an annual balance date between 30 September and 31 March, the due date is the second 31 March succeeding the actual balance date.
- If the return is for any year ending on an annual balance date between 31 March and 1 October, the due date is the following 31 March.

Provisional tax payments must generally be made in the fifth, ninth and thirteenth months after the beginning of the company's income year. The first installment equals one-third of the provisional tax payable; the second installment equals two-thirds of the provisional tax payable, less the amount of the first installment; and the balance of the provisional tax is payable in the third installment. In general, the provisional tax payable in a year equals 105% of the income tax payable in the preceding year (standard uplift method). Companies that are registered for Goods and Services Tax (GST; see Section D) that meet certain criteria may elect to calculate their provisional tax under a GST ratio method and pay the provisional tax in installments when they file their GST returns, generally every two months. A further alternative method of paying provisional tax, called the accounting income method (AIM), is generally available from the 2018-19 income year for businesses with annual gross income of under NZD5 million. AIM involves the use of approved accounting software and more frequent payments.

Companies with year-ends from October to January must pay terminal tax by the seventh day of the eleventh month following the end of the income year. Companies with a February year-end must pay terminal tax by the fifteenth day of the following January. All other companies must pay terminal tax by the seventh day of February following the end of their income year. The date for payment of terminal tax may be extended by two months if the company has a tax agent.

Several measures impose interest and penalties on late payments of income tax. For late payments or underpayments, the basic penalty equals 5% of the unpaid tax. This penalty is reduced to 1% if the tax is paid within a week after the due date. Interest may be payable if provisional tax paid at each installment date is less than the relevant proportion (generally, one-third for the first installment date, two-thirds for the second installment date and three-thirds for the third installment date) of the final income tax payable for the year. Conversely, interest may be credited on overpaid provisional tax.

Interest charges and the risk of penalties with respect to provisional tax may be reduced if provisional tax is paid under a tax-pooling arrangement through a Revenue-approved intermediary.

The risk of interest and penalties is minimized for companies that use the GST ratio method for calculating and paying their provisional tax.

The use of a tax-pooling arrangement is not permitted for AIM provisional tax payments. However, taxpayers using the AIM method that make the provisional tax payments calculated by their AIM-capable software are generally not subject to interest if their year-end residual income tax results in a different tax liability.

From the 2017-18 income year, companies paying provisional tax under the standard uplift method (see above) are not subject to interest on provisional tax installments until their terminal tax date if the residual income tax liability of the company for a year does not exceed NZD60,000 or otherwise until the third installment date.

## **Dividends**

*Exempt income.* Dividends received by New Zealand resident companies from other New Zealand resident companies are taxable. However, dividends received from wholly owned subsidiaries resident in New Zealand are exempt. Dividends received by New Zealand resident companies from nonresident companies are generally exempt. Certain dividends received by New Zealand resident companies from nonresident companies are taxable, including the following:

- Dividends that are directly or indirectly deductible overseas
- Dividends on certain fixed-rate shares
- Dividends derived by Portfolio Investment Entities (PIEs; see Section E)
- Dividends relating to certain portfolio (less than 10%) investments that are exempt from income attribution under the foreign investment fund regime (see Section E)

*Imputation system.* New Zealand's dividend imputation system enables a resident company to allocate to dividends paid to shareholders a credit for tax paid by the company. The allocation of credits is not obligatory. However, if a credit is allocated, the maximum credit is based on the current corporate income tax rate. Based on the current corporate income tax rate of 28%, the maximum credit is 28/72, meaning that a dividend of NZD72 may have an imputation credit attached of up to NZD28.

The imputation credits described above may not be used to offset nonresident withholding tax (NRWT) on dividends paid to nonresidents. They may allow NRWT to be reduced to 0% for all non-cash dividends and for cash dividends if nonresident recipients hold direct voting interests of at least 10% or if a tax treaty reduces the tax rate below 15%. A New Zealand company may pass on the benefit of such credits to other nonresident investors through payments of supplementary dividends. The aim of this mechanism is to allow nonresident investors to claim a full tax credit in their home countries for New Zealand NRWT. The New Zealand company may also claim a partial refund or credit with respect to its own New Zealand company tax liability. Supplementary dividends can generally be made only to nonresident companies and individuals who hold direct voting interests of less than 10% and who are subject to a tax rate of at least 15% after any tax treaty relief. Supplementary dividends can also be paid with respect to qualifying nonresident investors in certain portfolio investment entities (PIEs) that invest in assets outside New Zealand.

Australian resident companies may also elect to maintain a New Zealand imputation credit account and collect imputation credits for income tax paid in New Zealand. New Zealand shareholders in an Australian resident company that maintains such an imputation credit account and attaches imputation credits to dividends can receive a proportion of the New Zealand imputation credits equal to their proportion of shareholding in the Australian company. Imputation credits must be allocated proportionately to all shareholders.

In general, the carryforward of excess credits for subsequent distribution must satisfy a 66% continuity-of-shareholding test. Interests held by companies or nominees are generally traced through to the ultimate shareholders. Listed, widely held companies and limited attribution foreign companies are entitled to special treatment. In effect, they are treated as the ultimate shareholder if their voting interest in other companies is less than 50% or if the actual ultimate shareholders would each have voting interests of less than 10% in the underlying company. The definition of a listed company includes companies listed on any exchange in the world that is recognized by the Commissioner of Inland Revenue. For carryforward purposes, direct voting or market value interests of less than 10% may be considered to be held by a single notional person, unless such an interest is held by a company associated with the company that has the carryforward.

*Resident withholding tax.* For dividends paid to a resident company by another resident company that is not in a tax group with the recipient, the payer must deduct a withholding tax equal to 33%, having first allowed for any imputation credits attached to

the dividend, unless the recipient holds an exemption certificate. This rate has not been reduced to align with the corporate income tax rate of 28%, but any excess tax can be used as tax credits during or refunded through the annual income tax return process.

**Foreign tax relief.** In general, any tax paid outside New Zealand by a New Zealand resident taxpayer can be claimed as a credit against the tax payable in New Zealand. The credit is limited to the amount of New Zealand tax payable on that income.

### C. Determination of trading income

**General.** Assessable income consists of all profits or gains derived from any business activity, including the sale of goods and services, commissions, rents, royalties, interest and dividends.

A gross approach applies to the calculation of taxable income. Under this approach, a company calculates its gross assessable income and then subtracts its allowable deductions to determine its net income or loss. If the company has net income, it subtracts any loss carryforwards or group losses to determine its taxable income.

To be deductible, expenses must generally be incurred in deriving gross income or necessarily incurred in carrying on a business for the purpose of deriving gross income. Interest is generally deductible for most New Zealand resident companies, subject only to the thin-capitalization rules (see Section E). Interest paid on certain debts that are stapled to shares may be treated as non-deductible dividends.

Deductions for certain business entertainment expenses are limited to 50% of the expenses incurred. Capital expenditures are generally not deductible.

**Exempt income.** The only major categories of exempt income are dividends received from a wholly owned subsidiary resident in New Zealand, certain dividends received from nonresident companies and certain dividends paid out of capital gains derived from arm's-length sales of fixed assets and investments on winding up.

A specific exemption applies until 31 December 2019 for income derived by nonresident companies from certain oil and gas drilling and related seismic or electromagnetic survey vessel activities in New Zealand's offshore permit areas.

**Inventories.** Stock in trade must generally be valued at cost. Market selling value may be used (but not for shares or "excepted financial arrangements") if it is lower than cost. Cost is determined by reference to generally accepted accounting principles, adjusted for variances between budgeted and actual costs incurred. Simplified rules apply to "small taxpayers," which are those with annual turnover of NZD3 million or less. A further concession applies to taxpayers with annual turnover of NZD1,300,000 or less and closing inventory of less than NZD10,000.

**Depreciation.** The depreciation regime generally allows a deduction for depreciation of property, including certain intangible property, used in the production of assessable income. Depreciation cannot be claimed for income tax purposes on buildings with

useful lives estimated by the Commissioner of Inland Revenue to be at least 50 years. Depreciation may be claimed on commercial building fit-outs, certain depreciable land improvements and structures other than 50-year buildings. Most assets can be depreciated using the straight-line or the declining-balance methods. A taxpayer may elect to apply the pool-depreciation method for assets valued at less than NZD5,000. Under the pool-depreciation method, the lowest rate applicable to any asset in the pool is used to depreciate all assets in the pool. A taxpayer may have more than one pool of assets. Assets in a pool must be used for business purposes only or be subject to Fringe Benefit Tax (FBT; see Section D) to the extent the assets are not used for business purposes. Buildings may not be pooled. Property costing NZD500 or less may generally be written off immediately.

Assets, other than intangible property, acquired before 1 April 1993 are depreciated at the rates provided under the prior depreciation regime.

A transitional system applies to assets, including certain intangible property, acquired from 1 April 1993 through the end of the taxpayer's 1994-95 income year (the income year ending nearest to 31 March 1995). Under the transitional system, a taxpayer could elect to use the depreciation rates under the prior regime or the economic depreciation rates set by the Commissioner of Inland Revenue, which are based on the effective useful life of an asset.

Assets acquired in a taxpayer's 1995-96 or subsequent income year must be depreciated using economic depreciation rates. In general, most of these assets, other than buildings and used imported motor cars, qualified for a 20% loading on the applicable depreciation rates for the 1995-96 and subsequent income years, if the assets were not previously used in New Zealand and if they were acquired by 20 May 2010. In certain circumstances, a taxpayer may apply for a special depreciation rate. The formula for setting depreciation rates has changed for the 2005-06 income year and subsequent years, resulting in increased rates for most plant and equipment acquired on or after 1 April 2005, and reduced rates for buildings acquired on or after 19 May 2005. The following table provides some of the general straight-line and declining-balance depreciation rates applicable to assets acquired between the 1995-96 and 2004-05 income years and assets acquired in the 2005-06 and subsequent income years, before the addition of any loading.

Asset	Method			
	Declining-balance		Straight-line	
	1995-96 to 2004-05 Rate (%)	From 2005-06 Rate (%)	1995-96 to 2004-05 Rate (%)	From 2005-06 Rate (%)
Buildings*	4	3	3	2
Chairs (office)	15	16	10	10.5
Computers and software	40	50	30	40
Desks	12	13	8	8.5
Filing cabinets	12	13	8	8.5
Motor vehicles	15	16	10	10.5
	to 40	to 50	to 30	to 40
Photocopiers	33	40	24	30

\* Effective from taxpayers' 2011-12 income years, no tax depreciation can be claimed on buildings with useful lives estimated by the Commissioner to be at least 50 years, regardless of the date of acquisition of the building.

The rates for plant and machinery vary depending on the particular industry and type of plant and machinery.

Tax depreciation is generally subject to recapture on the sale of an asset to the extent the sales proceeds exceed the tax value after depreciation. Amounts recaptured are generally included in assessable income in the earliest year in which the disposal consideration can be reasonably estimated. If sales proceeds are less than the tax value after depreciation, the difference may generally be deducted as a loss in the year of disposal. However, such losses on buildings are deductible only if they occur as a result of natural disasters or other events outside the taxpayer's control. Specific rules have been introduced to provide some deferral and rollover relief with respect to irreparable damage arising from the 2010-11 Canterbury earthquakes, and related insurance recoveries and replacements.

**Special deductions.** A few special deductions designed to achieve specific government objectives are available, such as certain deductions relating to petroleum, mining, forestry and agricultural activities. Some concessionary provisions relating to exploring for and mining certain minerals (including gold and silver) have been repealed and new rules introduced for income and expense recognition, effective from taxpayers' 2014-15 income years. Transitional provisions allow the add-back of previous concessionary deductions for anticipated expenditure to be spread over the 2014-15 and 2015-16 income years.

**Trading losses.** Trading losses may generally be carried forward and offset against future taxable income if, at all times from the beginning of the year of loss to the end of the year of offset, a group of persons held aggregate minimum voting interests in the company and, in certain circumstances, minimum market value interests of at least 49%.

Sales of residential property purchased from 1 October 2015 to 28 March 2018 may be taxable if they occur within a two-year "bright-line" period. For agreements to purchase residential property entered into on or after 29 March 2018, the "bright-line" period is extended to five years. The offsetting of losses on such transactions against other types of income may be limited.

*Research and development credits for tax losses.* Certain unlisted New Zealand resident companies carrying out research and development (R&D) activities in New Zealand may convert current year tax losses to refundable cash tax credits at the current company tax rate. The maximum losses that a company can "cash out" for the 2015-16 income year is NZD500,000 (a cash credit of NZD140,000 at the current company tax rate of 28%). The maximum loss amount would increase by NZD300,000 annually to a maximum of NZD2 million by the 2020-21 income year. Credits received may be repayable (and tax losses may then be reinstated) in certain circumstances, such as the sale of R&D assets, cessation of New Zealand tax residence, liquidation or the breach of a 10% shareholder continuity test. The extent of R&D credit repayments



may be reduced by the amounts of income tax liabilities arising in intervening income years.

A tax credit for R&D expenditures applied only for the 2008-09 income year before being abolished. Following the New Zealand general election in September 2017, the new government has indicated that it intends to reintroduce some form of tax credit for R&D expenditures.

**Group losses.** Losses incurred within a group of companies may be offset against other group company profits either by election or subvention payments.

Subvention payments are intercorporate payments specifically made to effect the transfer of company losses. They are treated as deductions to the paying (profit) company and as taxable income to the recipient (loss) company. The loss company and the profit-making company must be in the same group of companies throughout the relevant period. The required common ownership is 66%.

Wholly owned corporate groups may elect income tax consolidation.

**Elective regime for closely held companies.** Look-through companies (LTCs) with five or fewer shareholders may elect to be taxed similarly to partnerships. Legislation enacted in 2017 made changes to the LTC rules. Most of these changes apply from the 2017-18 income year. The main changes include the following:

- The restriction on claiming losses is removed for most LTC owners, unless the LTC is in a partnership or joint venture.
- Membership and eligibility criteria are tightened.
- The income adjustment calculation (commonly known as the entry tax), which is made when a company converts to an LTC, is modified to ensure that the taxable income arising to LTC owners as a result of the calculation is taxed at each shareholder's personal tax rate.
- LTC owners who remit debt owed to them by the LTC no longer derive debt remission income as a result of new "self-remission" rules. These new rules are backdated to the start of the LTC rules on 1 April 2011.
- A limitation on the level of foreign income that can be earned through an LTC applies if the LTC is more than 50% foreign-owned.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Goods and Services Tax (GST), similar to a value-added tax, levied on the supply of goods and services and on imports	15
Fringe Benefit Tax (FBT); paid by the employer on the value of fringe benefits provided to employees and on non-cash dividends distributed to shareholder-employees (If benefits are attributable to particular employees, employers may elect to calculate FBT on the attributable benefits at a range of rates between 11.73% and 49.25%. The rates vary depending on the employee's cash remuneration	49.25

<b>Nature of tax</b>	<b>Rate (%)</b>
inclusive of the fringe benefits. Unattributed benefits provided to such employees are subject to FBT at a rate of 42.86% [49.25% if provided to major shareholder-employees]. As a further alternative, employers may pay FBT at a rate of 49.25% on attributed benefits and 42.86% on unattributed benefits [49.25% if provided to major shareholder-employees].)	
Accident compensation levy, on gross salaries and wages, paid by Employer; rate (before residual and health and safety elements) varies according to industry class and may be reduced if the employer meets certain work safety criteria; certain employers may take direct responsibility under full self-cover or partnership discount plans	0.08 to 5.58
Employee	1.21
Self-employed; rate (before residual and health and safety elements) varies according to industry class, incorporating income and non-income benefit portions (the calculation of which depends on the individual's earnings) and according to age and abatement factors if a guaranteed amount of weekly compensation is purchased (Self-employed persons must also pay the employee rate of 1.21%.)	0.08 to 5.58

## **E. Miscellaneous matters**

**Anti-avoidance legislation.** Legislation permits the Inland Revenue Department to void any arrangement made or entered into if tax avoidance is one of the purposes or effects of the arrangement and is not merely incidental.

**Controlled foreign companies.** New Zealand residents that have an interest in a controlled foreign company (CFC) need to consider the application of the CFC rules. A CFC is a foreign company under the control of five or fewer New Zealand residents or a group of New Zealand resident directors. In general, for purposes of the CFC rules, control is more than 50% ownership. A New Zealand resident with an income interest in the CFC of greater than 10% is required to calculate and include in income the attributed foreign income or loss of the CFC unless the CFC is resident in Australia and meets certain criteria or the active-income exemption applies.

Under the active-income exemption, no attribution is required if passive income is less than 5% of the CFC's or a relevant group's income. If the 5% threshold is exceeded, any attribution is limited to passive income. The rules defining passive income and calculating the percentage of a CFC's passive income in relation to total income are complex.

If the active-income exemption is not satisfied, under the branch-equivalent system of taxation, New Zealand residents may be taxed on attributed income as if the CFC is a branch of a New

Zealand resident company. Branch-equivalent losses are quarantined.

**Foreign investment fund system.** New Zealand has a foreign investment fund (FIF) system that aims to tax the change in value of a New Zealand resident's interest in the FIF over an income year. The change in value may include income, capital growth and any exchange fluctuation.

The FIF regime generally applies to all offshore investments that are not CFC interests, including interests in foreign companies, foreign unit trusts, foreign life insurance, and foreign savings and superannuation funds.

The FIF rules do not apply to individuals owning FIF interests that cost less than NZD50,000. Exemptions are also provided for certain employment-related foreign superannuation schemes and foreign private annuities and pensions as well as for the first four years that individuals who become resident in New Zealand hold interests in foreign life insurance funds and superannuation schemes, if the individuals held these interests before they became resident in New Zealand. Superannuation scheme interests acquired by individuals before becoming resident in New Zealand have generally been removed from the FIF regime, effective from 1 April 2014.

Interests in certain Australian listed companies and unit trusts, certain venture capital investments in grey list country companies and shares held under certain employee share schemes may be excluded from the FIF rules if statutory criteria are met. The grey list countries are Australia, Canada, Germany, Japan, Norway, Spain, the United Kingdom and the United States.

The most common methods for calculating FIF income are the 5% fair dividend rate method and the comparative value method. The comparative value method involves a comparison of opening and closing values. Other methods include the attributable FIF income method, which includes an "active business" and "active income" exemption for FIF interests in companies of at least 10% (similar to the exemption that applies under the CFC rules [see *Controlled foreign companies*]), a deemed rate of return method and the cost method. The choice of method is limited by legislative criteria.

**Portfolio investment entities.** Certain collective-investment entities that elect to be in the Portfolio Investment Entity (PIE) regime are not taxable on gains on the disposal of New Zealand and certain Australian shares. In addition, their income may generally be taxed at the corporate tax rate or at rates approximating their individual investors' marginal tax rates (which may be 0% for non-resident investors in certain types of PIEs that invest wholly or partly in assets outside New Zealand).

**Transfer pricing.** The transfer-pricing regime in New Zealand is aimed primarily at cross-border arrangements between associated parties. Taxpayers are able to adopt the method that produces the most reliable measure of arm's-length consideration. The allowable methods are the comparable uncontrolled price method, the resale price method, the cost-plus method, the profit-split method and the comparable profits method. Binding rulings with respect

to transfer-pricing issues are available from the Commissioner of Inland Revenue. New Zealand and countries with which New Zealand has concluded tax treaties may enter into multilateral advance pricing agreements under the transfer-pricing regime.

The New Zealand government has introduced draft legislation containing reforms to the current transfer-pricing regime, proposed to be effective for income years commencing on or after 1 July 2018, as part of changes being made to address base erosion and profit shifting. The main proposals include the following:

- The New Zealand transfer pricing rules will be aligned with the Organisation for Economic Co-operation and Development (OECD) transfer-pricing guidelines and Australian transfer-pricing rules. The legal form will be disregarded if it does not align with the actual economic substance of the transaction.
- The ability of the Inland Revenue Department to reconstruct an arrangement for transfer-pricing purposes will be based on the corresponding test in the OECD's transfer pricing guidelines.
- The onus of proof on transfer-pricing matters will be shifted to the taxpayer.
- The Inland Revenue Department's powers to access multinationals' information and documents held offshore, including information about other nonresident group companies, will be increased.

**Debt-to-equity ratios.** In conjunction with the transfer-pricing regime (see *Transfer pricing*), a thin-capitalization regime applies to New Zealand entities that are at least 50% owned or controlled by a single nonresident (however, interests held by persons associated with a nonresident may be included for the purpose of determining the nonresident's level of control). These inbound thin-capitalization rules also apply to the following:

- New Zealand companies that are at least 50% owned or controlled by two or more non-associated nonresident investors if they are regarded as acting together with respect to the debt funding of the New Zealand entities
- Certain trusts and trust-controlled companies if at least 50% of the value of trust settlements have been made by a nonresident or by nonresidents acting together or if entities otherwise subject to the rules have general powers to appoint or remove trustees

The inbound thin-capitalization regime generally denies interest deductions to the extent that the New Zealand entity's level of interest-bearing debt exceeds both a safe harbor debt to total assets ratio of 60% and 110% of the ratio of interest-bearing debt to total assets of the entity's worldwide group. A netting rule excludes borrowings that are in turn loaned to the following:

- Nonresidents that are not carrying on business in New Zealand through a fixed establishment
- Non-associated persons
- Associates that are subject to the thin-capitalization regime but are not in the lender's New Zealand group

Other significant aspects of the thin-capitalization regime include the following:

- Complex New Zealand and worldwide group membership rules need to be considered.

- Specific rules and thresholds apply to registered banks.
- Certain stapled debt securities and fixed-rate shares are included as debt. Investments in CFCs and interests of at least 10% in FIFs may be excluded from assets.
- Dividend amounts paid on certain fixed-rate shares may also be added back if interest deductions are limited under the thin-capitalization rules.
- Asset revaluation amounts that arise from associated party transactions are generally excluded from asset values in calculating New Zealand group debt percentages unless the revaluations could have been recognized, without a transaction, under generally accepted accounting practices or unless the revaluations arise from a restructuring following acquisition of the company by a non-associated party.
- Certain related-party debt is excluded from the debt amounts used in calculating worldwide group debt percentages in inbound situations.

Similar thin-capitalization rules (often referred to as the outbound thin-capitalization rules) apply to New Zealand residents with income interests in CFCs or with interests in FIFs of at least 10% that are subject to the “active income” method or Australian exemptions from FIF income attribution.

Under safe harbor rules, the outbound thin-capitalization rules do not limit interest deductions on outbound investment if the New Zealand group debt percentage does not exceed 75% and 110% of the worldwide group debt percentage. Additional exemptions with respect to outbound investment may apply in certain circumstances, including situations in which New Zealand group assets (generally excluding CFC investments and certain interests of at least 10% in FIFs) are at least 90% of the worldwide group assets. An alternative safe harbor threshold calculation based on an interest-to-net income ratio may be used in limited outbound circumstances. The apportionment calculation provides an effective exemption with respect to outbound investment by eliminating any adjustment if annual New Zealand group finance costs are below NZD1 million and provides relief on a tapering basis if those annual finance costs are between NZD1 million and NZD2 million.

Proposed changes affecting interest limitation and the thin-capitalization rules form part of the New Zealand government’s base erosion and profit shifting-related reforms intended to apply for income years commencing on or after 1 July 2018. The main proposals include the following:

- A new restricted transfer-pricing rule will apply to potentially limit the interest rate that can be applied for tax purposes on cross-border loans (over NZD10 million in total). This rule will apply in addition to the existing thin-capitalization rules. The restricted transfer-pricing rule for pricing inbound related-party loans will determine the credit rating of New Zealand borrowers at a high risk of base erosion and profit shifting, typically one notch below the ultimate parent’s credit rating. The rules will remove any features not typically found in third-party debt to restrict the level of deductible interest. Some of the more common features that may be affected include loans with terms of more than five years and the subordination of a loan to other obligations.

- Non-debt liabilities will need to be netted off assets in thin-capitalization gearing calculations. Deferred tax will be split into “real” and “accounting fictional” categories for the purposes of this rule, with the former being part of non-debt liabilities and the latter removed.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Australia	0/5/15 (i)	10 (j)	5
Austria	15	10 (a)	10
Belgium	15	10	10
Canada (n)	0/5/15 (b)	0/10 (r)	5/10 (s)
Chile	15	15 (e)	5
China (mainland)	15	10 (a)	10
Czech Republic	15	10 (a)	10
Denmark	15	10	10
Fiji	15	10/15 (h)	15
Finland	15	10	10
France	15	10 (a)	10
Germany	15	10 (a)	10
Hong Kong SAR	0/5/15 (k)	10 (j)	5
India	15	10 (a)	10
Indonesia	15	10 (a)	15
Ireland	15	10	10
Italy	15	10 (a)	10
Japan	0/15 (q)	10 (j)	5
Korea (South)	15	10 (a)	10
Malaysia	15	15 (p)	15
Mexico	0/5/15 (i)	10 (a)	10
Netherlands	15	10 (a)	10
Norway	15	10 (a)	10
Papua New Guinea	15	10 (m)	10
Philippines	15	10 (m)	15
Poland	15	10	10
Russian Federation	15	10	10
Samoa (u)	5/15 (l)	10	10
Singapore	5/15 (l)	10 (m)	5
South Africa	15	10 (a)	10
Spain	15	10 (m)	10
Sweden	15	10	10
Switzerland	15	10	10
Taiwan	15	10	10
Thailand	15	15 (f)	10/15 (g)
Turkey	5/15 (o)	10/15 (c)	10
United Arab Emirates	15	10 (a)	10
United Kingdom	15	10 (a)	10
United States	0/5/15 (i)	10 (j)	5
Vietnam	5/15 (t)	10	10
Non-treaty jurisdictions (d)	30	15	15

- (a) Interest paid to a contracting state or subdivision, to certain state financial institutions or with respect to certain state-guaranteed loans may be exempt.
- (b) The following are the tax rates applicable to dividends:
  - 0% for certain government bodies if the competent authorities so agree
  - 5% if paid to companies holding at least 10% of the voting power
  - 15% in all other cases
- (c) The rate is reduced to 10% for bank interest. Interest paid to certain government bodies or central banks may be exempt.
- (d) See applicable footnotes to Section A.
- (e) The rate is 10% for interest paid to banks and insurance companies.
- (f) The rate is 10% for interest paid to financial institutions, including insurance companies, or if the interest relates to arm's-length sales on credit of equipment, merchandise or services. Interest paid to certain institutions of the government or the central bank is exempt.
- (g) The 10% rate applies to payments for the use of copyrights, industrial, scientific or commercial equipment, films, tapes or other broadcast matter. The 15% rate applies to other royalties.
- (h) A minimum rate of 15% applies to interest paid to certain associated persons. No tax applies to interest paid to the other country's reserve bank.
- (i) The rate may be reduced to 5% or 0% for company shareholders, depending on their level of ownership and certain other criteria.
- (j) No tax applies to interest paid to government bodies or to unrelated financial institutions in certain circumstances.
- (k) The rate may be reduced to 5% or 0% for company shareholders, depending on their level of ownership and certain other criteria. Dividends paid to certain government institutions are exempt.
- (l) The rate may be reduced to 5% for dividends paid to companies that have an interest of at least 10% in the payer.
- (m) Interest paid to certain government institutions may be exempt.
- (n) A new treaty with Canada entered into force from 26 June 2015. The rates under the new treaty are reflected in the above table. These rates apply to payments on or after 1 August 2015. Other provisions generally apply for New Zealand income years beginning on or after 1 April 2016.
- (o) The rate may be reduced to 5% if the dividends are paid to companies that have an interest of at least 25% in the payer and if the dividends are exempt in the recipient's country.
- (p) The 15% rate is a minimum rate for interest paid to certain associated persons.
- (q) The rate may be reduced to 0% for dividends paid to company shareholders, depending on the shareholders' level of ownership and certain other criteria.
- (r) The following are the tax rates applicable to interest:
  - 0% for loans made by certain export development bodies or unrelated financial institutions
  - 10% in all other cases
- (s) The following are the tax rates applicable to royalties:
  - 5% on certain copyright, cultural, software and patent royalties
  - 10% in all other cases
- (t) The 5% rate applies if the dividends are paid to companies that directly hold at least 50% of the voting power in the payer.
- (u) These rates apply to payments on or after 1 February 2016. Other provisions generally apply for New Zealand income years beginning on or after 1 April 2016.

New Zealand has signed protocols to its tax treaties with Belgium and the Hong Kong Special Administrative Region (SAR), which have not yet entered into force.

New Zealand has signed and ratified the multilateral Convention on Mutual Administrative Assistance in Tax Matters, which entered into force for New Zealand on 1 March 2014.

New Zealand has entered into an intergovernmental agreement with the United States and related competent authority arrangements with respect to reporting requirements for financial institutions under the US Foreign Account Tax Compliance Act (FATCA).

Legislation enacted in New Zealand in February 2017 implements the G20/OECD Automatic Exchange of Information initiative and the Common Reporting Standard (CRS) for financial

institutions. Due diligence requirements under the CRS will begin 1 July 2017, with reporting financial institutions required to submit automatic exchange of information reporting to the Inland Revenue Department for the tax year ending 31 March 2018 by 30 June 2018, and the first exchange of information to occur by 30 September 2018.

New Zealand has signed the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country (CbC) Reports. These new CbC reporting requirements apply to corporate groups headquartered in New Zealand with annual consolidated group revenue over EUR750 million. Initial analysis undertaken by the Inland Revenue Department suggests that around 20 New Zealand-headquartered corporate groups are affected by the new rules. Groups with 31 December balance dates are required to collect data for the 12 months beginning 1 January 2016. Groups with a 31 March or 30 June balance date need to collect data for the 12 months beginning 1 April 2016 and 1 July 2016, respectively.

New Zealand signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (commonly referred to as the Multilateral Instrument or MLI) in June 2017. The MLI is an OECD measure aimed at preventing base erosion and profit shifting. It will enable signing countries to quickly update existing double tax treaties to adopt recommendations from the OECD's Base Erosion and Profit Shifting Action Plan, including measures to address "permanent establishment" avoidance, treaty abuse, dispute resolution and hybrid mismatches. The MLI will be effective for New Zealand's double tax treaties once New Zealand and the other signatory to the treaty have completed their respective legal requirements. New Zealand's treaties will likely begin to be modified from 2019.

New Zealand has entered into tax information exchange agreements with Anguilla, Bahamas, British Virgin Islands, Cayman Islands, Cook Islands, Curaçao, Dominica, Gibraltar, Guernsey, Isle of Man, Jersey, Marshall Islands, Netherlands Antilles, Niue, St. Vincent and the Grenadines, San Marino, Sint Maarten, Turks and Caicos Islands and Vanuatu. It has also entered into tax information exchange agreements that are not yet in force with Bermuda and St. Christopher and Nevis.

No new tax information exchange agreements are currently being negotiated as these are no longer needed with the signing of the MLI.



# Nicaragua

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**A. At a glance**

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	10/15 (a)
Interest	10/15 (a)
Royalties from Patents, Know-how, etc.	10/15 (a)
Payments for Movies, Films, Radio and Television	10/15 (a)
Income Derived from Leasing of Real Estate	7/15 (a)(b)
Air and Maritime Transportation	3 (c)
International Telecommunications	3 (c)
Insurance and Bail Premiums	3 (c)
Reinsurance	1.5 (c)
Musical and Artistic Public Spectacles	0/15 (d)
Compensation for Services	15 (c)(e)
Other Service Activities	15 (c)
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) The 15% rate applies to nonresidents. The lower rate applies to residents. A 10% rate also applies to interest paid to foreign investment banks.
- (b) For income derived from real estate property, the tax base equals the net income after applying a deduction of 30% of the gross income.
- (c) This withholding tax applies to residents and nonresident. It is creditable against income for residents and final for nonresidents.
- (d) The 0% rate applies to payments related to filming movies that will be transmitted abroad and promote tourism in Nicaragua and to payments related to non-professional spectacles.
- (e) Transactions with tax havens are subject to a 17% withholding tax. However, the list identifying such tax havens has not yet been issued.

**B. Taxes on corporate income and gains**

**Corporate income tax.** The Nicaraguan tax system is based on an extended territorial principle. The following items are subject to corporate income tax:

- Income from business activities

- Income from capital income, capital gains and capital losses

**Corporate income tax rates.** The standard corporate tax rate for resident companies and branches of foreign companies is 30% of taxable income. A company is deemed to be resident for tax purposes if it is incorporated in Nicaragua.

Companies operating under certain special incentive regimes, such as Free Trade Zone companies, are exempt from income tax.

After the third year of operations, companies are subject to tax on their Nicaraguan-source income, which equals the higher of the following:

- 30% of net taxable income
- 1% of gross taxable income (income subject to withholding at source is not included in the tax base)

Certain exceptions may be stated in the law.

**Capital gains.** Capital gains are realized gains resulting from the transfer of immovable and movable assets, goods and rights of the taxpayer. The following are the capital gain tax rates:

- Transfer of assets held in a trust: 5%
- Other capital gains derived by residents and nonresidents: 10%

An advance payment is required on the transfer of property subject to public registration. This payment ranges from 1% to 4% of the transfer value. It is creditable against the capital gains tax.

**Administration.** The statutory tax year runs from 1 January through 31 December. However, taxpayers may request a special fiscal year.

Annual income tax returns must be filed within three months after the end of the tax year.

Companies must make monthly advance payments for purposes of income tax equal to 1% of their monthly gross income. The advance payments are applied to the annual income tax liability. In addition, for large collectors of the excise tax and financial institutions supervised by the Superintendent of Banks and Other Financial Institutions, the minimum monthly payment is the greater of 30% of monthly profits and 1% of gross monthly income. The advance payments are applied to the annual income tax liability.

**Dividends.** A 10% withholding tax is imposed on dividends paid to resident individuals and business entities. For dividends paid to nonresident individuals and business entities, the withholding tax rate is 15%.

**Foreign tax relief.** A direct tax credit for foreign taxes against corporate income tax is not provided in Nicaragua. However, foreign taxes may be deducted from taxable income if the deductibility requirements are met.

### C. Determination of trading income

**General.** Taxable income is calculated in accordance with generally accepted accounting principles (GAAP) or International Financial Reporting Standards (IFRS), subject to adjustments required by the Nicaraguan income tax law.

In general, taxable income includes Nicaraguan-source income derived from goods, services, assets, rights and any other

economic activity in Nicaragua, even if such income is accrued or realized abroad, and regardless of whether the taxpayer has physical presence in the country.

Allowable deductions generally include all expenses necessary to generate taxable income. The deduction must be taken in the year in which the expense was incurred and the corresponding tax is withheld (if applicable).

Expenses paid or credited by a resident taxpayer or a permanent establishment of a nonresident to a person or entity resident in a tax haven are subject to a final withholding tax rate of 17%.

**Inventories.** If inventories are a significant element in the determination of a company's taxable income, the company must value each item based on the lower of the acquisition cost or market price. The law allows companies to use the weighted average cost, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods to determine the cost of merchandise sold. The tax administration may authorize other methods.

**Provisions.** In general, companies may deduct 2% of the balance of accounts receivable from customers.

Two percent of the provisions for severance payments can also be deducted.

Banks may deduct increases in minimum reserves for debtors in accordance with the standards of the Superintendent of Banks in Nicaragua.

**Tax depreciation.** Regulations under the income tax law allow the use of the straight-line method to calculate depreciation. However, the tax authorities may authorize certain exporters to use accelerated depreciation methods. The regulations containing the applicable straight-line rates are pending.

**Relief for losses.** Companies may carry forward their net operating losses for three years to offset all types of income. Net operating losses may not be carried back.

**Groups of companies.** Nicaraguan law does not allow consolidated income tax returns or provide any other tax relief to consolidated groups of companies.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	15
Municipal taxes	
Monthly tax on gross income	1
Annual municipal registration tax; tax base equals one-third of the gross income for the last three months of the preceding tax year	2
Real estate tax; imposed on 80% of the appraised value of the property	1
Payroll taxes; paid by employers (average rate)	18

**E. Foreign-exchange controls**

The Nicaraguan currency is the córdoba (NIO). Effective from 23 November 2017, the exchange rate for the córdoba against the US dollar is NIO30.6349 = USD1.

No restrictions apply to foreign-trade operations or to foreign-currency transactions.

**F. Tax treaties**

Nicaragua has not entered into any income tax treaties with other foreign countries.

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**A. At a glance**

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	10
Withholding Tax (%) (a)	
Investment Income (b)	
Dividends	10 (c)
Interest	10 (d)
Rental Income	10
Royalties	10
Building, Construction and Related Activities	5
Contract for Supplies	5
Consulting, Management and Technical Services	10 (e)
Commissions	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (f)

(a) Applicable to residents and nonresidents.

(b) For nonresidents, these are final taxes. For resident companies, only the withholding tax on dividends is a final tax.

(c) Certain dividends are exempt (see Section B).

(d) Certain interest is exempt (see Section C).

(e) The rate is 5% for private businesses (sole proprietorships) and partnerships.

(f) Insurance companies may carry forward losses for only four years.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Resident companies are subject to tax on their worldwide profits. Nonresident companies are taxed only on the profits of their operations in Nigeria. However, if a nonresident company performs a contract for survey, deliveries, installation or construction, the entire contract price is taxable in Nigeria, regardless of whether a portion of the contract is performed outside Nigeria. Assessable profits from all sources accruing in the accounting period are aggregated for tax purposes. Total profit on which tax is assessed is calculated by deducting capital allowances (tax depreciation) from the aggregate of assessable profits.

A company is resident in Nigeria if it is incorporated in Nigeria. A foreign company that intends to carry on a trade or business in Nigeria is required by the Companies and Allied Matters Act to incorporate a Nigerian company.

**Rates of corporate tax**

*Corporate income tax.* The corporate income tax rate is 30%. However, tax is assessed at a reduced rate of 20% for a Nigerian company's first five tax years if it is engaged in manufacturing or agricultural production or in the mining of solid materials, and if its turnover (gross sales) is under NGN1 million.

*Tax holidays.* Limited liability companies that are registered in Nigeria and that fall in the approved pioneer status list may apply

for pioneer status, which is granted to companies in industries that are considered vital to Nigeria's economic development. A company with pioneer status is granted a tax holiday of up to three years, with a possible extension for two years.

Approved enterprises operating in export free-trade zones are exempt from all federal, state and local government taxes, levies and rates. New export-oriented companies located outside free-trade zones may qualify for a three-year tax holiday if they satisfy certain conditions. Under the Companies Income Tax (Amendment) Act of 2007, the exempt profit list also includes the profit of a company established in an Export-Processing Zone (EPZ) or Free-Trade Zone (FTZ) that exports 100% of its production.

New companies engaged in the mining of solid minerals also benefit from a tax holiday during their first three years of operations. Under the Mining and Minerals Act 2007, the tax holiday can be extended for two years.

*Oil and gas companies.* Companies engaged in the marketing and distribution of gas for domestic and industrial use (downstream operations) are subject to the Companies Income Tax Act.

Beginning on the date on which they begin production, companies engaged in gas utilization (downstream operations) in industrial projects benefit from an initial three-year tax holiday. This tax holiday is renewable for an additional two years after the tax holiday expires if the company is performing satisfactorily. The companies also benefit from accelerated capital allowances after the tax-holiday period. These allowances consist of the following:

- An annual allowance of 90% with a 10% retention for investment in plant and machinery
- An additional 15% investment allowance, which does not reduce the cost of the asset for the purposes of calculating the annual allowance

All expenditure necessarily incurred to separate gas from the reservoir (underground rock formation containing crude oil or gas), to convert it into usable product and to deliver gas to points of use is considered part of the capital investment for oil field development, which may be charged against profits.

A gas-flaring penalty is imposed on oil companies for wasteful disposals of gases through burning in oil fields and refineries.

Companies engaged in gas exploration are subject to the Companies Income Tax Act.

Companies engaged in petroleum operations are deemed to be in the upstream sector of the oil and gas sector and are subject to tax under the Petroleum Profit Tax Act. The applicable Petroleum Profit Tax rate is 85%. A reduced rate of 65.75% applies to companies for their first five years of petroleum operations. However, for petroleum operations carried out under the production-sharing contract regime, the applicable rate is 50%.

*Minimum tax.* Companies are required to pay minimum corporate tax if the minimum tax is greater than their actual tax liability. If a company's turnover is NGN500,000 or less, the minimum tax is the highest of the following:

- 0.5% of gross profit



- 0.5% of net assets
- 0.25% of paid-up capital
- 0.25% of turnover of NGN500,000

If turnover is higher than NGN500,000, the minimum tax equals the amount computed in the preceding paragraph plus 0.125% of the turnover exceeding NGN500,000.

The minimum tax does not apply to companies until the fifth year after the commencement of business. Companies engaged in an agricultural trade or business and companies with at least 25% imported equity capital are exempt from the minimum tax requirement.

*Withholding tax.* The withholding tax rate on dividends and interest for residents and for recipients in non-treaty countries is generally 10%. However, certain dividends are exempt from tax (see *Dividends*). Taxable interest income includes interest on all time deposits with banks and on savings passbook accounts of NGN50,000 and above. Certain types of interest income are exempt from tax (see Section C). Tax withheld from dividends and interest accruing to nonresident companies is regarded as a final tax. For resident companies, the withholding tax from dividends is also regarded as a final tax, but they must account for other investment income in their tax returns and claim credit for tax withheld. Both resident and nonresident companies must include in their tax returns earned income subject to withholding and claim the tax withheld as a credit.

**Special tax relief.** Nigeria offers the special tax relief described below.

*Exemption of convertible currencies derived from tourists.* Twenty-five percent of income in convertible currencies derived from hotel guests is exempt from tax, provided that such income is put in a reserve fund to be used within five years for the building and expansion of hotels, conference centers and facilities for the purpose of tourism development.

**Capital gains.** Capital gains tax is chargeable on the gains accruing from the disposal of all types of assets, including the following:

- Land and buildings
- Options, debts and other property rights
- Any currency other than Nigerian currency
- Any form of property created by the person disposing of it or otherwise coming to be owned without being acquired
- Movable assets (motor vehicles)

For resident companies, disposals of assets located outside Nigeria are taxable regardless of whether gains accruing from such disposals are received in Nigeria. For nonresident companies, only gains accruing in Nigeria are taxable.

Taxable gain is the difference between the consideration accruing on the disposal of an asset and its original cost together with expenses incurred on its disposal.

Any loss incurred on a disposal may not be offset against the gains accruing from the disposal of another asset for the purpose of calculating capital gains tax. However, if assets are sold under a single agreement comprising two or more transactions, the

transactions are treated as a single disposal for the purpose of calculating capital gains. Taxable gains are assessed in the year of disposal of an asset. The capital gains tax rate is 10%.

A company may claim rollover relief if the proceeds from the disposal of an asset used in a trade or business are applied within a year before or after the disposal toward the acquisition of a similar asset to be used in the same trade or business.

**Dividends.** Dividends are generally subject to a final 10% withholding tax.

Dividends distributed from pioneer profit (see *Rates of corporate tax*) or from after-tax petroleum profit are exempt from tax.

### **Administration**

*Tax authority.* The Federal Inland Revenue Service (Establishment) Act, which was enacted in 2007, established the Federal Inland Revenue Service (FIRS). The FIRS is responsible for assessing, collecting and accounting for tax revenue accruable to the federal government of Nigeria.

*Filing and tax payment.* The FIRS is responsible for administering and collecting companies' income tax, petroleum profits tax (see Section D) and capital gains tax imposed on companies.

The tax year is from 1 January to 31 December. Under the self-assessment regime modified by the government in December 2011, all companies subject to tax must compute their tax liability, make payment and file their tax return with the FIRS on or before the due date. The due date for filing of the company income tax return is six months after the end of its accounting year or within 18 months after its date of incorporation. A penalty of NGN25,000 is imposed for the first month of lateness in filing a return and NGN5,000 for each subsequent month.

A taxpayer must apply to the tax authority for the making of installment payments. The final installment must be paid not later than the due date. The tax authority may grant approval for three installment payments beginning from the due date such that the last installment is paid not later than two months after the due date. Companies that do not comply with the requirement to file self-assessment returns and pay taxes due on or before the due date are assessed tax based on an administrative assessment issued by the FIRS. These companies may be required to pay their tax liability within two months after the date the assessment notice is served.

A 10% penalty and interest at the prevailing bank lending rate are imposed for late payment of assessed tax.

*Tax refunds.* The reforms to the tax system in Nigeria included the introduction of a tax refund system. After auditing a company's documents, the FIRS determines whether an overpayment was made.

*Excess dividend tax.* If dividends are distributed from profits on which no tax is payable as a result of no taxable profits or taxable profits that are less than the amount of dividends paid, the company paying the dividends is charged to tax on the dividends as if

such dividends are the taxable profits of the company for the relevant year of assessment.

**Foreign tax relief.** Foreign tax relief for the avoidance of double taxation is governed by tax treaties with other countries. If foreign tax is paid to a country that does not have a tax treaty with Nigeria, resident companies may claim the foreign tax paid as a tax-deductible expense.

### C. Determination of trading profit

**General.** Taxable income is based on financial statements prepared on commercial principles (that is, International Financial Reporting Standards [IFRS], adopted in 2010). Trading profit is adjusted for deductions not allowed for tax purposes and for profits or gains not subject to tax.

Investment income earned abroad is tax-exempt if it is brought into Nigeria through the Central Bank of Nigeria or through any bank or other corporate body appointed by the Minister of Finance as an authorized dealer.

Interest received by banks on loans with a moratorium of at least 18 months and with an interest rate that is not more than the base lending rate at the time the loan was granted is exempt from tax if the following circumstances exist:

- The loans are granted to agricultural trades or businesses.
- The loans are granted to companies or individuals engaged in the manufacturing of plant and machinery in Nigeria.
- The loans are granted for working capital for any cottage industry established by the company.

Interest on bank loans granted for the manufacturing of goods for export are exempt from tax if certain specified conditions are met.

Interest on foreign loans is exempt from tax in accordance with the following percentages.

Repayment period including moratorium	Grace period	Tax exemption allowed (%)
More than 7 years	Not less than 2 years	100
5 to 7 years	Not less than 18 months	70
2 to 4 years	Not less than 12 months	40
Less than 2 years	None	0

Interest earned by a nonresident company on a deposit account consisting entirely of foreign-currency transfers is exempt from tax. In addition, interest on foreign-currency accounts maintained or operated in Nigeria is exempt from tax.

The following are exempt from income tax, effective from 2 January 2012:

- Trading income derived from short-term federal government securities, such as treasury bills and promissory notes
- Trading income derived from bonds issued by federal, state and local governments and their agencies
- Trading income derived from bonds issued by corporate bodies including supranationals
- Interest earned by holders of the bonds and securities listed above

The exemption is for a period of 10 years with the exception of income derived from bonds issued by the federal government, which have an indefinite exemption.

Expenses must be reasonable and incurred wholly, exclusively, necessarily and reasonably for the purpose of the trade or business.

Deductions are not allowed for the following:

- Losses reimbursable under an insurance contract or a contract of indemnity
- Donations made to bodies and institutions not specified in Schedule 5 of the Companies Income Tax Act
- Subscriptions to social organizations

Limitations apply to the deductibility of the following:

- Donations to approved bodies and institutions
- Research and development
- Management fees

**Inventory.** The tax law does not prescribe any basis for the valuation of inventory, provided a method is used consistently from year to year. However, subject to certain exceptions stated in the IFRS issued by the International Accounting Standards Board, stocks must be valued at the lower of cost and net realizable value.

#### **Tax depreciation (capital allowances)**

*Initial and annual allowances.* Annual allowances are granted under the straight-line method. The company deducts the initial allowance from the asset's cost once in the life of an asset and then applies the annual allowance rate to the balance. The following are rates of initial and annual allowances.

<b>Qualifying expenditure</b>	<b>Initial allowance (%)</b>	<b>Annual allowance (%)</b>
Buildings (industrial and non-industrial)	15	10
Mining	95	Nil
Plant		
Agricultural production	95	Nil
Others	50	25
Furniture and fittings	25	20
Motor vehicles		
Public transportation	95	Nil
Others	50	25
Plantation equipment	95	Nil
Housing estate	50	25
Ranching and plantation	30	50
Research and development	95	Nil

*Investment allowances.* An investment allowance at a rate of 10% is granted for expenditure incurred on plant and equipment. If the expenditure is for replacement of obsolete industrial plant and equipment, an investment tax credit of 15% is granted. The investment allowance is not taken into account in determining the written-down tax value of the asset. It is granted in addition to the initial allowance.

Initial and annual allowances are recaptured on the sale of an asset if the sales price exceeds the written-down tax value. The amount recaptured may not exceed the initial and capital allowances

granted. Amounts recaptured are taxed as ordinary income at the regular corporate tax rates.

**Investment tax relief.** Investment tax relief is similar to the rural investment allowance. It is granted for expenditures on certain infrastructural facilities by companies established at least 20 kilometers (12.4 miles) from such facilities. The following are the types of facilities and the applicable percentages of the relief:

- Electricity: 50%
- Water: 30%
- Tarred road: 15%

The investment tax relief may be claimed for three years. A company that has enjoyed or is enjoying pioneer status (see Section B) may not claim the relief.

Companies engaged in research and development activities may claim a tax credit of 20% of their qualifying capital expenditure.

**Relief for losses.** Trade and business losses may be carried forward to offset profits of the same trade or business for an unlimited number of years. Losses may not be carried back.

**Groups of companies.** Each company must file a separate tax return. No provisions exist for filing consolidated returns or offsetting losses and capital allowances against profits within a group of companies.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, levied on specified goods and services, including goods manufactured or assembled in Nigeria, imported goods, certain bank services and services performed by professionals	5
Education tax, on assessable income; the tax is deductible for purposes of the petroleum profits tax	2
Pension contributions, on monthly gross salary (for pension purposes, gross salary consists of basic pay, housing and transport allowances); paid by	
Employer	10
Employee	8
(Expatriates covered by a plan in their home country may qualify for exclusion.)	
Information technology levy; imposed on before-tax profits of specified companies and enterprises with annual turnover of NGN100 million or more	1

#### E. Miscellaneous matters

**Foreign-exchange controls.** Foreign investors that intend to set up businesses in Nigeria must register with the Nigeria Investment Promotion Commission and obtain a Certificate of Capital Importation from authorized foreign-exchange dealers through whom foreign currency is imported. This certificate, which serves

as documentary evidence of the importation of the currency, guarantees the unconditional transferability of dividends and interest and the repatriation of capital through authorized dealers.

Companies are free to determine the amount of dividends distributed. Borrowing funds to remit dividends is not allowed. The application to remit dividends must be submitted with the Certificate of Capital Importation and a tax clearance certificate, which establishes that tax was paid or that no tax is due with respect to the dividends to be remitted. If the appropriate amount of tax is withheld from dividends and interest paid to nonresidents, no additional tax clearance is required.

Remittances of royalties and fees require the approval of the underlying agreements by the National Office for Technology Acquisition and Promotion. Permission is granted if the royalties and fees are within certain prescribed limits.

Importation and exportation of the naira (NGN), the Nigerian currency, are regulated.

Exporters must open a local domiciliary bank account marked "Export Proceeds" and must credit their foreign-currency export earnings to this account.

**Anti-avoidance provisions.** Under the general anti-avoidance provisions, if the tax authority determines that a disposition has not in fact had an effect or that a transaction that reduces or would reduce the amount of any tax payable is artificial or fictitious, it may disregard any such disposition or transaction or direct that appropriate adjustments be made to the tax liability. These actions are designed to counteract the reduction of the tax liability that would otherwise result from the transaction. Any company concerned is then assessed accordingly. For this purpose, a disposition includes a trust, grant, covenant, agreement or arrangement.

**Transfer pricing.** The Transfer Pricing Regulations, which took effect on 2 August 2012, apply to transactions between connected taxable persons (related parties, as defined in the regulations). Connected taxable persons entering into transactions to which the regulations apply must determine the taxable profits resulting from such transactions in a manner that is consistent with the arm's-length principle. For purposes of the regulations, a permanent establishment is treated as a separate entity, and a transaction between a permanent establishment and its head office or other connected taxable persons is considered a controlled transaction subject to the regulations. Key provisions of the regulations include those pertaining to the following:

- Entities and transactions to which the regulations apply
- Methods that may be used to determine arm's-length prices
- Documentation that must be maintained to support the arm's-length price and advance pricing agreements

The regulations must be applied in a manner consistent with the arm's-length principle in Article 9 of the United Nations (UN) and Organisation for Economic Co-operation and Development (OECD) Model Tax Conventions on Income and Capital, the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, and the UN Transfer Pricing Manual.

**Debt-to-equity rules.** No tax-related thin-capitalization rules apply in Nigeria.

### F. Treaty withholding tax rates

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Belgium	7.5	7.5	7.5
Canada	7.5	7.5	7.5
China (mainland)	7.5	7.5	7.5
Czech Republic	7.5	7.5	7.5
France	7.5	7.5	7.5
Italy*	7.5	7.5	7.5
Netherlands	7.5	7.5	7.5
Pakistan	7.5	7.5	7.5
Philippines	7.5	7.5	7.5
Romania	7.5	7.5	7.5
Slovak Republic	7.5	7.5	7.5
South Africa	7.5	7.5	7.5
Spain	7.5	7.5	7.5
United Kingdom	7.5	7.5	7.5
Non-treaty jurisdictions	10	10	10

\*The treaty with Italy applies to air and shipping only.

Nigeria has signed double tax treaties with Bulgaria, Korea (South), Mauritius, Poland, Singapore, Sweden and the United Arab Emirates, but these treaties have not yet been ratified.

Nigeria has begun tax treaty negotiations with Algeria and Tunisia.

# Northern Mariana Islands, Commonwealth of the

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## A. At a glance

Corporate Income Tax Rate (%)	21 (a)
Capital Gains Tax Rate (%)	21 (a)
Branch Income Tax Rate (%)	21 (a)
Withholding Tax (%)	
Dividends	30 (a)(b)
Interest	30 (a)(b)(c)
Royalties from Patents, Know-how, etc.	30 (a)(b)
Branch Profits Tax	30 (a)(d)
Net Operating Losses (Years)(e)	
Carryback	0
Carryforward	Unlimited (f)

- (a) Income tax on income sourced within the Northern Marianas that exceeds gross revenue tax on the same income is subject to a rebate. For details, see Section B.
- (b) This tax is imposed on payments to nonresidents. See Section E.
- (c) Bank deposit interest not effectively connected with a trade or business in the Northern Marianas and interest on certain portfolio debt obligations are exempt from withholding tax.
- (d) This is the branch profits tax, imposed on the earnings of a foreign corporation attributable to its branch, reduced by earnings reinvested in the branch and increased by reinvested earnings withdrawn.
- (e) Applicable to losses generated after 2017.
- (f) No deduction is available for net operating losses arising before 1 January 1985.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporations are subject to a gross revenue tax. In addition, the Commonwealth of the Northern Mariana



Islands (CNMI) has adopted the US Internal Revenue Code (IRC) as its income tax law. For a description of the income taxation of resident corporations doing business in CNMI, refer to the chapter in this book on the United States and substitute “CNMI” for each reference to the “United States.”

To avoid double taxation, a credit against income tax is given for gross revenue tax paid or accrued on income earned within the Northern Marianas. If income tax on Northern Marianas income exceeds the gross revenue tax, the company is entitled to a rebate of specified percentages of the excess. The following are the rebate percentages:

- 90% of the excess up to USD20,000
- 70% of the next USD80,000
- 50% of the excess over USD100,000

Income earned by residents from foreign sources is subject to the full amount of tax under the IRC. A special rule prevents US residents from taking advantage of the rebate by changing their residence to report gains on the sale of US property or stock in US companies on their Northern Marianas tax return.

**Gross revenue tax.** A gross revenue tax is imposed on the gross income of businesses from their activities and investments in the CNMI. The gross revenue tax rates are shown in the following table.

Gross revenue		Rate on
Exceeding USD	Not exceeding USD	total gross income %
0	5,000	0
5,000	50,000	1.5
50,000	100,000	2
100,000	250,000	2.5
250,000	500,000	3
500,000	750,000	4
750,000	—	5

These rates apply to total gross income and are not progressive.

**Tax incentives.** The CNMI, through the Commonwealth Development Authority, is authorized by law to grant tax rebates to qualified investors. The Commonwealth Development Authority grants Qualifying Certificates (QCs) for tax incentives to businesses engaged in activities that are deemed to be beneficial to the development of the CNMI economy. The incentives are aimed primarily at franchise restaurants, water parks, aquariums, cultural centers, theme parks, resort hotels, golf courses, convention centers, dinner theaters, special events, CNMI-based airlines, manufacturing of high-technology products and internet-related businesses. In general, QCs can provide rebates of up to 100% of income tax paid for up to 25 years.

**Basis of qualified fresh-start assets.** Under the Northern Marianas Territorial Income Tax, effective 1 January 1985, income from pre-1985 appreciation of Northern Marianas property is not subject to income tax. For the purposes of determining gain and allowances for depreciation and amortization, the basis of the Northern Marianas real and personal property is the greater of the basis determined under the IRC or the fair-market value as of

1 January 1985. Fair-market value can be established either by independent appraisal or by discounting the ultimate sales price back to 1 January 1985, using the discount factors specified by regulation. Currently, rates published by the US Internal Revenue Service are used.

**Administration.** Income taxes are paid to the government of the Northern Marianas, which administers its tax system. In general, the administration of the Northern Marianas tax is the same as in the United States, but estimated taxes are due on the last day of the month following the end of each quarter of the tax year. The income tax rebate is not available to reduce estimated tax payments.

**Foreign tax relief.** Foreign tax credits are available in the Northern Marianas to reduce income tax in the same manner as foreign tax credits in the United States. The credits do not reduce gross revenue tax, which is imposed on CNMI-source income only.

### C. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Hotel occupancy tax	15%
Bar tax	10%
Excise taxes on all property except school and library books and machinery and raw materials used in manufacturing	Various
Liquid fuel taxes	
Gasoline, diesel and other liquid fuels (refunded if used by commercial vessels outside CNMI)	15 cents a gallon
Aviation fuel (reduced depending on flight schedule)	3%
Social security contributions (including 1.45% Medicare Tax; US system); imposed on Wages up to USD128,400 (for 2018); paid by	
Employer	7.65%
Employee	7.65%
Wages in excess of USD128,400 but not in excess of USD200,000 (for 2018); paid by	
Employer	1.45%
Employee	1.45%
Wages in excess of USD200,000 (for 2018); paid by	
Employer	1.45%
Employee	2.35%
Miscellaneous license fees	Various

### D. Miscellaneous matters

**Foreign-exchange controls.** CNMI does not impose foreign-exchange controls, but large currency transfers must be reported to the US Treasury Department.

**Transfer pricing.** The US transfer-pricing rules apply in CNMI.

**Debt-to-equity rules.** The US thin-capitalization rules apply in CNMI.

**E. Treaties and withholding taxes**

CNMI does not participate in the US income tax treaties and has not entered into any treaties with other countries. The withholding tax rate for dividend, interest and royalty payments to nonresidents is 30%, but the rebate discussed in Section B is available if a recipient files a CNMI income tax return. In general, no withholding tax is imposed on payments between CNMI and the United States or Guam, unless the recipient exceeds certain foreign ownership and income limitations.

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*Unless otherwise indicated, the rates and thresholds stated in the chapter apply to 2018 income. Changes with respect to the taxation of 2018 income may be introduced with retroactive effect until 31 December 2018.*

**A. At a glance**

Corporate Income Tax Rate (%)	23 (a)
Capital Gains Tax Rate (%)	23 (a)
Branch Tax Rate (%)	23 (a)
Withholding Tax (%)	
Dividends	25 (b)
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0 (c)
Carryforward	Unlimited

(a) A 25% rate applies to companies in the financial sector (see Section B).

(b) This tax applies to dividends paid to nonresident shareholders. Dividends paid to corporate shareholders that are tax residents and genuinely established in member states of the European Economic Area (EEA) (including the European Union [EU], Iceland and Liechtenstein) are exempt from withholding tax.

(c) See Section C.

**B. Taxes on corporate income and gains**

**Corporate income tax.** In general, resident companies are subject to corporate income tax on worldwide income. However, profits and losses on upstream petroleum activities in other jurisdictions are exempt from Norwegian taxation. Nonresident companies are subject to corporate income tax on income attributable to Norwegian business operations.

A company is tax resident in Norway if it is legally incorporated in Norway or if its central management and control are effectively exercised in Norway.

**Rates of corporate tax.** For 2018, the corporate tax rate is 23%.

In addition to the general income tax of 23%, a special petroleum tax of 55% applies to income from oil and gas production and from pipeline transportation. A special power production tax of 35.7% applies on top of the general income tax of 23% for the generation of hydroelectric power.

Qualifying shipping companies may elect a special shipping tax regime instead of the ordinary tax regime. Under the shipping tax regime, profits derived from shipping activities are exempt from income tax. However, companies electing the shipping tax regime

must pay an insignificant tonnage excise tax. Financial income derived by shipping companies is taxed at a rate of 23%.

For companies in the financial sector, a 25% rate applies if they are within the scope of the new financial tax rules (see *Financial tax*).

**Financial tax.** A financial tax for companies in the financial sector was introduced from 1 January 2017. The main purpose of the financial tax is to serve as a form of substitute tax for financial businesses that are value-added tax (VAT)-exempt (that is, they benefit from the Norwegian VAT exemption for the sale and mediation of financial services). The financial tax consists of the following two elements:

- The application of a 25% rate on the income of companies covered by the financial tax, instead of the 23% rate, which applies to companies in all other sectors
- A 5% tax on wage costs

The main rule is that all companies that conduct activities that are covered by Group K “Financial and insurance activities” (Codes 64-66) in SN2007 (the European system NACE rev. 2) are subject to the financial tax. These types of activities are referred to as financial activities. The financial tax applies only to companies with employees.

The following businesses are typically subject to the financial tax:

- Businesses engaged in banking
- Businesses engaged in insurance (both life and general insurance)
- Securities funds
- Investment companies
- Holding companies
- Pension funds
- Businesses performing services related to finance business, including administration of financial markets and mediation of securities

The 5% tax on wage cost is calculated based on the yearly payments to all of the company’s employees who perform financial activities as defined in Group K in SN2007. The same base applicable to the calculation of the employer’s social insurance contribution is used for the calculation of the 5% tax on wage costs.

The following exemptions apply:

- An entity that has less than 30% of its total payroll cost relating to financial activities is exempt from the 5% part of the financial tax.
- An entity that has more than 70% of its total payroll cost relating to VAT-liable financial activities is exempt from the 5% part of the financial tax.

All companies covered by the financial tax can deduct the 5% financial tax on wage cost in calculating their taxable income for corporate income tax purposes.

**Capital gains.** In general, capital gains derived from the disposal of business assets and shares are subject to normal corporate taxes. However, for corporate shareholders, capital gains derived from the sale of shares in limited liability companies, partnerships

and certain other enterprises that are qualifying companies under the tax exemption system are exempt from tax. This tax exemption applies regardless of whether the exempted capital gain is derived from a Norwegian or a qualifying non-Norwegian company. In general, life insurance companies and pension funds are not covered by the tax exemption regime.

For companies resident in another EEA member state (the EEA includes the EU, Iceland, Liechtenstein and Norway), the exemption applies regardless of the ownership participation or holding period. However, if the EEA country is regarded as a low-tax jurisdiction (as defined in the Norwegian tax law regarding controlled foreign companies [CFCs]; see Section E), a condition for the exemption is that the EEA resident company be actually established and carrying out genuine economic activities in its home country.

For non-EEA resident companies, the exemption does not apply to capital gains on the alienation of shares in the following companies:

- Companies resident in low-tax jurisdictions, as defined in the Norwegian tax law regarding CFCs; see Section E)
- Companies of which the corporate shareholder has not held at least 10% of the capital and the votes in the company for more than two years preceding the alienation

The right of companies to deduct capital losses on shares is basically eliminated to the same extent that a gain would be exempt from tax.

The exit from Norwegian tax jurisdiction of goods, merchandise, intellectual property, business assets and other items triggers capital gains taxation as if such items were sold at the fair market price on the day before the day of exit. The payment of the exit tax on business assets, financial assets (shares) and liabilities may be deferred if the taxpayer remains tax resident within the EEA. However, the deferred tax must be paid in equal installments over a period of seven years, calculated from the year of exit. Interest is calculated on the deferred tax amount. If a genuine risk of non-payment of the deferred tax exists, the taxpayer must furnish security or a guarantee for the outstanding tax payable. No deferral of the tax is available for intangible assets and inventory.

**Administration.** The annual tax return is due on 31 May for accounting years ending in the preceding calendar year and must be submitted electronically. Assessments are made in the year in which the return is submitted (not later than 1 December). Tax is paid in three installments. The first two are paid on 15 February and 15 April, respectively, each based on  $\frac{1}{2}$  of the tax due from the previous assessment. The last installment represents the difference between the tax paid and the tax due, and is payable three weeks after the issuance of the assessment. Interest is charged on residual tax.

**Dividends.** An exemption regime with respect to dividends on shares is available to companies if the distribution is not deductible for tax purposes at the level of the distributing entity. However, the 100% tax exemption is limited to 97% if the recipient of the dividends does not hold more than 90% of the shares in the distributing company and a corresponding part of the votes that



may be given at the general meeting (that is, the companies do not constitute a tax group of companies). In such cases, the remaining 3% of the dividends is subject to 23% taxation, which results in an effective tax rate of 0.69%.

The tax exemption applies regardless of the ownership participation or holding period if the payer of the dividends is a resident in an EEA member state. However, if the EEA country is regarded as a low-tax jurisdiction, conditions for the exemption are that the EEA resident company be actually established and carrying out genuine economic activities in its home country and that Norway and the EEA country have a treaty containing exchange-of-information provisions. As of 2018, all of Norway's treaties with EEA countries have such provisions.

For non-EEA resident companies, the exemption does not apply to dividends paid by the following companies:

- Companies resident in low-tax jurisdictions as defined in the Norwegian tax law regarding CFCs (see Section E)
- Other companies of which the recipient of the dividends has not held at least 10% of the capital and the votes of the payer for a period of more than two years that includes the distribution date

Dividends paid to nonresident shareholders are subject to a 25% withholding tax. The withholding tax rate may be reduced by tax treaties. Dividends distributed by Norwegian companies to corporate shareholders resident in EEA member states are exempt from withholding tax. This exemption applies regardless of the ownership participation or holding period. However, a condition for the exemption is that the EEA resident company be actually established and carrying out genuine economic activities in its home country.

**Foreign tax relief.** A tax credit is allowed for foreign tax paid by Norwegian companies, but it is limited to the proportion of the Norwegian tax that is levied on foreign-source income. Separate limitations must be calculated according to the Norwegian tax treatment of the following two different categories of foreign-source income:

- Income derived from low-tax jurisdictions and income taxable under the CFC rules
- Other foreign-source income

For dividend income taxable in Norway, Norwegian companies holding at least 10% of the share capital and the voting rights of a foreign company for a period of more than two years that includes the distribution date may also claim a tax credit for the underlying foreign corporate tax paid by the foreign company, provided the Norwegian company includes an amount equal to the tax credit in taxable income. In addition, the credit is also available for tax paid by a second-tier subsidiary, provided that the Norwegian parent indirectly holds at least 25% of the second-tier subsidiary and that the second-tier subsidiary is a resident of the same country as the first-tier subsidiary. The regime also applies to dividends paid out of profits that have been retained by the first- or second-tier subsidiary for up to four years after the year the profits were earned. The tax credit applies only to tax paid to the country where the first- and second-tier subsidiaries are resident.

### C. Determination of taxable income

**General.** In calculating taxable income, book income shown in the annual financial statements (which must be prepared in accordance with generally accepted accounting principles) is used as a starting point. However, the timing of income taxation is based on the realization principle. Consequently, the basic rules are that an income is taxable in the year in which the recipient obtains an unconditional right to receive the income, and an expense is deductible in the year in which the payer incurs an unconditional obligation to pay the expense. In general, all expenses, except gifts and entertainment expenses, are deductible.

**Inventory.** Inventory is valued at cost, which must be determined on a first-in, first-out (FIFO) basis.

**Depreciation.** Depreciation on fixed assets must be calculated using the declining-balance method at any rate up to a given maximum. Fixed assets (with a cost of more than NOK15,000 and with a useful life of at least 3 years) are allocated to one of the following 10 different groups.

Group	Maximum depreciation rates (%)
A Office equipment and similar items	30
B Acquired goodwill	20
C Specified vehicles	
Trailers, trucks and buses	24
Commercial vehicles, taxis and vehicles for the transportation of disabled persons	24
D Cars, tractors, other movable machines, other machines, equipment, instruments, furniture, fixtures and similar items	20
E Ships, vessels, drilling rigs and similar items	14
F Aircraft and helicopters	12
G Installations for transmission and distribution of electric power, electronic equipment in power stations and such production equipment used in other industries	5
H Industrial buildings and industrial installations, hotels, rooming houses, restaurants and certain other structures	
Useful life of 20 years or more	4
Useful life of less than 20 years	10
Livestock buildings in the agricultural sector	6
I Office buildings	2
J Technical installations in buildings	10

Assets in groups A, B, C and D are depreciated as whole units, while assets in groups E, F, G, H, I and J are depreciated individually.

If fixed assets in groups A, B, C and D are sold, the proceeds reduce the balance of the group of assets and consequently the basis for depreciation. If a negative balance results within groups A, C or D, part of the negative balance must be included in income. In general, the amount included in income is determined by multiplying the negative balance by the depreciation rate for the group.

However, if the negative balance is less than NOK15,000, the entire negative balance must be included in taxable income.

A negative balance in one of the other groups (B, E, F, G, H, I and J) must be included in a gains and losses account. Twenty percent of a positive balance in this account must be included annually in taxable income.

**Relief for losses.** A company holding more than 90% of the shares in a subsidiary may form a group for tax purposes. Intragroup contributions to set off profits in one company against losses in another may be made if included in the statutory accounts. Companies covered by the financial tax (see *Financial tax* in Section B) may only deduct 23/25 of intragroup contributions to companies not covered by the financial tax.

Alternatively, losses may be carried forward indefinitely. Losses can only be carried back when a line of business has been terminated. Losses may be carried back to offset profits of the preceding two years.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on any supply of goods and services, other than an exempt supply, in Norway	
General rate	25
Articles of food	15
Passenger transportation	12
Social security contributions, on all taxable salaries, wages and allowances, and on certain fringe benefits; paid by	
Employer (general rates; lower in some municipalities and for employees age 62 and over)	14.1
Employee (expatriates liable unless exempt under a social security convention)	8.2
Professional income	11.4
Pensioners and persons under 17 years old	5.1

#### E. Miscellaneous matters

**Anti-avoidance legislation.** Norwegian legislation does not contain a general anti-avoidance provision, but a doctrine has been developed through several court cases as well as through administrative practice. Based on this doctrine, tax authorities may disregard transactions or structures if the dominant motive is to save taxes and the tax effects of entering into the transaction or structure are regarded as disloyal to the tax system.

In addition, Norway has a special anti-avoidance rule. If a company with a general tax position (that is, a tax position not connected to any specific asset or debt, such as a tax loss carryforward) is involved in a transaction in which the use of that tax position is the main objective of the transaction, the tax authorities may disallow such a tax position. This rule has a narrower scope, but a lower threshold for application, than the general anti-avoidance doctrine.

**Foreign-exchange controls.** Norway does not impose foreign-exchange controls. However, foreign-exchange transactions must be carried out by approved foreign-exchange banks.

**Debt-to-equity rules.** Norway does not have statutory thin-capitalization rules. Based on the arm's-length principle (see *Transfer pricing*), the tax authorities may deny an interest deduction on a case-by-case basis if they find that the equity of the company is not sufficient (for example, the Norwegian debtor company is not able to meet its debt obligations). An allocation rule regulates the deductibility of interest expenses for income subject to petroleum tax.

Norway has interest limitation rules. Under these rules, interest expenses paid to related parties that exceed 25% of "tax EBITDA," which is defined as ordinary taxable income with tax depreciation and net interest expenses added back, are nondeductible.

These rules impose a general restriction on interest deductibility, which applies to corporations and transparent partnerships as well as Norwegian permanent establishments of foreign companies. The restriction applies to interest payments made to related parties in both domestic and cross-border situations. Companies taxed under the tonnage tax regime and under the hydropower tax regime are also subject to the interest restrictions. However, entities subject to the Norwegian Petroleum Tax Act are not yet covered by the rules.

Under the rules, a related party is a person, company or entity if, at any point during the fiscal year, any of the following is true:

- It directly or indirectly controls at least 50% of the debtor.
- It is a company or entity of which the debtor directly or indirectly controls at least 50%.
- It is a company or entity that is at least 50% owned directly or indirectly by the same company or entity as the debtor.

In general, interest expenses that cannot be deducted during the fiscal year can be carried forward for 10 years. However, the interest expenses carried forward cannot exceed 25% of the basis of the calculation to be made in any future year. Any carryforward of non-deducted interest expenses must be deducted before the current year's interest expenses.

The interest deduction limitation rules apply only if net interest expenses exceed NOK5 million. If the threshold is surpassed, all internal interest expenses must be assessed under the rule, including the first NOK5 million.

The government is currently working on changes to the interest deduction limitation rules. The changes are expected to be enacted with effect from 2019.

**Controlled foreign companies.** Norwegian shareholders in controlled foreign companies (CFCs) resident in low-tax jurisdictions are subject to tax on their allocable shares of the profits of the CFCs, regardless of whether the profits are distributed as dividends. A CFC is a company of which 50% or more of its shares is directly or indirectly owned or controlled by Norwegian residents. A low-tax jurisdiction is a jurisdiction with an effective corporate tax rate for that kind of company that is less than two-thirds of the Norwegian effective tax rate that would have been imposed if the

taxpayer had been resident for tax purposes in Norway. The CFC rules do not apply to the following CFCs:

- A CFC resident in a country with which Norway has entered into a tax treaty if the income of the CFC is not of a predominantly passive nature.
- A CFC resident in an EEA member country if such CFC is actually established and carries out genuine economic activities in its home country and if Norway and the home country have entered into a treaty containing exchange-of-information provisions. As of 2018, all of Norway's treaties with EEA countries have such provisions.

The losses of a CFC may not offset the non-CFC income of an owner of the CFC, but they may be carried forward to offset future profits of the CFC.

**Transfer pricing.** The arm's-length principle is stated in Section 13-1 of the Tax Act, and the transfer-pricing filing and documentation requirements are stated in Section 8-11 of the Tax Administration Act. Norway has not yet formally implemented the changes for transfer-pricing documentation proposed in the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) Action 13 final report. However, the Norwegian Ministry of Finance and the tax administration in Norway have communicated that the new rules will be implemented soon. The tax administration expects that the transfer-pricing documentation required for the 2017 fiscal year will comply with BEPS Action 13, in addition to the Norwegian specific transfer-pricing requirements.

As an attachment to the annual tax return, Norwegian companies and Norwegian permanent establishments must report summary information about their business and their controlled transactions (RF-1123) with affiliated companies.

Norwegian companies and Norwegian permanent establishments must prepare and maintain annual written documentation describing their group, the Norwegian entities and their significant controlled transactions and dealings with related parties. To avoid a deemed tax assessment, such documentation must be presented to the tax authorities no later than 45 days after it has been requested. The statutory limitation for providing such documentation is 10 years.

Companies that meet the following criteria for the relevant tax year are exempt from the documentation requirements:

- The real value of the controlled (intercompany) transactions is less than NOK10 million during the fiscal year.
- At the end of the relevant tax year, the intercompany loans, debts, guarantees and receivables amount to less than NOK25 million.

In addition, Norwegian entities belonging to a group of companies with less than 250 employees may be exempted from the above-mentioned documentation requirements if the group has consolidated sales revenue of less than NOK400 million or a consolidated total balance of less than NOK350 million. The exemption does not apply if the Norwegian entity has controlled transactions with related parties located in countries from which Norwegian tax authorities cannot request exchange of information

under a treaty. The exemption also does not apply to companies subject to tax under the Norwegian Petroleum Tax Act.

**Country-by-Country Reporting.** Norway has introduced Country-by-Country Reporting (CbCR) requirements that mainly follow OECD BEPS Action 13 requirements. The CbCR requirements apply to Norwegian entities that are part of a multinational group of companies with consolidated turnover exceeding NOK6.5 billion for financial years beginning on or after 1 January 2016. Any Norwegian entity that is part of such group of companies must notify the Norwegian tax authorities about the reporting entity for the group in the annual tax return concerning the reporting year, at the latest.

## F. Treaty withholding tax rates

Interest and royalties paid to foreign recipients are not subject to withholding tax under Norwegian domestic law. Consequently, the table below provides treaty withholding tax rates for dividends only. The introduction of withholding tax on interest and royalty payments is currently being discussed, but a proposal has not yet been published.

	Dividends (a)	
	Normal rate	Reduced rate
	%	%
Albania	15	5 (c)
Argentina	15	10 (c)
Australia	15	0/5 (o)
Austria (a)	15	0 (p)
Azerbaijan	15	10 (k)
Bangladesh	15	10 (d)
Barbados	15	5 (d)
Belgium (a)(b)	15	5 (c)
Benin	18	–
Bosnia and Herzegovina (f)	15	–
Brazil (l)	25	–
Bulgaria	15	0/5 (d)(m)
Canada	15	5 (d)
Chile	15	5 (c)
China (mainland) (n)	15	–
Côte d'Ivoire	15	–
Croatia (f)	15	–
Cyprus (a)	15	0 (d)
Czech Republic (a)	15	0 (d)
Denmark (a)		
(Nordic Treaty)	15	0 (d)
Egypt (b)	15	–
Estonia (a)	15	5 (c)
Faroe Islands		
(Nordic Treaty)	15	0 (d)
Finland (a)		
(Nordic Treaty)	15	0 (d)
France (a)	15	0/5 (i)
Gambia	15	5 (c)
Georgia	10	5 (d)
Germany (a)	15	0 (c)
Greece (a)	20	–
Greenland	15	5 (d)
Hungary (a)	10	–

	Dividends (a)	
	Normal rate %	Reduced rate %
Iceland (a)		
(Nordic Treaty)	15	0 (d)
India	10	—
Indonesia	15	—
Ireland (a)	15	5 (d)
Israel (b)	15	5 (g)
Italy (a)(b)	15	—
Jamaica	15	—
Japan	15	5 (c)
Kazakhstan	15	5 (d)
Kenya	25	15 (c)
Korea (South)	15	—
Latvia (a)(b)	15	5 (c)
Lithuania (a)	15	5 (c)
Luxembourg (a)	15	5 (c)
Macedonia	15	10 (c)
Malawi	15	5 (d)
Malaysia (b)	0	—
Malta (a)	15	0 (s)
Mexico	15	0 (c)
Montenegro (f)	15	—
Morocco	15	—
Nepal	15	5/10 (h)
Netherlands (a)	15	0 (c)
Netherlands Antilles	15	5 (c)
New Zealand (b) (v)	15	5
Pakistan	15	—
Philippines	25	15 (d)
Poland (a)	15	0 (d)
Portugal (a)	15	5 (t)
Qatar	15	5 (d)
Romania	10	5 (d)
Russian Federation	10	—
Senegal	16	—
Serbia	15	5 (c)
Sierra Leone	5	0 (g)
Singapore (b)	15	5 (c)
Slovak Republic (b)	15	5 (c)
Slovenia	15	0 (r)
South Africa	15	5 (c)
Spain (a)	15	10 (c)
Sri Lanka	15	—
Sweden (a)		
(Nordic Treaty)	15	10 (d)
Switzerland (b)	15	0 (d)
Tanzania	20	—
Thailand	15	10 (d)
Trinidad and Tobago	20	10 (c)
Tunisia	20	—
Turkey	15	5 (q)
Uganda	15	10 (c)
Ukraine	15	5 (c)
United Kingdom (a)	15	0 (u)
United States (b)	15	—

	Dividends (a)	
	Normal rate	Reduced rate
	%	%
Venezuela	10	5 (d)
Vietnam	15	5/10 (j)
Zambia	15	—
Zimbabwe	20	15 (c)
Non-treaty jurisdictions	25	—

- (a) Dividends paid to corporate residents of EEA member states are exempt from withholding tax if the EEA resident company is really established in its home country.
- (b) A revision of this treaty is currently being negotiated. The revised treaty with Belgium has been signed, but has not yet entered into force. Also, see the first paragraph after the footnotes.
- (c) The treaty withholding rate is increased if the recipient is not a company owning at least 25% of the distributing company.
- (d) The treaty withholding rate is increased if the recipient is not a company owning at least 10% of the distributing company. For Poland, the 0% rate applies if the Polish company owns directly at least 10% of the capital in the Norwegian company for an uninterrupted period of at least 24 months.
- (e) Norway honors the Czechoslovakia treaty with respect to the Slovak Republic. Norway has entered into a tax treaty with the Czech Republic. The withholding tax rates under the Czech Republic treaty are shown in the above table.
- (f) Norway honors the suspended Yugoslavia treaty with respect to Bosnia and Herzegovina, Croatia and Montenegro.
- (g) The treaty withholding rate is increased if the recipient is not a company holding at least 50% of the voting power of the distributing corporation.
- (h) The 5% rate applies if the recipient is a company owning at least 25% of the distributing company. The rate is increased to 10% if the recipient is a company owning at least 10%, but less than 25%, of the distributing company. For other dividends, the rate is 15%.
- (i) The 0% rate applies if the recipient company owns at least 25% of the capital in the Norwegian company. The 5% rate applies if it owns at least 10% of the capital in the Norwegian company but less than 25%. The 15% rate applies if the beneficial owner owns less than 10% of the capital in the Norwegian company.
- (j) The 5% rate applies if the recipient of the dividends owns at least 70% of the capital of the Norwegian payer. The rate is increased to 10% if the recipient owns at least 25%, but less than 70%, of the Norwegian payer. For other dividends, the rate is 15%.
- (k) The treaty withholding rate is increased to 15% if the recipient is not a company that satisfies both of the following conditions:
- It owns at least 30% of the capital of the distributing company.
  - It has invested more than USD100,000 in the payer.
- (l) Norway has signed a protocol to its tax treaty with Brazil, but the protocol has not yet entered into force.
- (m) The 0% rate applies if the dividends are paid to statutory bodies or institutions owned more than 75% by the government of Bulgaria.
- (n) The Hong Kong and Macau Special Administrative Regions (SARs) are not covered by the China treaty.
- (o) The 5% rate applies if the Australian company holds at least 10% of the voting power in the Norwegian company; the 0% rate applies if more than 80% of the voting power is held, subject to several conditions.
- (p) The 0% rate applies if the recipient is a company.
- (q) The 5% rate applies if the dividends are exempt in Norway and if they are derived by either of the following:
- A beneficial owner (other than a partnership) who holds directly at least 20% of the capital in the Norwegian company
  - The Government Social Security Fund (Sosyal Güvenlik Fonu)
- (r) The treaty withholding rate is increased if the recipient is not a company owning at least 15% of the distributing company.
- (s) The 0% rate applies if the beneficial owner is one of the following:
- A company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends on the date on which the dividends are paid if it has maintained that holding for an uninterrupted 24-month period or if it will maintain that holding for an uninterrupted 24-month period in which that date falls
  - A statutory body or an institution wholly or mainly owned by the government of Malta or the Central Bank of Malta



- (t) The treaty withholding tax rate is increased if the recipient is not a company directly owning at least 10% of the distributing company for the last 12 months. If the distributing company has existed for less than 12 months, the recipient must satisfy the 10% condition since the date on which the distributing company was established.
- (u) The treaty withholding tax rate is increased if the recipient is not a company owning, directly or indirectly, at least 10% of the distributing company or is a pension scheme.
- (v) A most-favored nation (MFN) clause may apply with respect to dividends, interest and royalties. The MFN clause states that if New Zealand concludes a convention with another OECD member state that provides for a lower rate, New Zealand will inform the government of Norway and enter into negotiations with a view to providing comparable treatment.

In addition to the countries mentioned in footnotes (b) and (l) above, Norway is currently negotiating a tax treaty with Liechtenstein.

Norway has entered into exchange-of-information tax treaties with Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Belize, Bermuda, Botswana, British Virgin Islands, Brunei Darussalam, Cayman Islands, Cook Islands, Costa Rica, Dominica, Gibraltar, Grenada, Guernsey, the Hong Kong SAR, Isle of Man, Jersey, Liberia, Lichtenstein, Macau, Marshall Islands, Mauritius, Monaco, Montserrat, Niue, Panama, St. Lucia, Samoa, Seychelles, St. Kitts and Nevis, St. Vincent and the Grenadines, San Marino, the Turks and Caicos Islands, the United Arab Emirates, the United States and Uruguay.

In addition, Norway is currently negotiating exchange-of-information tax treaties with Guatemala (signed 15 May 2012, but not yet in force) and Vanuatu (signed 13 October 2010, but not yet in force).

# Oman

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*The Income Tax Law (ITL), which is effective from the tax year beginning on 1 January 2010, was published in the Official Gazette on 1 June 2009. The Executive Regulations (ERs), which provide clarifications to certain provisions of the ITL, were issued on 28 January 2012 through Ministerial Decision (MD) 30/2012.*

*Royal Decree (RD) 9/2017 published in the Official Gazette on 26 February 2017 amended certain provisions of the ITL. RD 9/2017 was issued in Arabic, and it became effective from 27 February 2017. The official English translation of RD 9/2017 and ERs clarifying certain*

*provisions of RD 9/2017 are yet to be issued by the Secretariat General for Taxation (SGT).*

## A. At a glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15
Branch Tax Rate (%)	15
Withholding Tax (%)	10 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (c)

- (a) The rate for Small and Medium-Sized Enterprises is 3%. For further information regarding corporate income tax rates, see Section B.
- (b) This tax is imposed on certain payments to foreign persons that do not have a permanent establishment in Oman or have a permanent establishment in Oman but such payments do not form part of the gross income of that permanent establishment in Oman. Companies or permanent establishments in Oman that pay these items must deduct tax at source and remit it to the Secretary General for Taxation (for a listing of these items, see Section B).
- (c) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies, which include Omani companies, partnerships, joint ventures and sole proprietorships, and permanent establishments of foreign companies are subject to Omani income tax. A permanent establishment, which is defined in the law, also includes a building site, a place of construction or an assembly project if it lasts for a period of more than 90 days. In addition, a permanent establishment is created for a foreign person providing consultancy or other services in Oman through employees or designated agents visiting Oman for at least 90 days in any 12-month period.

Omani companies and Omani sole proprietorships are subject to tax on overseas income (income accrued from a source outside Oman). However, a foreign tax credit limited to Oman's tax rate of 15% is available against the tax payable in Oman.

Under amendments contained in RD 9/2017, taxability of Gulf Co-operation Council (GCC) country citizens or a GCC-owned company is based on a 2001 economic agreement between the GCC member states.

**Rates of corporate income tax.** Companies registered in Oman, regardless of the extent of foreign participation, and permanent establishments of foreign companies are subject to tax at a rate of 15% on their taxable income. RD 9/2017 removed the statutory exemption limit of OMR30,000.

Oil exploration and production companies are taxed at a rate of 55% and are usually covered by special rules contained in concession agreements. Exploration and production sharing agreements (EPSAs) signed between the government of Oman and concession partners provide detailed procedures for computing taxable income and settlement of tax due. Under an EPSA, the government of Oman settles tax due on behalf of the concession partner out of the government's share of production.

Foreign shipping and aviation companies are exempt from tax in Oman if the Omani shipping and aviation companies enjoy simi-

lar reciprocal treatment in the respective foreign countries. Omani companies and sole proprietorships engaged in shipping are exempt from tax.

Income derived by investment funds established in Oman and by funds established outside Oman dealing in Omani securities listed in the Muscat Securities Market (MSM) is exempt from tax. These exemptions are for indefinite periods.

Tax holidays are available to companies engaged in industrial activities. The exemption is restricted to five years, subject to the fulfillment of certain conditions.

No income can be exempt from tax unless provided by a law or Royal Decree.

**Small and Medium-Sized Enterprises.** Under RD 9/2017, Small and Medium-Sized Enterprises (SMEs) are now taxed at 3%, effective from 1 January 2017. For an entity to be considered as an SME, certain prescribed criteria must be fulfilled.

SMEs must submit only a final return of income within three months after the end of the accounting period, together with the statement of income on a cash basis. Regulations for the deductibility of expenses and losses carried forward have not yet been issued for SMEs.

Exemption from the 3% tax is available to SMEs, subject to certain conditions.

**Capital gains.** No special rules apply to capital gains. Capital gains are taxed as part of regular business income at the rates set out in *Rates of corporate income tax*.

The tax law provides that profits and gains derived from disposals of all assets, including disposals of goodwill, trade names or trademarks with respect to all or part of a business, are included as deemed income.

Gains derived from the sale of investments and securities listed on the MSM are exempt from tax.

**Withholding tax.** Withholding tax at a rate of 10% of gross payments is imposed on certain gross payments made to foreign companies, including the following:

- Dividends
- Interest
- Royalties (see below)
- Consideration for research and development
- Fees for management or performance of services
- Consideration for the use of or right to use computer software

Entities in Oman, including permanent establishments, are responsible for deducting and remitting tax to the government. The tax is final. Foreign persons do not have any further filing or other obligations with respect to such income.

If a foreign company has a permanent establishment in Oman, but the permanent establishment in Oman is unconnected to the receipt of income that is subject to withholding tax, withholding tax applies to such payments.

Royalties include payments for the use of or right to use software, intellectual property rights, patents, trademarks, drawings, equipment rentals, consideration for information concerning industrial, commercial or scientific experience, and concessions involving minerals.

Under RD 9/2017, dividends paid to foreign persons from publicly listed shares are subject to withholding tax at 10% of gross payments, effective from 27 February 2017. The applicability of withholding tax on interest and payments for services is an evolving issue for which taxpayers should seek advice before making decisions.

Effective from 27 February 2017, responsibility to deduct withholding tax is extended to ministries, public establishments and other government administrative bodies.

### **Administration**

*General.* A taxpayer is required to register with the SGT by filing a declaration of details related to the entity (Income Tax Forms Nos. 2 to 5) within a period of three months after the date of incorporation or commencement of activities, whichever is earlier. Any changes to the registration information must be communicated within two months by submitting a form entitled “Declaration of modification to the details related to the taxpayer” (Income Tax Form No. 6).

*Tax card.* Under an amendment contained in RD 9/2017, a request for a tax card must be submitted to the SGT within 60 days after the date of incorporation or commencement of business or within one month after the date of any change in data of an entity. The allotted card number and date must be included in all the invoices, contracts and correspondence. Additional details, such as the effective date for tax cards, will emerge once the ERs to the amendments in RD 9/2017 are issued.

*Accounting period.* The accounting period begins on the date of commencement of business for joint ventures and permanent establishments. For companies, the start date is the date of registration or incorporation. The first accounting period may be less than 12 months but cannot exceed 18 months. The accounting period may be changed with the approval of the SGT.

*Books of accounts.* Books of accounts are required to be maintained for a period of 10 years. Permission is required for maintaining books of accounts in a foreign currency. In such a case, income must be converted at exchange rates prevailing on the last day of the accounting year, as published by the Central Bank of Oman. The accrual method of accounting must be used.

*Principal Officer.* The term “Principal Officer” is defined for various entities. If a permanent establishment carries on an activity in Oman through a dependent agent, the agent is treated as Principal Officer. If a sole proprietor or owner of a permanent establishment is outside Oman, the individual or permanent establishment must designate a Principal Officer to comply with the obligations under the law. Such Principal Officer may not be absent from Oman for more than 90 days in a tax year.

Partners of joint ventures are jointly and severally liable for taxes of the joint venture.

*Returns.* Provisional returns of income must be filed within three months after the year-end. A final return of income, together with audited financial statements, must be filed within six months after the end of the accounting year. Amendments contained in RD 9/2017 introduced a system of electronic filing of tax returns. However, e-filing regulations have not yet been prescribed.

*Assessments.* Assessments must be issued within three years from the end of the year in which tax returns are filed. If no assessment is issued within a period of three years, such assessments are deemed to have been issued (that is, tax returns are accepted as filed).

Rectification, revision or additional assessment may be done by SGT within three years after the date of the original assessment. However, in a case of fraud or deception, the statutory timeline for assessment is extended up to five years. If a tax return is not submitted for a tax year, the time limit for making an assessment is five years from the end of the tax year for which the tax return is due.

Assessed tax, reduced by tax already paid, must be paid within 30 days from the date of issuance of the assessment. A delay results in a fine of 1% per month on taxes due for the period of delay. If a refund is assessed, the refund must be claimed within five years from the end of the year in which such refund is due.

Assessments are made with respect to withholding tax. Under an amendment contained in RD 9/2017, assessments can be issued in cases in which withholding tax is not paid by the taxpayer.

RD 9/2017 introduced a system of sample basis selection for investigation before the issuance of an assessment. However, regulations on sampling and other procedures have not yet been issued.

*Statutory periods of limitation.* For the period of limitation related to assessments, see *Assessments*.

The government's right to collect taxes expires after seven years from the date taxes became due and payable, unless the tax authority initiates action to recover taxes.

*Appellate processes.* An objection against an assessment order must be filed with the SGT. Other appellate procedures are an appeal with the Tax Committee, a tax suit filed in the primary court, an appeal to the appellate court, and finally a case before the Supreme Court.

An objection against an assessment must be filed within 45 days from the date of serving of the assessment order. An appeal must be submitted within 45 days from the date of the decision on the objection or the date of expiration of the specified period for deciding on the objection if no decision is issued.

The time limit for consideration of the objection is five months, with an extension of an additional three months. If no decision is issued, an implied rejection of the objection is deemed to occur.

A taxpayer can seek extension of time for the payment of disputed tax. However, the undisputed tax must be paid within 30 days after the date of assessment.

Stringent penalties are imposed for noncompliance with the procedural requirements and any understatement of income or profits.

**Dividends.** Dividends received by Omani companies, permanent establishments of foreign companies or Omani sole proprietorships from Omani companies are exempt from tax.

**Foreign tax relief.** A foreign tax credit limited to Oman's tax rate of 15% is available against the tax payable in Oman on overseas income of Omani companies and sole proprietors.

### C. Determination of trading income

**General.** Tax is levied on the taxable income earned by Omani companies, permanent establishments of foreign companies and Omani sole proprietorships. Financial accounts must be prepared using the accrual basis of accounting.

Gains on the disposal of goodwill and trademarks are deemed to be taxable income.

Income arising before registration or incorporation is considered to be taxable income in the first year after registration. The market value of assets received in exchange for other assets is considered to be the disposal value, suggesting that mergers may give rise to a taxable event.

Other types of income such as payments on insurance claims, debts recovered in subsequent periods, balancing charges and reversals of liabilities, are treated as income subject to tax.

Expenses are deductible only if they are incurred wholly and exclusively for the purpose of production of gross income. If only a portion of the expense is incurred for the purpose of income generation, the proportionate expense attributable to the income generated is allowed as a deduction. Expenses incurred before registration, incorporation or the commencement of business are deemed to be incurred on the day on which business commences and are deductible in the first year of commencement of operations.

Expenses that are incurred in generating tax-exempt income are not allowed as deductions.

Special rules apply to allowances, such as depreciation, bad debts, donations, remuneration of shareholders, proprietors and directors, rent, head-office overhead allocated to branches, interest paid to related parties and sponsorship fees. Exchange differences relating to head-office or related-party balances are normally disregarded.

Foreign taxes are not deductible for tax purposes. However, foreign taxes can be set off against taxes due on the same income in Oman (see Section B).

**Inventories.** The income tax law does not stipulate a required method of accounting for inventories. In general, inventories are valued at the lower of cost or net realizable value, with cost determined using the weighted average or first-in, first-out (FIFO) method. Provisions to reduce the value to net realizable value are not allowed for tax purposes.

**Provisions.** In general, provisions are not allowed as deductible expenses when created. However, they are allowed as deductions when they are written off or utilized. Exceptions to this rule include the following:

- Provisions for loan losses are deductible for tax purposes for banks and other financial companies regulated by the central bank.
- Provisions for unexpired risks, unsettled claims and contributions to contingency funds are deductible for tax purposes for insurance companies.

**Tax depreciation.** Depreciation of assets other than buildings must be calculated using the pooling (or block) of assets method. Each pool's asset base is calculated with reference to the written-down value plus additions minus sale proceeds from disposals.

The straight-line depreciation method applies to buildings.

The following annual depreciation rates are set out under the tax law.

Assets	Rate (%)
Permanent buildings (selected materials)	4
Building (other than selected materials)	15
Quays, jetties, pipelines, road, railways	10
Ships and aircraft	15
Drilling rigs	10
Other machinery and equipment	15
Tractors, cranes and other heavy equipment	33½
Computers, vehicles, self-propelling machines	33½
Furniture and fixtures (including computer software and copyrights)	33½
Hospital buildings and educational establishments	100

The rate for intangible assets is determined by the Secretary General of Taxation.

**Relief for losses.** Losses may be carried forward for five years. Losses of an earlier year must be set off first before using losses of a later year.

Companies that are exempt from tax because they carry on activities set out in Section B may carry forward net losses incurred during the first five years of exemption for an indefinite period.

No carryback of losses is permitted.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Social security contributions, on "monthly wage" of Omani employees only, effective from 1 July 2014; "monthly wage" is defined as "all amounts paid to the insured in cash or in kind or periodically or regularly for his work whatever the method used for its determination, or is the sum of basic wages plus allowances, which shall be determined	



<b>Nature of tax</b>	<b>Rate</b>
by a decision of the Minister after the approval of the Board of Directors"; the amount (wage) is capped at OMR3,000 per month	
Pension fund; paid by	
Employer	10.5%
Employee	7%
Government	5.5%
Occupational injuries and diseases; payable by employer	1%
End-of-service benefit payable to expatriate staff on the termination of service	15 days of basic salary for each of the first 3 years and 30 days' basic salary for years of service in excess of 3 years
Vocational training levy for each non-Omani employee; paid biennially by employer	OMR350

### **E. Miscellaneous matters**

**Anti-avoidance legislation.** If a company carries out a transaction with a related party that is intended to reduce the company's taxable income, income arising from such transaction is deemed to be the income that would have arisen had the parties been dealing at arm's length.

For transactions between related parties that are not at arm's length, certain arrangements and terms may be ignored by the tax authorities if such arrangements or terms result in lower taxable income or greater losses.

The tax authorities may make adjustments if the principal purpose of a transaction is to avoid taxation even if the transaction is between unrelated parties.

**Thin-capitalization rules.** Under the ITL, interest payable by Omani companies other than banks and insurance companies may be deducted from taxable income, subject to the satisfaction of certain conditions prescribed by the ERs.

The ERs provide that interest on loans from related parties paid by Omani companies other than banks and insurance companies may be deductible if total loans do not exceed twice the value of the shareholder's equity.

The above provision introduces the concept of thin capitalization requiring Omani companies to comply with a minimum capital requirement, which is that loans may not exceed a debt-to-equity ratio of 2 to 1.

**Transfer pricing.** The tax law has introduced the concept of transfer pricing. It seeks to restrict any measures that may be taken by related parties for the avoidance of tax through transactions entered into between them.

Oman has recently joined the Base Erosion and Profit Shifting (BEPS) Inclusive Framework. By joining this framework, Oman has committed to implementing four minimum standards of the BEPS package, relating to Actions 5, 6, 13 and 14. Action 13 requires transfer pricing and Country-by-Country Reporting. Oman is now expected to enact legislative amendments, the timing of which is subject to its domestic tax regime, the extent of legislative changes and the practical need to prioritize the BEPS measures. As a result of these BEPS changes, taxpayers may be subject to additional reporting and compliance requirements, including a review of their structures to facilitate compliance with the new international standards.

**Head office overhead.** Allocations of overhead by the head office to a branch are capped at the lower of 3% of revenue or actual charges. If the head office has only a supervisory role with respect to a branch, no overhead deduction is allowed.

**Islamic financial transactions.** The taxation of Islamic financial transactions and its exclusions are now covered by the ITL. However, regulations regarding Islamic financial transactions have not yet been issued.

**Others.** Oman does not have any rules relating to foreign-exchange controls or controlled foreign companies.

## **F. Tax treaties**

Oman has entered into double tax treaties with Algeria, Belarus, Brunei Darussalam, Canada, China, Croatia, France, India, Iran, Italy, Japan, Korea (South), Lebanon, Mauritius, Moldova, Morocco, Netherlands, Pakistan, Portugal, Seychelles, Singapore, South Africa, Spain, Switzerland, Sudan, Syria, Thailand, Tunisia, Turkey, the United Kingdom, Uzbekistan, Vietnam and Yemen.

Oman has signed double tax treaties with Belgium, Egypt, Germany and the Russian Federation, but these treaties are not yet in force.

Oman has also entered into treaties with several countries with respect to the avoidance of double taxation on income generated from international air transport.

Certain double tax treaties include the benefit of reduced withholding tax rates. The applicability of reduced tax rates under the provisions of a double tax treaty is not automatic. Companies must apply to obtain the benefit of reduced treaty tax rates. Withholding tax relief is available under double tax treaties with certain countries subject to satisfying certain conditions or requirements.

Oman has also entered into treaties with several countries with respect to the avoidance of double taxation on income generated from international air transport.

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**A. At a glance**

## Corporate Income Tax Rate (%)

## Companies Other than Banking

Companies	30
Banking Companies	35
Capital Gains Tax Rate (%)	— (a)
Branch Tax Rate (%)	30
Withholding Tax (%) (b)	
Dividends	7.5/10/12.5/15/20/25 (c)
Interest	10/17.5 (d)
Royalties from Patents, Know-how, etc.	15/20 (e)
Fees for Technical Services	8/10/12/15 (f)
Branch Remittance Tax	15 (g)
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

- (a) Capital gains are taxed at various rates. For details, see Section B.
- (b) See Section B for a listing of additional withholding taxes.
- (c) The 15% rate is the general tax rate for dividends. The 7.5% rate applies to dividends paid by companies engaged in power generation, by purchasers of power projects privatized by the Water and Power Development Authority or by companies supplying coal exclusively to power generation projects. The 12.5% rate applies to dividends paid to unit holders of stock funds if the amount of the dividend is above PKR2,500,000 and a 10% rate applies if the amount of the dividend is less than or equal to that amount. The 25% rate applies to dividends received by companies from collective-investment schemes, real estate investment trusts (REITs) or mutual funds other than stock funds. The 20% rate applies to dividends paid by companies (other than power projects, stock funds, money market funds, income funds, REITs or other funds) if the recipient is a non-filer (that is, it does not file an income tax return). The withholding tax is imposed on the gross amount of the dividend. The withholding tax on dividends is considered a final discharge of the tax liability on such income (except for banks and the 20% rate for non-filers).
- (d) The withholding tax on interest is considered to be an advance payment of tax, which may be credited against the final tax liability for the year. Interest paid on loans and overdrafts to resident banks and Pakistani branches of nonresident banks and financial institutions is not subject to withholding tax. The withholding tax rate is 10% of the gross amount of interest paid to resident persons and to nonresident persons without a permanent establishment (PE) in Pakistan. The 17.5% rate applies if the recipient is a non-filer. The rate is 20% for nonresidents with a PE in Pakistan.
- (e) The general withholding tax rate for royalties is 15%. This tax is considered to be a final tax for nonresident recipients of royalties. However, if royalties are derived with respect to properties or rights effectively connected with a PE of a nonresident, a 20% withholding tax rate is imposed, unless a non-deduction certificate is obtained by the PE. The 20% withholding tax is credited against the final tax liability.
- (f) Fees for technical services do not include consideration for construction, assembly or similar projects of the recipient (such consideration is subject to various withholding tax rates) or consideration that is taxable as salary. The general withholding tax rate is 15% of the gross amount of the payment. This withholding tax is considered to be a final tax for nonresident recipients. However, if technical services are rendered through a PE in Pakistan, various rates apply depending on whether the service provider is a filer or non-filer. The withholding tax is considered to be an advance payment of tax by the nonresident recipient of such technical service fees and may be credited against the eventual tax liability. For further information, see the table in *Withholding taxes* in Section B.
- (g) Remittances of after-tax profits by branches of nonresident petroleum exploration and production companies are not taxable.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies that are resident in Pakistan are subject to corporation tax on their worldwide income. Tax is levied on the total amount of income earned from all sources in the company's accounting period, including dividends and taxable capital gains. Branches of foreign companies and nonresident companies are taxed only on Pakistan-source income. A company is resident in Pakistan if it is incorporated in Pakistan or if its control and management are exercised wholly or almost wholly in Pakistan during the tax year. Company is defined to include the following:

- A company as defined in the Companies Ordinance, 1984
- A body corporate formed by or under any law in force in Pakistan
- An entity incorporated by or under the corporation law of a country other than Pakistan
- The government of a province
- A local government in Pakistan
- A foreign association that the Federal Board of Revenue declares to be a company
- A modaraba, cooperative society, finance society or other society
- A nonprofit organization
- A trust, entity or a body of persons established or constituted by or under any law
- A small company

**Tax rates.** For the 2018 tax year (income year ending on any day between 1 July 2017 and 30 June 2018), the tax rate is 30%. However, for banking companies, the tax rate is 35%.

Small companies are subject to tax at a rate of 25%.

Small companies are companies incorporated after 1 July 2005 that meet the following conditions:

- They have paid-up capital and undistributed reserves of not exceeding PKR50 million.
- They have no more than 250 employees at any time during the year.
- They have annual turnover not exceeding PKR250 million.
- They were not formed as a result of a restructuring involving the splitting up or reorganization of an already existing business.

The 2015 Finance Act introduced a super tax for rehabilitation of temporarily displaced persons for the 2015 tax year. This tax has been extended to the 2016 and 2017 tax years. For further details regarding this tax, see *Super tax*.

The 2015 Finance Act also introduced a tax on undistributed reserves, which applies for the 2015 tax year and future years. For further details regarding this tax, see *Tax on undistributed reserves*.

The gross revenue of nonresidents' air transportation and shipping businesses is taxed at 3% and 8%, respectively. This income is not subject to any other tax.

The shipping business of resident persons is taxed on the basis of registered tonnage per year.

Builders and developers are subject to tax at varying rates depending on the size of the property.

Certain types of income are subject to final withholding taxes. For information regarding these taxes, see Section A and *Withholding taxes*.

**Super tax.** The 2015 Finance Act introduced a super tax for rehabilitation of temporarily displaced persons for the 2015 tax year, and the 2016 Finance Act extended the tax to the 2016 tax year. The 2017 Finance Act further extended this tax to the 2017 tax year. This tax is imposed at a rate of 3% of the specified income of companies (other than banking companies) that have income of PKR500 million or more. All banking companies must pay the super tax at a rate of 4% of their income, regardless of the amount of their income.

**Tax on undistributed reserves.** The 2015 Finance Act introduced a tax on undistributed reserves, which applies for the 2015 tax year and future years. This tax is imposed on a public company (other than banking company) that derives profits for a tax year but does not distribute cash dividends within six months of the end of such tax year or distributes cash dividends to such an extent that its reserves, after such distribution, at the end of the tax year exceed its total paid-up capital. The amount by which the reserves exceed the total paid-up capital is treated as income and is subject to tax at a rate of 10%.

The 2017 Finance Act amended the tax on undistributed reserves. Under the amendment, which applies for the 2017 tax year and future years, a tax at a rate of 7.5% of accounting profits before tax is levied on every public company that derives profits but does not distribute at least 40% of its after-tax profits within six months after the end of the year through the distribution of cash or bonus shares. The 7.5% tax replaces the 10% tax mentioned in the preceding paragraph.

**Alternative corporate tax.** The 2014 Finance Act introduced an alternate corporate tax, which is effective from the 2014 tax year. If the corporate tax is less than 17% of the accounting income (excluding certain types of income and related expenses), alternative corporate tax is required to be paid as minimum tax. The difference between the corporate tax and alternative corporate tax can be carried forward to offset corporate tax for a maximum period of 10 years.

**Tax incentives.** Some of the significant tax incentives available in Pakistan are described in the following paragraphs.

Private sector projects engaged in the generation of electricity are exempt from tax. However, this exemption is not available to oil-fired electricity generation plants set up during the period of 22 October 2002 through 30 June 2006.

Income derived from instruments of redeemable capital, as defined in the Companies Ordinance, 1984, by the National Investment (Unit) Trust of Pakistan established by the National Investment Trust Limited or by mutual funds, investment companies or collective-investment schemes approved by the Securities and Exchange Commission is exempt from tax if such enterprises distribute at least 90% of their profits to their unit holders.

Income derived by a collective-investment scheme or real estate investment trust scheme is exempt from tax if at least 90% of the scheme's accounting income for the year, reduced by realized and unrealized capital gains, is distributed among the unit or certificate holders or shareholders.

Income derived from the export of computer software developed in Pakistan and related services is exempt from tax until 30 June 2019.

A tax credit of 10% of the amount invested by a company that is an industrial undertaking for the purchase of plant and machinery for the purposes of extension, expansion, balancing, modernization and replacement in an industrial undertaking set up in Pakistan and owned by the company may be claimed against the tax payable if the plant and machinery is purchased and installed between 1 July 2010 and 30 June 2019. Any unused tax credit may be carried forward to the following two tax years.

A tax credit is allowed for a period of five years to a company if the following conditions are satisfied:

- The company is incorporated, and an industrial undertaking is set up during the period of 1 July 2011 through 30 June 2019.
- At least of 70% of the investment in such industrial undertaking is equity.

The percentage of the tax credit equals the ratio between the equity raised through the issuance of new shares and the amount of investment made in setting up the new industrial undertaking.

A tax credit is allowed to a company that is set up in Pakistan before 1 July 2011 if it invests any amount with 100% new equity raised through issuance of new shares in the purchase and installation of plant and machinery for an industrial undertaking, for the expansion of plant or machinery already installed or for the undertaking of a new project. The credit is allowed against the tax payable for a period of five years. The credit is calculated by applying the proportion of new equity to total equity including new equity against the tax payable.

A tax credit equal to 20% of the amount of investment is allowed to a company that is set up in Pakistan before 1 July 2011 and that makes an investment during the period of 1 July 2011 through 30 June 2016 with 100% new equity raised through the issuance of new shares, for the purpose of balancing, modernization and replacement of plant and machinery already installed in an industrial undertaking owned by a company. The tax credit may be carried forward up to five years.

A tax credit is allowed in the tax year in which a company becomes listed on a registered stock exchange in Pakistan and in the following three tax years. The tax credit equals of 20% of the tax payable in the first two years and 10% of the tax payable in the next two years.

A tax credit is available for 10 years to a company formed to establish and operate a new manufacturing unit set up between 1 July 2015 and 30 June 2019. The tax credit equals 2% of the tax payable for every 50 employees registered with the social security institutions of the federal and provincial governments. The total tax credit is restricted to 10% of the total tax payable.



The corporate tax rate is reduced to 20% for a period of five years for a company setting up an industrial undertaking between 1 July 2014 and 30 June 2017 through foreign direct investment of at least 50% of the cost of the project, including working capital.

The corporate tax rate is reduced by 2% for a company whose shares are traded on a stock exchange subject to certain conditions.

**Capital gains.** Capital gains on shares of public companies, vouchers of the Pakistan Telecommunication Corporation, modaraba certificates, instruments of redeemable capital, debt securities and derivative products are taxable. The tax rates for the 2018 tax year for capital gains on securities are shown below.

If the acquisition date of the securities was before 1 July 2013, the rate is 0% for both filers and non-filers.

The following are the rates if the acquisition date for the securities was between 1 July 2013 and 30 June 2016:

- Holding period of less than 12 months: 15% for filers and 18% for non-filers
- Holding period of 12 months or more but less than 24 months: 12.5% for filers and 16% for non-filers
- Holding period of 24 months or more: 7.5% for filers and 11% for non-filers

If the acquisition date of the securities is on or after 1 July 2016, the rates are 15% for filers and 20% for non-filers, regardless of the holding period.

For capital gains on future commodity contracts entered into by members of the Pakistan Mercantile Exchange, the rate is 5% for both filers and non-filers.

Capital gains on other assets (including non-public securities) are taxable at the corporate rate. However, only 75% of capital gains derived from transfers of capital assets, excluding immovable properties and assets on which tax depreciation or amortization is claimed, is taxed if the assets were held for more than 12 months.

Capital gains on the disposal of listed securities and the tax payable on the gains are computed, determined, collected and deposited on behalf of a taxpayer by the National Clearing Company of Pakistan Limited (NCCPL), which is licensed as a clearing house by the Securities and Exchange Commission of Pakistan. However, the NCCPL does not collect tax from the following categories of the taxpayers:

- Mutual funds
- Banking companies, nonbanking finance companies and insurance companies
- Modarabas
- Companies, with respect to debt securities only
- Other persons or classes of persons notified by the Federal Board of Revenue

The investors listed above are required to self-pay their capital gain tax obligation on a quarterly basis at a rate of 1.5% or 2% of the amount of gain, depending on the holding period of the securities. They must file a statement of advance tax and pay the tax within 21 days after the end of each quarter.

Capital gains arising on immovable property that is acquired on or after 1 July 2016 and that is held for a period of up to three years by a person are subject to tax at the following rates:

- Immovable property held for a period of up to one year: 10%
- Immovable property held for a period of more than one year but up to two years: 7.5%
- Immovable property held for a period of more than two years but up to three years: 5%

For immovable property that is acquired before 1 July 2016 and that is held for a period of up to three years, the rate is 5%.

Capital losses can be offset only against capital gains. Capital losses can be carried forward for six years. However, capital losses on disposals of securities (shares of public companies, vouchers of the Pakistan Telecommunication Corporation, Modaraba Certificates, instruments of redeemable capital and derivative products) can be set off only against capital gains on disposal of securities in the current year.

### **Administration**

*Filing requirements.* The tax year commences on 1 July and ends on 30 June. Companies are required to end their fiscal years on 30 June. Special permission is required from the Commissioner of Inland Revenue to use a different year-end. The Federal Board of Revenue has specified 30 September as the year-end for certain industries, such as sugar and textiles, and 31 December as the year-end for insurance companies.

An income tax return must be filed by 30 September of the following year if the company's year-end is from 1 July through 31 December and by the following 31 December if the year-end is from 1 January through 30 June. Any balance due after deducting advance payments and withholding taxes must be paid when the tax return is filed.

*Advance tax payments.* In general, advance tax is payable quarterly based on the tax to turnover ratio of the latest tax year. However, banking companies must pay advance tax on a monthly basis. If the tax liability is estimated to be more or less than the tax charged for the prior tax year, an estimate of tax liability can be filed and advance tax liability can be paid in accordance with such estimate, subject to certain conditions. For taxpayers other than banking companies, the due dates for the advance tax payments are 25 September, 25 December, 25 March and 15 June. Banking companies must pay advance tax by the 15th day of each month.

Adjustable quarterly advance tax on capital gains from sale of securities is payable on the capital gains derived during the quarter by companies at a rate of 2% if the holding period is less than 6 months and 1.5% if the holding period is between 6 and 12 months.

*Minimum tax.* Resident companies and nonresident banking companies are subject to a minimum income tax equal to 1.25% of gross receipts from sales of goods, services rendered and the execution of contracts, if the corporate tax liability is less than the amount of the minimum tax. The excess of the minimum tax

over the corporate tax liability may be carried forward and used to offset the corporate tax liability of the following five tax years.

*Withholding taxes.* Withholding tax is an interim tax payment that may or may not be the final tax liability. Amounts withheld that are not final taxes are credited to the final tax liability of the taxpayer for the relevant year.

In addition to the withholding taxes listed in Section A, payments by corporations and companies are subject to the following taxes that are deducted or collected at source.

<b>Tax</b>	<b>Rate</b>
Foreign-exchange proceeds from exports of goods	1% (a)
Rent for immovable property	Various (b)
Payments for goods	
Specified goods	1.5%
Fast-moving consumer goods supplied by distributors	2%/2.5%
Other goods	
Payments to companies	
Filers (see footnote [c] to Section A)	4% (c)
Non-filers (see footnote [c] to Section A)	7% (c)
Payments to PEs of nonresidents	
Filers	4%
Non-filers	7%
Payments to others	
Filers	4.5%
Non-filers	7.75%
Imports of goods	
By industrial undertakings and companies	
Filers	5.5% (d)
Non-filers	8% (d)
By other taxpayers	
Filers	6%
Non-filers	9%
Payments under executed contracts for construction, assembly and similar projects by companies and contractors	
Filers	7% (e)
Non-filers	13% (e)
Sportspersons	10%
Payments for services	
Rendered by residents	
Transportation services	2%
Electronic and print media advertising services	
Filers	1.5%
Non-filers	
Companies	12%
Other taxpayers	15%
Other services	
By companies	
Filers	8% (f)
Non-filers	14.5% (f)
By other taxpayers	
Filers	10% (f)
Non-filers	17.5% (f)

Tax	Rate
Rendered by nonresidents through PEs	
Transportation services	2%
Other services	
By companies	
Filers	8%
Non-filers	14%
By other taxpayers	
Filers	10%
Non-filers	17.5%
Brokerage and commission	
Indenting commission	5% (a)(g)
Advertising agents	
Filers	10% (a)(g)
Non-filers	15% (a)(g)
Life insurance agents whose commission is less than PKR500,000 per year	
Filers	8% (a)(g)
Non-filers	16% (a)(g)
Other commission and brokerage	
Filers	12% (a)(g)
Non-filers	15% (a)(g)
Advertisement services by a nonresident person relaying from outside Pakistan (broadcasting an advertisement into Pakistan from outside the country)	7%/13% (a)
Advertisement services performed by nonresident media persons	10% (a)
Payments to employees	– (g)(h)
Commission earned by members of stock exchange	0.02% (i)
Cash withdrawals exceeding PKR50,000	0.3%/0.6% (j)
Purchases of domestic air tickets	5%
Purchases of international air tickets other than economy class	
First or executive class	PKR16,000 per person
Others excluding economy class	PKR12,000 per person
Payments to distributors, dealers and wholesalers for specified goods	0.1%/0.2%/0.7%/1.4% (k)
Transfers of immovable property	1%/2%/4% (l)
Sales to retailers	0.5%/1% (m)
Cable operators	Various (n)
Internet protocol television (IPTV), FM radios, mobile television, satellite television channels and landing rights (tax collected from licensee)	20% (o)
Dealers, commission agents and arhatis (middlemen) and similar persons	Various (p)
Payments for holding functions and gatherings	5%
Purchase of motor vehicles	Various (q)
Registration of motor vehicles	Various (q)
Electricity consumption	Various (r)
Telephone use including internet and mobile	Various

Tax	Rate
Issuance of bonus shares	5% (s)
Auction of property or goods	10%/15% (t)
Non-cash banking transactions exceeding PKR50,000 in a day	0.6% (u)
Right to use machinery and equipment	10% (a)
Extraction and production of minerals	
Filers	0% (v)
Non-filers	5% (v)

- (a) This tax is a final tax.
- (b) Property income is subject to bottom-line profit taxation. The tax deducted at source may be credited against the eventual tax liability. The rate is 15% for a payment made to a company that is a filer, while the rate is 17.5% for a payment made to a company that is a non-filer. For payments made to individuals or association of persons, the rate ranges from 0% to 20%, depending on the amount of rent.
- (c) Tax deducted on the sale of goods is a final tax for resident companies, other than listed companies, engaged in trading.
- (d) This tax is a final tax for entities engaged in the trading of imported goods. Lower rates may apply to importers or manufacturers of specific goods.
- (e) Nonresident contractors may irrevocably elect to treat the withholding tax as a final tax. The withholding tax is a final tax for all resident contractors other than listed companies.
- (f) The tax withheld is treated as a minimum tax if the tax liability computed on a bottom-line profit basis is less than the amount of the tax withheld.
- (g) This tax is imposed on residents and nonresidents.
- (h) The applicable rate depends on the income earned by the employee for the year.
- (i) The 0.02% rate applies to the traded value (sales price) of shares traded on the stock exchange that relate to the commission earned by the members on the purchase, sale and trading of shares for its clients and investors. The 0.02% tax is considered to be an advance payment of tax, which is credited against the final tax liability of the member of the stock exchange for the year.
- (j) This is an advance tax. The withholding tax is imposed on the entire amount if the aggregate amount withdrawn during a day exceeds PKR50,000.
- (k) The tax is collected by manufacturers and commercial importers at the time of the sale of goods in specified sectors. The tax collected is an advance tax for distributors, dealers and wholesalers. The rates of 0.1% and 0.2% apply to sales of goods other than fertilizers to filers and non-filers respectively, and the rates of 0.7% and 1.4% apply for fertilizer sales to filers and non-filers respectively.
- (l) A person responsible for registering or attesting the transfer of immovable property must collect the tax from the person selling or transferring the property (other than certain persons specified as exempt). The tax collected is an advance tax. Rates of 1% and 2% apply to the gross amount of consideration received on the sale of property by filers and non-filers, respectively, and rates of 2% and 4% apply to the purchase of property with a value exceeding PKR4 million by filers and non-filers, respectively.
- (m) The tax is collected by manufacturers, distributors, dealers, wholesalers or commercial importers at the time of the sale of goods in specified sectors to retailers. The tax collected may be credited against the eventual tax liability.
- (n) The tax is collected by Pakistan Electronic Media Regulatory Authority at the time of issuance or renewal of a license. The amount of tax depends on the category of license. The tax collected may be credited against the eventual tax liability.
- (o) The tax is collected on the permission or renewal fee.
- (p) The market committee collects the tax from dealers, commission agents, arhatis (middlemen), and similar persons on the issuance or renewal of the license. The tax collected may be credited against the eventual tax liability.
- (q) This advance tax is collected by the motor vehicle registration authorities at the time of registration of the vehicle. The rates vary according to the engine capacity of the relevant motor vehicles. The tax rate also depends on whether the taxpayer is a filer or non-filer.
- (r) This advance tax is collected by electric companies at the time of issuance of invoices to consumers. A fixed amount of tax is charged to commercial and industrial consumers if the bill does not exceed PKR20,000. The 5% rate applies to industrial consumers with a bill exceeding PKR20,000. The 12% rate applies to commercial consumers with a bill exceeding PKR20,000. The 7.5% rate applies to domestic consumers with a bill amounting to PKR75,000 or more.

- (s) The issuance of bonus shares is subject to tax in Pakistan. The rate is applied to the value of the bonus shares and is deducted by the issuer company at the time of issuance.
- (t) Specified persons making sales through public auction or auction by tender are required to collect advance tax at a rate of 10% from filers and 15% from non-filers. Tax collected on leases of the right to collect tolls is the final tax.
- (u) Banking companies must collect advance tax from non-filers at the time of the sale of banking instruments and at the time of transfer of funds through banking instruments. The government reduced the tax rate to 0.4% until 31 December 2017. This advance tax is available for adjustment against the eventual tax liability.
- (v) Advance tax must be collected by the provincial authority from leaseholders of mines or persons extracting minerals.

In general, for payments not listed in the above tables or in Section A, withholding tax is imposed at a rate of 20% on payments to nonresidents subject to tax in Pakistan.

*Interest and penalties.* For a failure to file an income tax return by the due date, a penalty equal to 0.1% of the gross tax payable for each day of default is imposed, subject to a maximum penalty of 50% of the gross tax payable. However, if the calculated penalty is less than PKR20,000 or if no tax is payable for that tax year, the penalty is PKR20,000.

In addition, interest and penalties are imposed in the following circumstances:

- Interest at a rate equal to 12% per year is charged if tax payments, including advance tax payments, are not made or are partially paid.
- For non-payment or underpayment of tax, a penalty equal to 5% of the amount of tax in default is imposed. For a second default, a penalty equaling an additional 25% of the amount of tax in default is imposed. For any subsequent defaults, an additional penalty equal to 50% of the amount of tax in default is imposed. For any subsequent defaults, an additional penalty equal to 50% of the amount of tax in default is imposed.
- If income is concealed, a penalty equal to the amount of tax sought to be evaded or PKR25,000, whichever is higher, is levied in addition to the normal tax payable.

The income tax department is required to pay compensation at the Karachi Interbank Offered Rate (KIBOR) plus 0.5% per year on refunds due that have not been paid within three months after the due date, from the expiration of the three months until the date on which the refund is paid.

**Dividends.** Dividends, including remittances of profits by a Pakistan branch to its head office (other than remittances of profits by a Pakistan branch engaged in exploration and production of petroleum), are subject to withholding tax at a general rate of 15%. The withholding tax is considered to be a final discharge of the tax liability. A 7.5%, 10%, 12.5%, 15% (also applicable to non-filers in certain scenarios), 20% or 25% rate is imposed on certain dividends (also, see footnote [c] to Section A). Intercorporate dividends paid within a wholly owned group are exempt from tax.

**Foreign tax relief.** A foreign tax credit is granted to resident companies with respect to foreign-source income at the average rate of Pakistani income tax or the actual foreign tax paid, whichever is less. If foreign income is derived under different heads (categories) of income, the amount of the allowable credit is

applied separately to each head of income. However, income derived under a particular head of income from different locations is pooled together. A credit is allowed only if the foreign income tax is paid within two years after the end of the tax year in which the foreign-source income is derived.

### C. Determination of taxable income

**General.** The determination of taxable income is generally based on the audited financial statements, subject to certain adjustments. Any income accruing or arising, whether directly or indirectly, through or from a PE or any other business connection in Pakistan, through or from any asset, property or source of income in Pakistan, or through the transfer of a capital asset located in Pakistan, is subject to tax.

Expenses incurred to derive income from business that is subject to tax are allowed as deductions to arrive at taxable income. For branches of foreign companies, allocated head-office expenses may be deducted, up to an amount calculated by applying the ratio of Pakistani turnover to worldwide turnover.

**Inventories.** Inventory for a tax year is valued at the lower of cost or net realizable value of the inventory on hand at the end of the year. If a particular item of inventory is not readily identifiable, the first-in, first-out (FIFO) or weighted-average methods may be used. The valuation method should be applied consistently from year to year, but the method may be changed with the prior approval of the tax authorities.

**Provisions.** General provisions for bad debts are not allowed as deductions from income. However, a charge for specific bad debts may be allowed if the debt is accepted by the income tax officer as irrecoverable.

Nonbanking finance companies and the House Building Finance Corporation may claim a deduction equal to 3% of the income from consumer loans for the maintenance of a reserve for bad debts resulting from such loans. In this context, a consumer loan is a loan obtained for personal, family or household purposes and includes debts resulting from the use of a credit card or insurance premium financing.

For advances and off-balance sheet items, banking companies are allowed a provision not exceeding 1% of their total advances. This percentage is increased to 5% with respect to consumers and small and medium-sized enterprises. The provision is allowed if a certificate from the external auditor is furnished by the banking company to the effect that such provisions are based on and are in line with the Prudential Regulations issued by the State Bank of Pakistan. The amount in a provision in excess of the allowable percentage may be carried over to succeeding years.

**Tax depreciation.** Depreciation recorded in the financial statements is not allowed for tax purposes. Tax depreciation allowances are given on assets, such as buildings, plant and machinery, computers and furniture owned by the company and used for business purposes. A depreciation allowance for a full year is allowed in the year the asset is placed in service, but no depreciation allowance is allowed in the year of disposal of the asset.

Depreciation is calculated using the declining-balance method. The following depreciation rates are generally used.

<b>Assets</b>	<b>Annual allowance %</b>
Buildings	10
Furniture and fixtures	15
Machinery and plant, including computer hardware, technical or professional books, ships, aircraft and motor vehicles	15 to 30
Below-ground installations (including offshore) of mineral oil enterprises	100
Offshore platform and production installations of mineral oil enterprises	20

To promote industrial development in Pakistan, certain other allowances relating to capital expenditure have been introduced. These allowances are summarized below.

*Initial allowance.* An initial depreciation allowance is available at a rate of 15% for buildings and at a rate of 25% for all other categories of eligible depreciable assets placed in service in Pakistan. The allowance is granted in the tax year in which the assets are first placed in service in Pakistan and used in the taxpayer's business for the first time, or in the tax year in which commercial production begins, whichever is later.

*First-year allowances.* A first-year depreciation allowance at a rate of 90% is granted for plant machinery and equipment installed by an industrial undertaking established in specified rural and underdeveloped areas. This allowance is granted instead of the initial allowance.

A first-year depreciation allowance at a rate of 90% is granted for plant machinery and equipment installed for generation of alternate energy. This allowance is available to an industrial undertaking set up anywhere in Pakistan and owned and managed by a company. The allowance is granted instead of the initial allowance.

*Amortization of intangibles.* Amortization of intangibles is allowed over the normal useful life of intangibles. If an intangible does not have an ascertainable useful life or if the normal useful life is more than 10 years, for purposes of calculating annual amortization, the normal useful life is considered to be 10 years for the purposes of calculating amortization.

*Amortization of expenses incurred before the commencement of business.* The amortization of expenses incurred before the commencement of business is allowed on a straight-line basis at an annual rate of 20%.

**Relief for losses.** Business losses, other than capital losses and losses arising out of speculative transactions, may be carried forward to offset profit in subsequent years for a period not exceeding six years. Unabsorbed depreciation may be carried forward indefinitely.



Foreign losses can only offset foreign-source income and may be carried forward for a period not exceeding six years.

**Groups of companies.** A group of companies comprising holding companies and subsidiaries in a 100%-owned group can file its tax returns as one fiscal unit, subject to the satisfaction of certain conditions.

In addition, on the satisfaction of certain conditions, group companies can surrender their assessed losses (excluding capital losses and losses brought forward) for the tax year to other group companies. The amount of loss to be surrendered is calculated in the ratio of the percentage of shareholding of the holding company in the subsidiary company.

The option of group taxation is available to group companies that comply with the corporate governance requirement and group designation rules or regulations, as specified by the Securities and Exchange Commission of Pakistan.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Sales tax, on the supply of goods, on the cost of imported goods and on certain services; certain items and classes of persons are exempt	0/17
Excise duties, on specified goods imported or manufactured in Pakistan and on specified services provided or rendered in Pakistan (the government may declare any goods or class of goods exempt)	Various
State and local taxes; an annual trade tax on companies, including branches of foreign companies	Various
Capital value tax; imposed on purchases of immovable property	2.5
Net assets tax ( <i>zakat</i> , a religious levy), on certain assets of companies having a majority of Muslim shareholders who are citizens of Pakistan	2.5
Social security contributions, on salaries of employees (maximum of PKR780 per month)	6
Employees' old-age benefits; based on minimum wages of employees under law of PKR13,000 per month; payable by	
Employer	5
Employee	1

#### E. Miscellaneous matters

**Foreign-exchange controls.** In general, remittances in foreign currency are regulated, and all remittances are subject to clearance by the State Bank of Pakistan. However, foreign currency may be remitted through the secondary market.

**Debt-to-equity rules.** Under the thin-capitalization rules, if the foreign debt-to-equity ratio of a foreign-controlled company (other than a financial institution or a banking company) exceeds

3:1, interest paid on foreign debt in excess of the 3:1 ratio is not deductible.

The State Bank of Pakistan prescribes that borrowers from financial institutions have a debt-to-equity ratio of 60:40. This may be increased for small projects costing up to PKR50 million or by special government permission.

Loans and overdrafts to companies (other than banking companies), controlled directly or indirectly by persons resident outside Pakistan, and to branches of foreign companies are generally restricted to certain specified percentages of the entities' paid-up capital, reserves or head-office investment in Pakistan. The percentage varies, depending on whether the entities are manufacturing companies, semi-manufacturing companies, trading companies or branches of foreign companies operating in Pakistan. No limits apply, however, to companies exporting at least 50% of their products.

To meet their working capital requirements, foreign controlled companies and branches of foreign companies may contract working capital loans in foreign currency that can be repatriated. The State Bank of Pakistan also permits foreign controlled companies to take out additional matching loans and overdrafts in rupees equal to the amount of the loans that may be repatriated. Other loans in rupees are permitted in special circumstances. Certain guarantees issued on behalf of foreign controlled companies are treated as debt for purposes of the company's borrowing entitlement.

## F. Treaty withholding tax rates

The maximum withholding rates provided in the treaties are shown in the following table.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Austria	10/20 (d)	– (b)(g)	20
Azerbaijan	10	10	10
Bahrain	10	10 (b)	10
Bangladesh	15	15 (b)	15
Belarus	10/15 (d)	10 (b)	15
Belgium	10/15 (d)	15 (b)	20 (m)
Bosnia and Herzegovina	10	20	15
Canada	15/20 (d)	25	20 (c)
China (mainland)	10	10	12.5
Denmark	15	15 (b)(f)	12
Egypt	15/30 (q)	15 (t)	15
Finland	12/15/20 (s)	15 (i)	10
France	10/15 (o)	10 (t)	10
Germany	10/15 (v)	20 (b)(i)	10
Hungary	15/20 (p)	15 (b)	15
Indonesia	10/15 (p)	15	15
Iran	5	10	10
Ireland	10 (h)	– (b)(g)	– (e)
Italy	15/25 (r)	30 (t)	30
Japan	5/7.5/10 (a)	10 (b)	10
Jordan	10	10 (b)	10
Kazakhstan	12.5/15 (o)	12.5 (t)	15
Korea (South)	10/12.5 (d)	12.5 (b)	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Kuwait	10	10 (t)	10
Kyrgyzstan	10	10	10
Lebanon	10	10 (b)	7.5
Libya	15	– (g)	– (g)
Malaysia	15/20 (d)	15 (b)(f)	15
Malta	15 (a)	10 (b)	10
Mauritius	10	10 (b)	12.5
Morocco	10	10 (b)	10
Nepal	10/15 (a)	10/15 (f)(i)	15
Netherlands	10/20 (p)	20 (b)(l)	5/15 (j)
Nigeria	12.5/15 (o)	15	15
Norway	15	10 (b)	12
Oman	10/12.5 (o)	10 (t)	12.5
Philippines	15/25 (p)	15 (b)	25 (k)
Poland	15 (d)	– (b)(g)	20 (c)
Portugal	10/15 (a)	10 (f)	10
Qatar	5/10 (o)	10 (t)	10
Romania	10	10 (f)	12.5
Saudi Arabia	5/10 (a)	10 (f)	10
Serbia	10	10 (b)	10
Singapore	10/12.5/15 (u)	12.5	10
South Africa	10/15 (o)	10 (t)	10
Spain	5/7.5/10 (a)	10	7.5
Sri Lanka	15	10 (b)	20
Sweden	15	15 (b)	10
Switzerland	10/20 (a)	10 (f)	10
Syria	10	10	10/15/18 (w)
Tajikistan	5/10 (p)	10 (x)(y)	10 (x)
Thailand	15/25 (d)	25 (i)	10/20 (j)
Tunisia	10	13	10
Turkey	10/15 (d)	10	10
Turkmenistan	10	10	10
Ukraine	10/15 (a)	10	10
United Arab Emirates	10/15 (v)	10 (b)	12
United Kingdom	10/15/20 (n)	15 (b)	12.5
United States	3.75 (h)	– (g)	– (e)
Uzbekistan	10	10 (b)	15
Vietnam	15	15 (y)	15
Yemen	10	10 (y)	10
Non-treaty jurisdictions (z)	7.5/10/12.5/15/20/25	10/17.5/20	15/20

- (a) Treaty-determined percentage holding required.
- (b) Interest paid to the government or, in certain circumstances, to a financial institution owned or controlled by the government is exempt.
- (c) Fifteen percent for industrial, commercial or scientific know-how.
- (d) Treaty-determined percentage holding required, and payer must be engaged in an industrial undertaking; otherwise, higher rate or normal rate applies.
- (e) Royalties are exempt from withholding tax to the extent they represent a fair and reasonable consideration.
- (f) Certain approved loans are exempt.
- (g) Normal rates apply.
- (h) Treaty-determined percentage holding by a public company required and the profits out of which the dividends are paid must be derived from an industrial undertaking; otherwise, normal rates apply.
- (i) Ten percent if the recipient is a financial institution.
- (j) Lower amount for literary, artistic or scientific royalties.

- (k) Fifteen percent if payer is an enterprise engaged in preferred activities.
- (l) Rate reduced to 10% if recipient is a bank or financial institution or if certain types of contracts apply. Rate reduced to 15% if recipient holds 25% of the capital of the paying company.
- (m) Copyright royalties and other similar payments for literary, dramatic, musical or artistic work are exempt.
- (n) Fifteen percent if the recipient is a company. Further reduced to 10% if the treaty-determined percentage is held by the recipient and the industrial undertaking is set up in Pakistan after 8 December 1987. Twenty percent in other cases.
- (o) Lower rate applies if the recipient is a company that controls, directly or indirectly, 10% of the voting power in the company paying the dividend.
- (p) Lower rate applies if recipient is a company that owns directly at least 25% of the capital of the paying company.
- (q) The 15% rate applies to dividends paid to companies. The 30% rate applies to other dividends.
- (r) The 15% rate applies if the recipient is a company that owns directly at least 25% of the capital of the payer and is engaged in an industrial undertaking.
- (s) The 12% rate applies if the recipient is a company that owns directly at least 25% of the capital of the payer; the 15% rate applies to dividends paid to other companies; and the 20% rate applies to other dividends.
- (t) Interest paid to the government or to an agency of or an instrumentality owned by the government is exempt from tax.
- (u) The 10% rate applies if the payer is engaged in an industrial undertaking and if the recipient is a company; the 12.5% rate applies if the recipient is a company; the 15% rate applies in all other cases.
- (v) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 20% of the shares of the payer.
- (w) The 10% rate applies to royalties for cinematographic films and to tapes for television or radio broadcasting. The 15% rate applies to royalties for literary, artistic or scientific works.
- (x) The treaty rate applies to the extent the amount represents a fair and reasonable consideration.
- (y) Interest paid to the government or to the central bank is exempt.
- (z) For details regarding these rates, please see the relevant footnotes in Section A.

Pakistan has also entered into treaties that cover only shipping and air transport. These treaties are not included in the above table.

# Palestinian Authority

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## A. At a glance

Corporate Income Tax Rate (%)	15 (a)
Capital Gains Tax Rate (%)	15 (a)
Branch Tax Rate (%)	15 (a)(b)
Withholding Tax (%) (c)	
Dividends	0 (d)
Interest	10 (e)
Royalties from Patents, Know-how, etc.	5
Payments for Services and Goods	10 (f)
Other Payments to Nonresidents	10
Branch Remittance Tax	0

## Net Operating Losses (Years)

Carryback	0
Carryforward	5

- This is the standard corporate income tax rate. For other rates, see Section B.
- Foreign branches operating in Palestine are taxed like Palestinian companies.
- In general, the withholding taxes may be credited against income tax due.
- See Section B.
- No withholding tax is imposed on interest received from banks.
- This withholding tax applies to resident and nonresident companies. It applies to payments of higher than ILS2,500 if the vendor does not provide a deduction-at-source certificate.

## B. Taxes on corporate income and gains

**Corporate income tax.** Palestinian companies and branches of foreign companies carrying on business in Palestine are subject to corporate income tax. A company is considered Palestinian if it is registered in Palestine. A branch of a foreign company registered in Palestine is treated like a Palestinian company.

**Rates of corporate income tax.** The standard rate of corporate income tax is 15% of taxable income. Telecommunication companies, franchises and monopoly companies are taxed at a rate of 20%. The tax rate on life insurance companies is 5% of the total life insurance premiums owed to the company. Interest income derived by banks from small and medium-sized entities' finance programs is subject to income tax at a rate of 10%.

Under the Law for Encouragement of Investments, as amended in 2014, approved companies may pay income tax at the following rates:

- 5% for a period of five years beginning on the date of realization of profit but not exceeding four years from the beginning of the company's operations
- 10% for a period of three years after the end of the first phase
- The standard rate after the end of the three-year period

Agriculture projects are subject to a 0% income tax rate.

An application must be filed with the Palestinian Investment Promotion Agency to obtain approval for these tax benefits.

**Capital gains.** Capital gains are taxable. However, gains arising from the sale of shares and bonds from an investment portfolio are exempted. The expenses related to these exempted gains are not deductible for tax purposes. These nondeductible expenses are calculated according to a formula in the law and subtracted from the total expenses of the entity.

**Administration.** Companies must file a corporate tax return by the end of the fourth month after their year-end. All companies must use the calendar year as their tax year, unless the tax authorities approve a different tax year. As a result, tax returns are generally due on 30 April. Any balance of tax due must be paid by the due date of filing the annual tax return.

Payment of income tax on account must be made in accordance with instructions issued by the Minister of Finance. The tax regulations provide incentives for advance tax payments made during the tax year. The incentive rates are announced at the beginning of the tax year.

Special incentives are granted for companies who file and pay within a certain period after the tax year-end. For filing and paying during the first and second months after the year-end, the discount is 4%. The discount is 2% for the third month.

**Dividends.** Under the Income Tax Law amendments in 2014, dividends are subject to income tax. Dividends distributed by companies resident in Palestine are subject to withholding tax at a rate of 10%. However, in January 2015, the Ministry of Finance put the application of this withholding tax on hold. As a result, dividends from resident companies are currently exempted from income tax. However, the related expenses are not deductible for tax purposes; these nondeductible expenses represent 20% of the total exempted dividends.

**Interest.** Interest is subject to income tax at the applicable income tax rate.

### C. Determination of trading income

**General.** Taxable income is the income reported in the companies' financial statements, subject to certain adjustments.

All types of income are taxable, unless otherwise stated in the law.

All business expenses incurred to generate income may be deducted, with limitations on certain items, such as entertainment and donations. A certain percentage of entertainment expenses is deductible. Head-office charges are limited to 2% of branch net taxable income.

**Inventories.** The tax law does not specify a particular method for determining the cost of inventory.

**Provisions.** In general, provisions are not deductible for tax purposes, except for banks and insurance companies. Banks can deduct bad debt provisions, and insurance companies can deduct part of its unexpired risks' and outstanding claims' provisions.

**Depreciation.** The Palestinian tax law provides straight-line tax depreciation rates for various types of assets. These rates are applied to the purchase prices for the assets. If the rates for accounting purposes are greater than the tax depreciation rates, the excess is disallowed but may be used for tax purposes at a later date. The following are the straight-line rates for certain assets.

Asset	Rate (%)
Industrial buildings	4
Transportation	
Land transportation	
Cars, trains, buses, trucks and trailers	10
Cars and buses for public transportation and for driving schools	12
Air transportation	
Aircraft	8
Cable cars	5
Sea transportation	
Ships for transportation, cargo and freezing	5
Boats and yachts	8
Sport and racing boats	15

<b>Asset</b>	<b>Rate (%)</b>
Other ships or boats that work over or under the water	15
Office equipment	7 to 10
Equipment used in industrial activities	5 to 10
Equipment used in agricultural activities	7 to 25
Technological equipment	20 to 25
Office furniture and decoration	10 to 15
Computers	20

**Groups of companies.** Companies must file separate financial statements for tax purposes.

**Relief for losses.** Companies may carry forward losses to the following five tax years.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax (VAT)	
Standard rate	16
Wages and profit tax; imposed on financial institutions instead of VAT and in addition to corporate income tax	16
Property tax; based on 80% of the assessed rental value	17

#### **E. Foreign-exchange controls**

The Palestinian Authority does not have a national currency. Major currencies used in Palestine include the Israeli shekel (ILS), Jordanian dinar (JOD) and the US dollar (USD).

#### **F. Tax treaties**

The Palestinian Authority has entered into double tax treaties with Jordan, Serbia and Vietnam.

The Palestinian Authority has initialed tax treaties with Oman and Turkey. In addition, tax treaties with Sri Lanka, Sudan, Turkmenistan and the United Arab Emirates are in various stages of negotiation, signature, ratification or entry into force.

The Palestinian Authority has also entered into tax treaties related to customs with the European Union, Japan, Turkey, the United States and certain Arab countries. Under these treaties, goods imported from the treaty countries have either full or limited customs exemption, depending on the type of goods imported.



# Panama

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**A. At a glance**

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	10
Branch Tax Rate (%)	25 (a)
Withholding Tax (%) (b)	
Dividends (a)	
On Nominative Shares	10
On Bearer Shares	20
Interest	12.5 (c)
Royalties from Patents, Know-how, etc.	12.5
Payments on Leases	12.5
Payments for Professional Services	12.5
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (d)

- (a) See Section B for details concerning deemed dividend tax.  
 (b) The withholding taxes apply only to nonresidents. Nonresident companies are entities not incorporated in Panama.  
 (c) Certain interest is exempt from tax. See Section B.  
 (d) For details, see Section C.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Corporations, partnerships, branches of foreign corporations, limited liability companies and any other entity considered a legal entity by law are subject to income tax on any profits or income generated in or derived from Panama.

Income that does not arise in Panama or is not derived from Panama is not subject to tax in Panama. However, dividends arising from foreign income that are distributed by Panamanian companies holding a Notice of Operation (formerly Commercial License) are subject to tax (for further details, see *Dividends*).

**Corporate income tax rates.** Income tax is assessed at a flat rate of 25% on net taxable income. For details regarding net taxable income, see Section C.

Taxpayers with annual taxable income greater than PAB1,500,000 are required by law to calculate the tax using two methods and pay the higher of the amounts calculated under these methods. This calculation must be included in their annual income tax return. The following are the two methods:

- Applying the corresponding tax rate to the net taxable income
- Applying the corresponding tax rate to 4.67% of the total income

**Headquarters Law.** The Headquarters Law contains a special tax-incentive regime for multinational companies that establish their headquarters in Panama (Multinational Company Headquarters [Sede de Empresas Multinacionales, or SEM] regime).

Under the Headquarters Law, a headquarters is the office that renders services, such as management services, to operations based in a geographically limited area or to the global operation as a whole. Under the law, a headquarters may provide only specified services, including the following:

- Technical assistance
- Financial and accounting services
- Logistics or warehousing services to the multinational group
- Marketing and publicity
- Plot or construction design

These services must be part of the ordinary course of business of the parent company or its affiliates.

Under the Headquarters Law, the headquarters must belong to a multinational company with either regional or international operations or significant operations in the country of origin. To operate under the Headquarters Law, a license granted by the Commission of Licenses of the Multinational Companies of the Ministry of Commerce and Industry must be obtained. Companies granted a license are exempt from income tax for services rendered to entities domiciled abroad that do not generate taxable income in Panama. However, if the services rendered by the company affect the production or conservation of Panamanian income and if the price or value of the services provided is considered to be a deductible expense by the services recipient, the income related to those services is considered to be Panamanian-source income. In this case, the recipient of the services must withhold 25% of 50% of the amount paid to the company under the Headquarters Law regime (effective tax rate of 12.5%).

Companies granted a license to operate under this regime, are exempt from value-added tax (VAT). However, the VAT exemption applies only to the export of services. The VAT exemption does not apply to imports made by the headquarters or the sale or purchase of goods or services rendered in Panama.

In addition, the Headquarters Law creates a special immigration regime for foreign employees working for the beneficiary company in Panama. Permanent visas can be obtained for expatriates with an employment contract. After five years, they can obtain permanent residency. These employees are exempt from income tax and social taxes if they receive all of their compensation directly from the head office outside of Panama and not through the local payroll.

Contributions to the social security regime are not required for such foreigners.

### **Capital gains**

*Shares and quotas.* Under Section 701(e) of the Panamanian Fiscal Code, capital gains derived from the transfer of shares or

quotas are subject to capital gains tax if the shares or quotas were issued by a company that has operations or assets located in Panama. The tax applies regardless of the place where the transaction takes place. Capital gains are taxed in accordance with the following rules:

- Capital gains derived from the transfer of shares in Panama that constitute taxable income are subject to income tax at a reduced rate of 10%.
- The buyer must withhold 5% from the purchase price as an advance income tax payment and remit the withholding tax to the tax authorities within 10 days following the date on which the payment was made according to the transaction documents. For a failure to comply with this obligation, both the buyer and the issuer of the shares become jointly liable to the Panamanian tax authorities.
- The 5% tax withheld by the buyer can be credited against the final 10% capital gain tax. However, the seller may elect to consider the 5% tax to be the final income tax payment.
- If the 5% tax withheld by the buyer is higher than the 10% income tax on the capital gain, the taxpayer may claim a cash refund or credit the excess against other tax liabilities. The tax credit may also be transferred to another taxpayer.
- Income derived from capital gains is not included in the seller's ordinary income for the fiscal year, because the tax due is paid through withholding.
- The amount of the capital gain equals the purchase price minus the value of the investment made by the seller at the moment the shares were acquired. The costs related to the transaction (for example, lawyer's fees, commissions, notary fees and broker fees) are taken into account.

Indirect transfers of shares "economically invested in Panama" are also subject to Panamanian capital gains tax, even if the seller and buyer are nonresidents. Specific rules apply to compute the gain if one or several entities that are being transferred generate both Panamanian-source income and foreign-source income. In this case, the tax base is the proportion of Panamanian-source income determined by using the greater amount resulting from the following two methods:

- The equity amount of the entities that earn taxable income in Panama divided by the total equity of the transaction
- The proportion of assets economically invested in Panama divided by the total assets of the transaction

The above result is subject to a 5% withholding tax, which is an advance income tax payment.

*Movable assets.* Capital gains derived from transfers of movable assets are subject to income tax at a reduced rate of 10%.

*Real estate transfer tax.* The sale of real estate located in Panama is subject to a 2% property transfer tax. The 2% property transfer tax rate is applied to the higher of the following amounts:

- Sales price set forth in the public deed of transfer
- The cadastral value of the property on the date of the acquisition, plus any increase in value derived from improvements, plus 5% per year computed on the sum of the cadastral value and the improvements

To execute the deed of transfer before a Notary Public, the seller of real estate must submit evidence to demonstrate that the corresponding transfer tax and capital gains tax have been paid.

The real estate transfer tax is not imposed on the first transfer of new houses and commercial establishments if the transfer occurs within the two-year period after the occupation permit is issued.

*Sales of homes and business premises by taxpayers engaged in real estate business.* For the sale of home properties by taxpayers in the real estate business, the following rates are applied to the higher of the total value of the transfer or the land value.

<b>Higher of transfer or land value</b>	<b>Rate %</b>
PAB0 to PAB35,000	0.5
PAB35,000 to PAB80,000	1.5
Over PAB80,000	2.5

The rate imposed on taxpayers in the real estate business for sales of new business premises is 4.5%.

The above rates apply if building permits are issued on or after 1 January 2010.

*Ordinary taxpayers that are not engaged in the trade or business of the purchase and sale of real estate.* For ordinary taxpayers that are not engaged in the trade or business of the purchase and sale of real estate, tax is calculated at a rate of 10% on taxable income. This income is not taken into account in determining the taxpayer's taxable income, and the taxpayer may not deduct the transfer tax or transfer fees incurred.

Advance income tax of 3% must be paid on the greater of the total value of the transfer or cadastral value.

The above tax can be considered as final payment or the surplus can be reimbursed if the amount of the tax exceeds 10% of taxable income.

**Administration.** The calendar year is the fiscal year. However, under certain circumstances, a special fiscal year may be requested from the Panamanian tax authorities. Businesses earning income subject to Panamanian tax must file annual income tax returns even if the net result for the period is a loss. Corporations having no Panamanian taxable income or loss are not required to file income tax returns. Tax returns are due 90 days after the end of the fiscal year. The regulations provide for an extension of time of up to one month to file an income tax return if the corporation pays the estimated tax due. A penalty of PAB500,000 is imposed for the late filing of an income tax return.

Monthly interest is charged for late payments. The interest charges are calculated based on rates established periodically by the tax authorities. These rates equal the local reference banking annual interest rate for commercial financing as defined by the Panamanian Banking Superintendence plus two percentage points. If an extension is obtained, any tax that is due when the return is filed is subject to the above-mentioned interest rate. Late payments of taxes made after 1 January 2015 are subject to a 10% surcharge. This 10% surcharge is imposed in addition to the late payment interest.

Tax returns must be filed on electronic forms provided by the Panamanian tax authorities. The taxpayer must file an estimated tax return for the following year together with the income tax return. The total amount of estimated tax for the following year, which normally cannot be lower than the income declared in the current-year return, must be paid in full or in three equal installments by 30 June, 30 September and 31 December. Late payment of this estimated tax generates a 10% surcharge (calculated on the unpaid amount) plus applicable interest.

**Dividends.** All companies that have a Notice of Operations or Commercial License (the prior name of the Notice of Operations) or that generate taxable income in Panama must pay dividend tax at a fixed rate of 10% for nominative shares and 20% for bearer shares. Dividends distributed from foreign-source income, export operations and certain types of exempt income are subject to a final 5% withholding tax. Subsequent distributions of these dividends are not taxed if they arise from dividends that already have been subject to the above-mentioned withholding.

Dividends distributed by Real Estate Investment Companies (Sociedades de Inversión Inmobiliaria) are subject to a 10% withholding tax.

Dividends distributed by entities in free-trade zones from local-source income, foreign-source income, export activities and certain types of exempt income are subject to a final 5% withholding tax. This includes dividends distributed by companies operating under the Panama-Pacifico Special Economic Area (Howard Regime), effective from January 2017.

The following are exempt dividends:

- Dividends distributed by Panamanian companies that do not require a Notice of Operations or Commercial License and that do not produce any taxable income in Panama
- Dividends distributed by entities under the tax-incentive system for multinational companies that establish headquarters in Panama (SEM regime; see *Headquarters Law*)

Dividends distributed to individuals or legal entities from states included in the List of States that Discriminate against the Republic of Panama (this list has not yet been issued by the Republic of Panama) are subject to the following withholding tax rates:

- 20% for nominative shares
- 40% for bearer shares

Exemptions from withholding tax granted by special laws on dividend distributions from Panamanian entities to entities or individuals located abroad apply only if the recipients cannot claim a tax credit in their country of residence for such dividend distributions. To prove that no tax credit is available in the recipient's country of residence for a dividend, the beneficial owner must submit a formal tax opinion issued by an independent tax expert of such country, which indicates that a tax credit cannot be claimed.

If a tax treaty applies, the treaty measures prevail over the domestic rules.

**Withholding taxes.** The withholding tax rate is 12.5% for interest and royalties paid to nonresident companies.

Payments to nonresidents for professional services rendered in Panama or from abroad are subject to a 12.5% withholding tax if certain requirements are met. In principle, the withholding obligation applies if the following requirements are met:

- The payments made to nonresident beneficiaries must be related to the generation of Panamanian-source income for the payer.
- The payment made to the nonresident beneficiaries must be considered and reported as deductible expenses by the Panamanian payer.

However, a tax reform established several exceptions to these requirements. As a result, payments made by public entities (entities that are not income taxpayers) and taxpayers with losses are subject to the 12.5% withholding tax even if those entities have not deducted the payments as expenses. In addition, taxpayers that have several sources of income are required to apply a 12.5% withholding tax if they are in a loss situation even though they did not claim a deduction for the payments.

No withholding tax obligation applies to entities that generate foreign-source income only and entities or individuals exempt from income tax in accordance with an international treaty or special law.

In addition, exemptions granted by special laws from withholding taxes on interest, royalties, professional fees and similar payments from Panamanian entities or individuals to entities or individuals located abroad apply only if the recipient cannot claim a tax credit in their country of residence for withholding taxes on such income. To prove that no tax credit is available in the recipient's country of residence for such withholding taxes, the beneficial owner must submit a formal tax opinion issued by an independent tax expert of such country, which indicates that the tax paid in Panama would not be credited such country.

Interest, royalties, commissions and fees paid to nonresidents from states included in the List of States that Discriminate against the Republic of Panama (this list has not yet been issued by the Republic of Panama) are subject to a 25% withholding tax.

The tax must be withheld by the enterprise that receives the benefits of the loans, leases or professional services, and must be remitted to the government within 10 days after the tax is withheld or the account is credited, whichever occurs first.

Interest income derived from the following investments is exempt from withholding tax:

- Savings and time deposits held in Panamanian banks
- Panamanian government securities
- Securities issued by companies registered with the National Securities Commission, if the securities were acquired through a securities exchange established to operate in Panama
- Interest and commissions paid by banking institutions in Panama to international banks or financial institutions established abroad, in connection with loans, bankers' acceptances and other debt instruments

- Interest paid to official or semiofficial institutions of international bodies or foreign governments
- Interest paid to foreign investors, if the capital on which such interest is paid is exclusively intended for housing projects for people of low income

For a loan granted by a domestic bank or related Panamanian party, no withholding tax is applicable, because the financial services payment is taxed in the lender's annual income tax return.

Except in the case of financing, if a local company does not take a deduction for an expense, no withholding tax applies.

**Foreign tax relief.** Because Panama taxes only income sourced in Panama, regardless of where payment is received or the residence of the taxpayer, no credit or deduction is available for any foreign taxes paid, except in international transport activities.

### **C. Determination of trading income**

**General.** Taxable income or revenue includes all income derived from business activities in Panama less expenses incurred wholly and exclusively in the production of taxable income or the conservation of its source.

Net taxable income is the difference or balance that results on deducting the following from gross income or general earnings:

- Foreign income
- Exempt income
- Deductible costs and expenses

Revenues must be recognized in the year in which they are earned. Construction companies may recognize long-term contract revenues either by the percentage-of-completion method, percentage-of-invoicing method or the completed-contract method. The installment-sales method of recognizing revenue is not permitted by the Panamanian Fiscal Code.

Earnings derived from the following activities are not considered to be Panamanian source:

- Invoicing by an office established in Panama for sales of merchandise or goods for amounts greater than cost, provided the merchandise never enters Panama
- Directing by an office established in Panama of transactions that are completed, consummated or take effect outside Panama
- Distributing dividends or profits derived from income not generated in Panama, including income derived from the two activities noted above, to the extent that the company distributing dividends does not hold a Notice of Operation

All expenses incurred wholly and exclusively in the production of taxable income or in the conservation of its source are allowed as deductions for income tax purposes, regardless of where the expense is incurred, provided that the corresponding tax is withheld (if applicable). Expenses of one tax year may not be deducted the following year, except those which, by their nature, cannot be determined precisely in the current tax year.

Interest is a deductible expense if it is incurred on loans or credits necessary for the production of taxable income. If non-taxable interest income from savings accounts or certificates of deposit is



earned, the only interest deductible is the excess of the interest expense over the non-taxable interest income. Royalties are deductible, except for those paid abroad by free-zone companies.

**Inventories.** Inventories may be valued by using the first-in, first-out (FIFO), last-in, first-out (LIFO) or average-cost methods. However, the Panamanian tax authorities may allow other methods. After a system of valuation is adopted, it may not be changed for five years.

**Provisions.** The only deductible reserves are those for depreciation, bad debts (1% of credit sales, up to 10% of total receivables) of entities other than banks and financial institutions and certain fringe benefits. Reserves for personal insurance and contingencies are not deductible.

**Tax depreciation and amortization allowances.** Depreciation allowances are permitted for capital expenditures incurred in the production of taxable income. Depreciation may be computed by using the straight-line, declining-balance or sum-of-the-years' digits methods. Depreciation is computed over the useful life of an asset. The minimum useful lives are 3 years for movable assets and 30 years for buildings.

Start-up expenses may be amortized over a period of five years. Improvements to leased properties must be amortized over the period of the lease. Purchasers of intangible assets, such as patents and goodwill, may claim straight-line amortization deductions for such assets when they derive income from such assets.

**Relief for losses.** Tax-loss carrybacks are not recognized under Panamanian law. Carryforwards of net operating losses are allowed. Taxpayers can deduct net operating losses over a period of five years following the year in which the loss is incurred. The maximum annual deduction is 20% of the relevant loss, but the amount of the deduction may not exceed 50% of the taxable income for the year.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; tax on the sale or transfer of any chattel, services and imports of goods; certain goods and services are specifically exempt, such as medical services and fixed telephony that is not for commercial use	7
Notice of Operation (formerly Commercial and Industrial Licenses); paid annually on corporate capital (up to a maximum amount of PAB60,000)	2
Notice of Operation for companies operating under a free-trade zone regime; paid annually on corporate capital (up to a maximum tax of PAB50,000)	0.5
Municipal tax; based on the nature of the business activity and the amount of sales (up to a maximum tax of PAB3,000 a month)	Various

Nature of tax	Rate (%)
Social security contributions and education tax, based on wages or salaries; paid by	
Employer	12.5
Employee	9.75
Excise taxes	
Imports and sales of alcoholic beverages	10
Imports and sales of tobacco and cigarettes	15
Imports of jewels, cars, motorcycles, jet skis, boats (including sailboats), non-commercial airplanes, cable and microwave television services and mobile phones	Various
Public accommodations and lodging services	10

## E. Miscellaneous matters

**Foreign-exchange controls.** Panama does not impose foreign-exchange controls.

**Transfer pricing.** Cross-border intercompany transactions conducted by Panamanian taxpayers are subject to transfer-pricing obligations if the transactions result in income, costs or expenses that are taken into account in the determination of taxable income.

The transfer-pricing rules are based on the arm's-length principle established in the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines for Multi-national Enterprises and Tax Administrations.

An annual statement of transactions (Form 930) with related parties must be submitted to the tax authorities within six months after the end of the fiscal year (if the fiscal year coincides with the calendar year, the deadline is 30 June). In addition, taxpayers must prepare a transfer-pricing study and make it available to the tax authorities.

If Form 930 is not filed, a 1% fine capped at PAB1 million applies to the gross amount of the transactions with related parties.

## F. Treaty withholding tax rates

Panama has entered into tax treaties with Barbados, the Czech Republic, France, Ireland, Israel, Italy, Korea (South), Luxembourg, Mexico, the Netherlands, Portugal, Qatar, Singapore, Spain, the United Arab Emirates, the United Kingdom and Vietnam. Panama has concluded treaty negotiations with Austria and Bahrain.

The following are withholding tax rates under Panama's tax treaties.

	Dividends %	Interest %	Royalties %
Barbados	7.5 (a)	0/5/7.5 (j)(k)	0/7.5 (t)
Czech Republic	10	0/5/10 (w)(x)	10
France	5/15 (b)	0/5 (l)	5
Ireland	5	0/5 (y)	5
Israel	5/15/20 (ee)	0/15 (ff)	15
Italy	5/10	0/5	10
Korea (South)	5/15 (c)	0/5 (m)	0/10 (u)
Luxembourg	5/15 (b)	0/5 (l)	5

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Mexico	5/7.5 (c)	0/5/10 (n)(o)	10
Netherlands	0/15 (d)	0/5 (p)	5
Portugal	10/15 (e)	10 (q)	10
Qatar	6 (f)	6 (r)	6
Singapore	5 (g)	5 (s)	5
Spain	0/5/10 (h)(i)	5 (v)	5
United Arab Emirates	5 (aa)	0/5 (bb)	5
United Kingdom	0/15 (cc)	0/5 (dd)	5
Vietnam	5/7/12.5	0/10	10
Non-treaty jurisdictions	10/20 (z)	12.5 (z)	12.5

- (a) The rate equals 75% of the statutory nominal rate applicable at the time of dividend distribution. The rate is reduced to 5% if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends. The rates do not apply to dividends paid on bearer shares.
- (b) The rate is reduced to 5% if the beneficial owner of the dividends is a company (other than a partnership) that owns at least 10% of the capital of the payer of the dividends.
- (c) The rate is reduced to 5% if the beneficial owner of the dividends is a company (other than a partnership) that owns at least 25% of the capital of the payer of the dividends.
- (d) The rate is reduced to 0% if the beneficial owner of the dividends is a company that owns at least 15% of the capital of the payer of the dividends (additional specific conditions apply).
- (e) The rate is reduced to 10% if the beneficial owner of the dividends is a company that owns at least 10% of the capital of the payer of the dividends.
- (f) The rate is reduced to 0% if the beneficial owner of the dividends is the other state, a political subdivision, a local authority or the central bank of the other state, a pension fund, an investment authority or any other institution or fund that is recognized as an integral part of the other state, political subdivision or local authority, as mutually agreed.
- (g) The rate is reduced to 4% if the beneficial owner of the dividends is a company (other than a partnership) that owns at least 10% of the capital of the payer of the dividends.
- (h) The rate is reduced to 5% if the beneficial owner of the dividends is a company (other than a partnership) that owns at least 40% of the capital of the payer of the dividends.
- (i) The rate is reduced to 0% if the beneficial owner of the dividends is a company that owns at least 80% of the capital of the payer of the dividends (additional specific conditions apply).
- (j) The rate is reduced to 5% if the interest is derived by a bank that is a resident of Barbados.
- (k) The rate is reduced to 0% if the beneficial owner of the interest is a contracting state, the central bank of a contracting state, or a political subdivision or local entity of the contracting state or if the interest is paid to another entity or body (including a financial institution) as a result of financing provided by such institution or body in connection with an agreement concluded between the governments of the states.
- (l) The rate is reduced to 0% with respect to the following:
- Interest paid to or by the state, a local authority or central bank
  - Interest paid on sales on credit
  - Interest paid by a financial institution to another financial institution
  - Interest paid to the state as a result of financing provided in relation to an agreement between the governments of the states
- (m) The rate is reduced to 0% with respect to the following:
- Interest paid to the state, a local authority, central bank or a public financial institution
  - Interest paid on sales on credit
  - Interest paid to entities (including financial institutions) as a result of financing provided in relation to an agreement between the governments of the states
- (n) The rate is reduced to 5% if the interest is derived by a bank that is a resident of Mexico.

- (o) The rate is reduced to 0% with respect to interest paid to the state, a political subdivision or local entity of the state, the central bank or specific credit institutions.
- (p) The rate is reduced to 0% with respect to the following:
- Interest paid to the state, a local authority or the central bank
  - Interest paid on sales on credit
  - Interest paid to the state as a result of financing provided in relation to an agreement between the governments of the states
  - Interest paid to pension funds
- (q) The rate is reduced to 0% with respect to interest paid to the state, a political subdivision or local entity, or the central bank.
- (r) The rate is reduced to 0% with respect to the following:
- Interest paid to the state or a political subdivision or local authority of the state
  - Interest paid to specific credit institutions
  - Interest paid on sales on credit
  - Interest paid by a financial institution to another financial institution
  - Interest paid as a result of financing provided in relation to an agreement between the governments of the states
- (s) The rate is reduced to 0% with respect to interest paid to the government or to banks.
- (t) The rate is reduced to 0% with respect to royalties including royalties for scientific works related to biotechnology industry.
- (u) The rate is reduced to 3% with respect to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
- (v) The rate is reduced to 0% with respect to the following:
- Interest paid to or by the state, a local authority or central bank
  - Interest paid on sales on credit
  - Interest paid by a financial institution to another financial institution
  - Interest paid to the state as a result of financing provided in relation to an agreement between the governments of the states
  - Interest paid to pension funds
- (w) The rate is 5% if the beneficial owner is a bank that is a resident of the other contracting state.
- (x) The rate is reduced to 0% if any of the following circumstances exists:
- Interest arises in a contracting state and is paid to a resident of the other contracting state that is the beneficial owner thereof, and such interest is paid in connection with the sale on credit of merchandise or equipment.
  - Interest is paid to the government of the other contracting state, including a political subdivision or local authority thereof, the central bank or a financial institution owned or controlled by such government.
  - Interest is paid to a resident of the other state in connection with a loan or credit guaranteed by the government of the other state, including a political subdivision or local authority thereof, the central bank, or a financial institution owned or controlled by such government, if the loan or credit is granted for a period of not less than four years.
- (y) The rate is reduced to 0% if any of the following circumstances exists:
- The beneficial owner of the interest is a contracting state, the central bank of a contracting state, or a political subdivision or local authority of such state.
  - Interest is paid with respect to the sale on credit of merchandise or equipment to an enterprise of a contracting state.
  - Interest is paid to other entities or bodies (including financial institutions) as a result of financing provided by such institutions or bodies in connection with agreements concluded between the governments of the states.
  - Interest is paid to a pension fund established in the other contracting state to provide benefits under pension arrangements recognized for tax purposes in that other contracting state.
- (z) See Section A.
- (aa) The rate is reduced to 5% if the beneficial owner of the dividends is a resident of the other contracting state.
- (bb) The rate is reduced to 5% if the beneficial owner of the interest is a resident of the other contracting state. The rate is reduced at 0% if any of the following circumstances exists:
- The beneficial owner of the interest is the government, a political subdivision or a local authority of the other contracting state.
  - The interest is paid with respect to the sale on credit of merchandise or equipment to an enterprise of a contracting state.
  - The interest is paid to financial institutions and other bodies as a result of financing provided by such institutions or bodies in connection with agreements concluded between the governments of the contracting states.

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- (cc) The rate is 15% if the beneficial owner of the dividends is a resident of the other contracting state. The withholding tax rate is reduced to 0% if either of the following circumstances exists:
- The beneficial owner of the dividends is a company that is a resident of the other contracting state and that holds directly at least 15% of the capital of the entity paying the dividends, and other requirements are satisfied.
  - The beneficial owner of the dividends is a contracting state, a political subdivision or local authority thereof, or a pension scheme.
- (dd) The rate is reduced to 5% if the beneficial owner of the interest is one of the following persons:
- An individual
  - A company whose principal class of shares is regularly traded on a recognized stock exchange
  - A financial institution that is unrelated to, and dealing wholly independently with, the payer
  - A company other than those mentioned above, subject to conditions
- The rate is also reduced to 5% if the beneficial owner of the interest is a resident of the other contracting state and any of the following circumstances exists:
- The interest is paid by a contracting state or a political subdivision or local authority thereof.
  - The interest is paid by a bank in the ordinary course of its banking business.
  - The interest is paid on a quoted Eurobond.
- The rate is reduced to 0% if any of the following circumstances exists:
- The beneficial owner of the interest is a central bank of the contracting state or any of its political subdivisions or local authorities.
  - The interest is paid with respect to the sale on credit of merchandise or equipment to an enterprise of a contracting state.
  - The interest is paid to other entities or bodies (including financial institutions) as a result of financing provided by such entities or bodies in connection with agreements concluded between the governments of the contracting states.
  - The beneficial owner of the interest is a pension scheme.
- (ee) The rate is reduced to 15% if the beneficial owner of the dividends is a resident of the other contracting state. The rate is reduced to 5% if the beneficial owner is a pension fund that is a resident of the other contracting state. A 20% withholding tax rate applies if dividends are distributed by a Real Estate Investment Company and if the beneficial owner holds less than 10% of the capital of the Real Estate Investment Company.
- (ff) The standard rate is 15%. Interest payments to specific entities and interest paid on traded corporate bonds are exempt (0% rate).

# Papua New Guinea

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## A. At a glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	0
Branch Income Tax Rate (%)	48 (a)
Withholding Tax (%)	
Dividends	0/10/15 (b)
Interest	15
Royalties	
Associates	30
Non-associates	– (c)
Foreign contractors	15
Management fees	17
Net Operating Losses (Years)	
Carryback	0
Carryforward	20 (d)

- (a) See Section B.
- (b) Effective from 1 January 2017, the dividend withholding tax rate is 15%, unless a fiscal stability agreement is in place. If such agreement is in place, a 0% rate would continue to apply to dividends paid out of oil or gas profits, and the 10% rate would continue to apply to dividends paid out of mining profits.
- (c) For payments to non-associates, the amount of tax equals the lesser of 10% of assessable income or 48% of taxable income. Assessable income is the amount assessable under the provisions of the Income Tax Act. Taxable income is the amount remaining after deducting from assessable income all allowable deductions.
- (d) Resource (mining, oil and gas) and primary production taxpayers may carry forward losses for an unlimited number of years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to income tax on worldwide assessable income. Nonresident companies carrying on business through a branch pay tax only on Papua New Guinea (PNG)-source income. A resident company is a company

incorporated in PNG. A company not incorporated in PNG is considered a resident company if it carries on business in PNG and it has either its central management and control in PNG or its voting power controlled by shareholders who are residents of PNG.

**Tax rates.** Resident companies are subject to tax at a rate of 30%. Branches of nonresident companies (other than those engaged in mining operations) are subject to tax at a rate of 48%. Nonresident companies deriving “prescribed income” are subject to the foreign contractor provisions (see *Foreign Contractor Withholding Tax*).

For resident and nonresident companies engaged in mining, petroleum or gas operations, the tax rate is 30%.

In addition to any tax liability determined in accordance with the above rate, an Additional Profits Tax may be levied with respect to gas projects in certain circumstances and, from 1 January 2017, with respect to mining and petroleum projects.

**Foreign Contractor Withholding Tax.** Most activities conducted by nonresidents in PNG (including PNG branches), other than individuals deriving employment income, fall under the foreign contractor and management fee (see *Management Fee Withholding Tax*) provisions of the domestic law. The Foreign Contractor Withholding Tax (FCWT) applies if income is derived by nonresidents (usually referred to as “foreign contractors”) from contracts for “prescribed purposes,” including installation and construction projects, consultancy services, lease of equipment and charter agreements.

Effective from 1 January 2017, payments to foreign contractors are subject to 15% withholding tax, which is a final PNG tax on the PNG income. Before 1 January 2017, the rate was 12% and foreign contractors had the option of electing to file an annual PNG corporate tax return and pay tax at the nonresident rate on actual taxable income.

**Management Fee Withholding Tax.** Subject to the availability of treaty relief, Management Fee Withholding Tax (MFWT) at a rate of 17% must be withheld from management fees paid or credited to nonresidents.

The definition of “management fee” is very broad and includes “a payment of any kind to any person, other than to an employee of the person making the payment and other than in the way of royalty, in consideration for any services of a technical or managerial nature and includes payment for consultancy services, to the extent the Commissioner is satisfied those consultancy services are of a managerial nature.”

In practice, MFWT generally applies to services rendered outside PNG, and FCWT (see *Foreign Contractor Withholding Tax*) applies to fees for services rendered in PNG.

The deduction for management fees paid by a PNG resident company to a nonresident associate cannot exceed the greater of 2% of assessable income derived from PNG sources or 2% of allowable deductions excluding management fees paid. In addition, for resource companies, to the extent that management fees exceed 2% of the allowable exploration or capital expenditure (other than management fees) incurred during the year, the excess is not al-

lowable exploration or capital expenditure, respectively. However, a full deduction is allowed if the management fee can be supported as an arm's-length transaction. The above limit does not apply with respect to payments made to non-associates.

**Incentives.** Several specific incentives are available with respect to taxpayers operating in certain industries, including resource taxpayers (mining, oil and gas) and taxpayers engaged in primary production. These incentives range from general concessions with respect to the calculation of taxable income to concessions with respect to specific types of expenditure. Although some investors have been able to negotiate specific incentives for particular projects, the government now aims to include all tax concessions in the domestic legislation and make any concessions available on an industry basis with the goal of developing a more neutral and equitable treatment of projects.

**Capital gains.** Capital gains are not subject to tax in PNG. The disposal of a capital asset may be subject to tax to the extent the disposal takes place as part of a profit-making scheme or is part of the ordinary business activities of a taxpayer.

Although capital gains on the disposal of depreciable plant and equipment are generally not subject to tax, a calculation of any gain or loss on disposal must be performed. If the amount received exceeds the tax written-down value, an amount of income may be derived (up to the amount of depreciation deductions previously claimed). Alternatively, if the amount received on disposal is less than the tax written-down value, the taxpayer may be able to claim a deduction.

**Administration.** The PNG tax year is the calendar year. However, for most companies, a substituted accounting period is permitted on written request to the Commissioner General of Internal Revenue. Tax for any fiscal year is payable in three equal installments on a provisional tax assessment basis according to the following schedule:

- First installment by 30 April
- Second installment by 31 July
- Third installment by 31 October

Provisional tax is generally assessed by the Commissioner based on the income tax return of the preceding year. Accordingly, provisional tax does not generally become payable until after a taxpayer has filed its first tax return.

Any balance must be paid within 30 days after the assessment is issued and served on the taxpayer. Any overpayment of provisional tax is refundable to the taxpayer. The Commissioner General of Internal Revenue does not pay interest on overpaid tax. Penalties apply for underestimation of provisional tax.

Companies are required to file tax returns within two months after the end of the fiscal year (that is, by the end of February of the following year). However, for returns filed by registered tax agents, extensions of an additional four, six or eight months are possible, depending on the level of taxable income. The income and expenses of taxpayers must be expressed in Papua New Guinea currency, unless permission is granted by the Commissioner General of Internal Revenue to report in a currency other than Papua New Guinea currency.



Companies carrying on business in PNG, or deriving income in PNG, must appoint a public officer to act as the representative of the company in all dealings with the IRC. The public officer need not be an employee or shareholder of the company but must be tax resident in PNG.

**Dividends.** Dividends received by resident companies from other resident companies are fully rebatable; that is, although dividends received by corporate taxpayers from other PNG corporations are fully assessable, the taxpayers may claim a credit of 30% (corporate tax rate), thereby reducing the effective tax rate to nil. Dividends paid out of profits arising from the sale or revaluation of assets that were acquired for purposes other than resale at a profit are exempt if the dividend is distributed through the issuance of non-redeemable shares. Effective from 1 January 2017, dividends paid out of profits derived from petroleum or gas operations are no longer exempt unless a fiscal stability agreement applies.

Effective from 1 January 2017, dividends paid or credited by resident companies to nonresident shareholders (other than superannuation funds) are generally subject to a final 15% dividend withholding tax, which is deducted at source from the gross amount of the dividend.

**Foreign tax relief.** A resident deriving foreign-source income that has been subject to foreign tax is entitled to a credit equal to the lesser of the following:

- The foreign tax paid
- The amount of PNG tax payable on that income

For purposes of the foreign tax credit, no distinction is made between income derived from treaty and non-treaty countries.

### C. Determination of trading income

**General.** Income is defined as the aggregate of all sources of income, including annual net profit from a trade, commercial, financial or of other business. Expenses are deductible to the extent that they are incurred in producing assessable income, and are not capital or of a capital nature or incurred in producing exempt income. Deductions are allowable for certain capital expenditures incurred in the agriculture and fishing industries.

**Foreign-exchange gains and losses.** Realized exchange gains and losses from debts incurred or borrowings made on or after 11 November 1986 (at any time with respect to reforestation activities) in a foreign currency are generally assessable and deductible, respectively, as well as any realized gains or losses made on amounts of income or deductions. Unrealized gains are not assessable, and unrealized losses are not deductible.

**Inventories.** Trading stock must be valued at the end of an income year either at cost, market selling price, or replacement price. Any change in the method of valuing trading stock must be approved by the Commissioner General of Internal Revenue. The Commissioner has the discretion to make adjustments if the trading stock is sold or otherwise disposed of other than at market value.

**Provisions.** Provisions are not deductible until payments are made or, in the case of doubtful debts, until the debts are considered totally irrecoverable and are written off.

**Tax depreciation.** Depreciation of fixed assets that are used in the production of taxable income is calculated using either the prime-cost (straight-line) method or the diminishing-value method. The default method is the diminishing-value method with taxpayers having the option by notice in writing to use the prime-cost method for any or all units of property. Any change in the method of depreciation must be approved by the Commissioner General of Internal Revenue.

The IRC publishes depreciation rates for certain items of plant and equipment. The following are some of the applicable rates published by the IRC.

Item	Method	
	Prime-cost (%)	Diminishing-value (%)
Manufacturing		
Cement, pipe and tile manufacturing plant	10	15
Chemical manufacturing plant	10	15
Primary industries, farmers and so forth		
Cocoa and coffee industry plant	10	15
Copra industry plant	5	7.5
Other industries		
Aircraft	10	15
Building industries	20	30
Buildings		
Residential buildings	2	3
Storage buildings (steel framed)	4	6
Transportation		
Aircraft	12.5	18.75
Motor vehicles (other motor vehicles, including buses, lorries and trucks)	20	30
Wharves	5	7.5
Ships and steamers	7.5	11.25
Mining		
Development works	Nil	Nil
Dragline	13	20
Plant and machinery		
General plant and equipment	10	15
Drills	17	25
Earthmoving plant and heavy equipment	20	30
Motor trucks	20	30
Shovels	20	30
Oil		
Exploration	20	30
Oil companies		
Aircraft	25	37.5
Aircraft refueling equipment	15	22.5
Drilling plant	20	30
Seismic geophysical survey equipment	20	30

Item	Method	
	Prime-cost (%)	Diminishing-value (%)
Oil rigs (offshore) and ancillary plant	10	15
Petroleum		
Drilling and down hole (specialized drilling) equipment	20	30
Earthmoving plant and heavy equipment	20	30
General plant and equipment	17	25
Onshore production plant	13	18
Offshore production plant	13	20
Refining plant	13	20
Wharves and jetties	5	7.5
Vehicles	20	30

The amortization deduction for allowable exploration expenditure (AEE) incurred by resource taxpayers is determined by dividing the undeducted expenditure by the lesser of the number of years in the remaining life of the project or four.

The deduction allowable for short-life allowable capital expenditure (ACE; effective life of less than 10 years) incurred by resource taxpayers is calculated by dividing the undeducted balance of ACE by the lesser of the number of years in the remaining life of project or 4. For long-life ACE (effective life of 10 years or more) incurred by resource taxpayers, depreciation must be calculated at a rate of 10% under the straight-line method.

The order of deductions for AEE and ACE amortization is AEE, long-life ACE and short-life ACE. The deductions may not create a loss and any excess deductions are carried forward to future years.

**Environmental protection and clean-up costs.** A specific deduction is available to taxpayers for certain expenditure incurred with respect to environmental-protection activities and clean-up costs incurred when pollution occurs. This measure is available to taxpayers in all industries. It was introduced to encourage taxpayers to safeguard the environment.

Several specific exclusions exist, including capital expenditure incurred to acquire land and buildings. Expenditure incurred for environmental impact studies is deductible under a separate measure (see *Environmental impact studies*).

Depreciation deductions are also available for plant and equipment used in environmental-protection activities.

**Environmental impact studies.** A deduction is allowed for environmental impact studies. For this purpose, an environmental impact study is the study of the environmental impact of an assessable income-producing activity or business that is carried on or proposed to be carried on in PNG by the taxpayer.

The expenditure incurred is apportioned over the life of the project or 10 years, whichever is less. If the taxpayer is in the resources industry, the cost of the environmental impact is not allowable under this measure, but is available under the specific resources taxation provisions.

Depreciation deductions are also available for plant and equipment used for environmental impact studies.

**Rehabilitation costs of resource taxpayers.** For resource projects that begin on or after 1 January 2012, at the end of a project, a resource taxpayer may transfer losses incurred on environmental rehabilitation to other projects owned by it. PNG uses ring-fencing provisions and calculates the profits of resource projects on a project-by-project basis. Historically, losses incurred were effectively lost if no further income was produced.

**Research and development.** On 1 January 2014, the extended deduction of 50% was phased out for research and development (R&D) expenditure. Previously, a 150% deduction was available for “prescribed” R&D expenditure. To claim the R&D concession, taxpayers needed to complete and submit an application annually to the Research and Development Expenses Approval Committee (within the PNG IRC) for approval before the start of the fiscal year. However, any expenditure on scientific research incurred before 1 January 2014 will continue to be eligible. In addition, although the additional deduction (50%) for eligible R&D expenditure has been abolished, such expenditure will continue to be deductible on a 100% basis even if such expenditure might otherwise be capital in nature and not deductible under general provisions.

The following payments and expenditure incurred by a taxpayer carrying on business for the purpose of obtaining assessable income may be allowable R&D deductions:

- Payments to an approved research institute for scientific research related to the business of the taxpayer and payments to an approved research institute for the purpose of undertaking research related to the business of the taxpayer
- Capital expenditure on scientific research related to the business of the taxpayer (except expenditure on plant, machinery, land or buildings, or alterations, additions or extensions to buildings)
- Expenditure on plant and equipment used solely for R&D purposes (depreciable at a rate of 33% per year)
- Expenditure on buildings and additions to buildings used solely for R&D purposes (deductible in equal installments over three years)

For purposes of the R&D concession, scientific research includes any activities in the fields of natural or applied science for the extension of knowledge.

**Relief for losses.** Losses incurred may generally be carried forward for 20 years. However, losses incurred by resource taxpayers and primary production taxpayers can be carried forward indefinitely. Losses incurred by a company are allowed as a deduction only if the taxpayer passes either the continuity of ownership test or the same business test.

For entities in the resources sector, losses may also be quarantined on a project basis.

Losses may not be carried back.

No provisions exist for grouping losses with associated companies (with the specific exception of certain company amalgamations).

**Groups of companies.** No provisions exist in PNG for the grouping of income or losses of associated companies or for other group relief. Companies are assessed on an individual basis.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Goods and services tax (GST); imposed on virtually all goods and services unless the goods or services are exempt (for example, financial services and gambling) or the supply is zero-rated (for example, supplies to resource companies); any entity undertaking taxable activity in PNG must register and charge GST if taxable supplies exceed, or are expected to exceed, PGK250,000 in any 12-month period; entities that are registered must account for GST collected (output tax) and GST paid (input tax) during each month with any excess of GST collected to be remitted to the IRC by the 21st day of the following month; entities may generally claim a refund for most GST input tax paid on importations or local purchases of goods and services; effective from 1 January 2016, a deferral scheme applies with respect to GST on imports	10
Training levy; imposed on all businesses with an annual payroll exceeding PGK200,000; the amount payable is reduced by training expenses incurred by the employer for the benefit of PNG citizen employees; expenses incurred to train non-citizens are not qualifying training expenses for the purpose of the training levy	2
Customs and excise duty; imposed on all goods imported into PNG, unless the goods are duty-free or exempt from duty; duty is imposed on the total value including cost, insurance and freight; the rate of duty depends on the nature of the goods; a zero rate often applies to goods imported into PNG if the goods are not available in PNG, but a specific analysis must be undertaken in each instance	Various
Stamp duty; imposed on dutiable instruments such as deeds, share transfers and a wide range of other documents at varying rates; may also apply to documents executed outside PNG under provisions that impose an obligation to file documents for assessment for stamp duty with respect to property or activities in PNG	Various

#### E. Miscellaneous matters

**Foreign-exchange controls.** The currency in PNG is the kina (PGK).

A tax-clearance certificate is required if certain cumulative remittances of foreign currency exceed PGK500,000 in a calendar

year. For a remittance to a tax haven, a tax clearance is always required, regardless of the amount being remitted.

PNG resident companies are generally not permitted to receive payment for goods or services in a foreign currency. Consequently, if a contract is entered into between two PNG resident companies in a foreign currency (for example, US dollars), the settlement of the invoice must be made in Papua New Guinea currency. For exchange-control purposes, a resident includes a foreign company operating actively in PNG as a branch.

**Debt-to-equity ratios.** Previously, the thin-capitalization rules applied only to taxpayers operating in the resources sector. Effective from 2013, PNG's thin-capitalization rules apply to PNG companies in all industries. The 3:1 debt-to-equity ratio for resource companies is retained. However, all other companies are subject to a 2:1 ratio (with the exception of approved financial institutions, which are not subject to any ratio). If the applicable ratio is breached, a proportion of the interest on foreign debt is denied as a tax deduction.

**Anti-avoidance legislation.** Contracts, agreements or arrangements that have the effect of avoiding any tax may be rendered void by the tax authorities.

**Transfer pricing.** Related-party transactions are accepted by the tax authorities if they are carried out at arm's length. However, a taxpayer's taxable income can be adjusted if transactions are not conducted on an arm's-length basis (that is, if the transaction would not have been conducted on the same basis between independent parties). Specific provisions also exist with respect to management or technical fees paid to international related parties. Documentation of the appropriate methodology and calculation of pricing must be maintained. Country-by-Country Reporting rules are effective from 1 January 2017.

**Controlled foreign companies.** The PNG tax legislation does not currently contain any controlled foreign company (CFC) rules. Consequently, any income derived by foreign subsidiaries of a PNG entity is typically taxed on a receipts basis only.

## F. Treaty withholding tax rates

Taxpayers self-assess any treaty reductions of withholding taxes.

The following table lists the effective treaty withholding tax rates for dividends, interest, royalties, management fees and payments to foreign contractors with respect to prescribed services.

	Dividends	Interest	Royalties	Management fees (a)	Payments to foreign contractors
	%	%	%	%	%
Australia	15	10	10	0 (b)	15 (c)
Canada	15	10	10	0 (b)	15 (c)
China (mainland)	15	10	10	0 (b)	15 (c)
Fiji	15	10	15	15	15 (c)
Germany (f)	15	10	10	10	15 (c)
Indonesia (f)	15	10 (g)	10	0	15 (c)(d)
Korea (South)	15	10	10	0 (b)	15 (c)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>	<b>Management fees (a)</b>	<b>Payments to foreign contractors</b>
	%	%	%	%	%
Malaysia	15	15	10	10	15 (c)(d)
New Zealand	15	10	10	0 (b)	15 (c)
Singapore	15	10	10	0 (b)	15 (c)(d)
United Kingdom	15	10	10	10	15 (c)(d)
Non-treaty jurisdictions	15	15	– (e)	17	15

- (a) For the purposes of this table, management fees include technical fees.
- (b) Management services, including services of a technical nature rendered from sources outside of PNG for a resident of PNG are subject to MFWT at a rate of 17%. For services provided by a resident of a country with which PNG has entered into a double tax treaty that does not have a specific technical services article, the payment is not subject to withholding tax in PNG if all of the services were performed outside PNG.
- (c) Nonresident entities deriving income from “prescribed contracts” are subject to FCWT at a rate of 15% of the gross receipts. The income of residents of countries with which PNG has entered into a double tax treaty is subject to the FCWT provisions if the nonresident is conducting business in PNG through a permanent establishment.
- (d) Until recently, a reduced FCWT rate may have applied to foreign contractors from these countries in accordance with the non-discrimination article in the relevant treaty. However, the PNG tax authorities now apply the 15% rate to foreign contractors from all countries.
- (e) The rate is 30% for payments to associates. For payments to non-associates, the amount of the tax equals the lesser of 10% of assessable income or 48% of taxable income.
- (f) The treaties with Germany and Indonesia are not yet in force.
- (g) The rate is 0% for interest paid to the government or the central bank.

# Paraguay

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## A. At a glance

Corporate Income Tax Rate (%)	10
Capital Gains Tax Rate (%)	10 (a)
Withholding Tax (%)	
Dividends	5/15 (b)
Interest Paid to Well-Known Foreign Financial Institutions	6
Royalties from Patents, Know-how, etc.	15
Gross Income from Production and Distribution of Films and Television Programs	12
Insurance and Reinsurance	3
Personal Transportation Fares, Telephone Charges and Internet Charges Paid from Paraguay or Vice Versa	3
International News Agencies	4.5
Freight Charges	3
Assignment of the Right to Use Containers	4.5
Branch Remittance Tax and Other Payments to Nonresident Principal Shareholders	30
Other Payments Not Specified Above	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	0

- (a) The Paraguayan tax law does not have a separate capital gains tax. Capital gains are subject to the general regime for corporate income tax and accordingly are taxed at the corporate income tax rate of 10%.
- (b) The 5% withholding tax is imposed when the decision to distribute dividends to residents and to nonresidents in Paraguay is made by the Paraguayan company. The 15% withholding rate applies to dividends paid abroad to nonresidents.



## B. Taxes on corporate income and gains

**Corporate income tax.** Tax is levied on Paraguay-source income of corporations and commercial enterprises. Income is considered to be from a source in Paraguay if it is derived from capital, property or rights in Paraguay or from a business in Paraguay. Residence is not relevant. Under Law 2421/04, for companies domiciled in Paraguay, income derived from capital invested abroad is considered Paraguayan-source income and, accordingly, subject to corporate income tax.

Income earned from farming activities in Paraguay is subject to Agribusiness Income Tax under the rules established by Law 5061/13. Farming is the business conducted for the purpose of obtaining primary foods, whether vegetable or animal, by the use of land. It includes, among other activities, breeding or fattening cattle; producing wool, hides or bristle; producing crops, fruit or vegetables; and producing milk. Under the law, the tax base is calculated through one of the following methods:

- Agribusiness Taxpayer method
- Small Agribusiness Taxpayer method
- Accounting method

**Rate of corporate income tax.** Under Law 2421/04, the corporate income tax rate is 10%. Branches are also subject to dividend withholding tax at a rate of 5% and to a 15% withholding tax on remittances to their home offices. Under Law 5061/13, Agribusiness Income Tax is calculated at a rate of 10% of the tax base.

The Paraguay incentive tax law provides an exemption from the 15% withholding tax mentioned above if an investment of greater than USD5 million is made in industrial, through a specific Bi-Ministerial Tax Resolution.

**Capital gains.** The Paraguayan tax law does not have a separate capital gains tax. Capital gains are subject to the general regime for corporate income tax and accordingly are taxed at the corporate income tax rate of 10%.

**Administration.** The tax year is the calendar year. Returns must be filed within four months after the end of the financial year. Penalties are imposed for failure to comply with these rules.

**Dividends.** A 5% withholding tax is imposed on dividends when the decision to distribute the dividends to residents and to non-residents in Paraguay is made by the Paraguayan company. A 15% withholding tax is imposed on dividends paid abroad to nonresidents.

## C. Determination of trading income

**General.** Taxable income is based on profits from the financial statements after tax adjustments. Expenses are generally deductible if they are incurred for the purposes of the business and in the production of taxable income.

**Inventories.** Inventory is valued at the cost of production or acquisition. The cost may be calculated under the average-cost or first-in, first-out (FIFO) methods. After choosing a method, a corporation may not change it without prior authorization.

**Tax depreciation.** Depreciation must be calculated using the straight-line method.

**Relief for losses.** The tax law does not allow loss carryforwards.

**Groups of companies.** Paraguayan law does not contain any measures for filing consolidated returns or for relieving losses within a group.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; imposed on goods sold, including imports, and services rendered in Paraguay; exports are exempt; in certain circumstances, payments of royalties are subject to the tax	
Standard rate	10
Basic consumer food items, pharmaceutical products, and the leasing and sale of real estate	5
Selective tax on consumption, on certain manufactured and imported goods, such as cigarettes, liquor and petroleum products	1 to 50
Social security contributions for nonbank institutions, on payroll; paid by	
Employer	16.5
Employee	9

#### E. Foreign-exchange controls

The central bank does not control the foreign-exchange market. A free-market rate of exchange prevails.

#### F. Tax treaties

Paraguay has entered into double tax treaties with Chile and Taiwan. It has also entered into a tax treaty on international freight with Argentina and tax treaties on international airfreight with Belgium, Germany and Uruguay.

# Peru

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**A. At a glance**

Corporate Income Tax Rate (%)	29.5 (a)
Capital Gains Tax Rate (%)	0/5/30 (b)
Branch Tax Rate (%)	29.5 (c)
Withholding Tax (%)	
Dividends	5 (d)
Interest	4.99/30 (e)(f)
Royalties	30 (e)
Technical Assistance	15 (e)
Digital Services	30 (e)
Branch Remittance Tax	5 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	4/Unlimited (g)

- (a) Mining companies are subject to an additional Special Mining Tax or to “voluntary” payments. For further details, see Section B.
- (b) Capital gains derived by nonresident entities are subject to income tax at a rate of 5% if the transfer is made in Peru. Otherwise, the rate is 30%. For the period of 1 January 2016 through 31 December 2019, capital gains derived from the transfer of securities carried out through the Lima Stock Exchange are exempt from tax if certain conditions are met. For further details regarding the applicable tax rates, see *Capital gains* in Section B. Capital gains derived by resident entities are subject to income tax at a rate of 29.5%.
- (c) Branches and permanent establishments of foreign companies are subject to the same corporate income tax rate as domiciled companies.
- (d) The Dividend Tax, which is imposed at a rate of 5% and is generally withheld at source, is imposed on profits distributed to nonresidents and individuals. For further details regarding the Dividend Tax, see Section B.
- (e) This tax applies to payments to nonresidents.
- (f) A reduced rate of 4.99% applies to certain interest payments. For further details, see Section B.
- (g) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to income tax on their worldwide taxable income. Resident companies are those incorporated in Peru. Branches and permanent establishments of foreign companies that are located in Peru and nonresident entities are taxed on income from Peruvian sources only.

**Tax rates.** The corporate income tax rate is 29.5%.

A Dividend Tax at a rate of 5% is imposed on distributions of profits to nonresidents and individuals by resident companies and by branches, permanent establishments and agencies of foreign companies. This tax is generally withheld at source. However, in certain circumstances, the company must pay the tax directly. For details regarding the Dividends Tax, see *Dividends*.

**Mining tax.** Mining companies are subject to an additional Special Mining Tax based on a sliding scale, with progressive marginal rates ranging from 2% to 8.4%. The tax is imposed on a quarterly basis on the operating profits derived from sales of metallic mineral resources, regardless of whether the mineral producer owns or leases the mining concession.

In addition, mining companies that have signed stability agreements with the state are subject to “voluntary” payments, which are calculated based on a sliding scale with progressive marginal rates ranging from 4% to 13.12%. These rates are applied on a quarterly basis to the operating profits derived from sales of metallic mineral resources, regardless of whether the mineral producer owns or leases the mining concession. Higher tax rates apply to higher amounts of operating profits.

**Tax incentives.** Various significant tax incentives are available for investments in the following:

- Mining enterprises
- Oil and gas licenses and services contracts
- Certain agricultural activities
- Capital markets

They are also available for investments in manufacturing industries located in the jungle, in designated tax-free zones and in borderline areas of the country.

**Capital gains.** Capital gains derived by nonresident entities are subject to income tax at a rate of 5% if the transfer is made in Peru. Otherwise, the rate is 30%. The regulations provide that a transaction is made in Peru if the securities are transferred through the Lima Stock Exchange. The transaction takes place abroad if securities are not registered with the Lima Stock Exchange or if registered securities are not transferred through the Lima Stock Exchange.

A special procedure has been introduced to determine the tax basis of listed securities acquired before 1 January 2010. The general rule is that the tax basis for these securities is the value of such securities at the closing of 31 December 2009, if this value is not lower than the price paid for the acquisition of the securities. The purpose of this rule is to impose capital gains tax only on the capital gain resulting from the appreciation of securities since 1 January 2010 (date when the exemption was repealed).

For the period of 1 January 2016 through 31 December 2019, the transfer of securities carried out through the Lima Stock Exchange is exempt from capital gains tax if the following conditions are met:

- The securities must be traded on the Lima Stock Exchange.
- In any 12-month period, the taxpayer and its related parties must not transfer more than 10% of the securities issued by the company.
- The securities should must meet a liquidity threshold to be considered “stock market securities.” Numerical parameters are established for “stock market securities.” On a daily basis at the opening of the stock market session, the Lima Stock Exchange publishes the securities that comply with the requirements to be considered “stock market securities.”

In any case, the exemption is lost if, after the application of the exemption, the issuer of the securities unlists them from the Lima Stock Exchange within the 12 months following the sale.

Capital gains derived from the disposal of bonds issued by the government as well as by Peruvian corporations before 10 March 2007, through public offerings, are exempt from Peruvian income tax.

CAVALI withholds capital gains in transactions concluded on the Lima Stock Exchange. As a result, nonresidents are not required to pay their income tax liability to the Peruvian tax authorities.

For this purpose, an indirect transfer of Peruvian shares is deemed to occur if the following conditions are met:

- Within the 12-month period before the transfer, the fair market value of the shares issued by the Peruvian entity represents at least 50% or more of the fair market value of the total shares of the nonresident entity.
- At least 10% of the shares of the nonresident entity are transferred within a 12-month period.

Temporary provisions established a special procedure to determine the tax basis of shares acquired before 16 February 2011. Under this procedure, the tax basis is the higher of the price paid on acquisition or the market value on 15 February 2011.

**Administration.** The mandatory closing date for business enterprises is 31 December. Tax returns must be filed by the end of March or beginning of April, depending on the taxpayer number.

Companies must make advance payments of income tax. Such payments can be used as a credit against the annual income tax obligation, or they can be refunded at the end of the fiscal year if requested by the taxpayer.

The monthly advance payments equal the higher of the following amounts:

- The amount obtained by applying to the monthly net income the ratio obtained by dividing the amount of tax calculated for the preceding tax year by the total net income for that year. For the January and February payments, the ratio is determined by dividing the amount of tax calculated for the year before the preceding tax year by the net income for that year.
- The amount obtained by applying a 1.5% rate to the net income for the month.

Companies in a start-up process or in a net operating loss position make monthly advance payments equal to 1.5% of their monthly net income.

Monthly advance payments are due on the 9th to the 15th business day, according to a schedule. Taxes and related penalties not paid by due dates are subject to interest charges, which are not deductible for tax purposes.

**Dividends.** Effective from 1 January 2017, the dividend withholding tax rate is 5%. This rate applies to dividends that correspond to profits generated since such date. Profits generated up to 31 December 2014 are subject to a withholding tax rate of 4.1%, and profits generated between 1 January 2015 and 31 December 2016 are subject to a withholding tax rate at a rate of 6.8%, even if the relevant profits are distributed in 2017 or future years. For these purposes, first-in, first-out (FIFO) rules apply.

The Dividend Tax applies to profits distributed to nonresidents and individuals.

The Dividend Tax applies to distributions by Peruvian companies, as well as to distributions by Peruvian branches, permanent establishments and agencies of foreign companies. The income tax law specifies various transactions that are considered profits distributions by resident entities for purposes of the Dividend Tax. These transactions include the distribution of cash or assets, other than shares of the distributing company, and, under certain circumstances, a capital reduction, a loan to a shareholder or a liquidation of the company. For permanent establishments, branches, and agencies of foreign companies, a distribution of profits is deemed to occur on the deadline for filing their annual corporate income tax return (usually at the end of March or the beginning of April of the following tax year).

The law also provides that if a resident company, or a branch, permanent establishment or agency of a foreign company, pays expenses that are not subject to further tax control, the amount of the payment or income is subject to the Dividend Tax. Dividend Tax for these items is paid directly by the resident entity or the branch or permanent establishment. In this case, the tax rate is 5%.

The capitalization of equity accounts, such as profits and reserves, is not subject to the Dividend Tax, unless these items are further distributed.

**Interest.** Interest paid to nonresidents is generally subject to withholding tax at a rate of 30%. For interest paid to unrelated foreign lenders, the rate is reduced to 4.99% if all of the following conditions are satisfied:

- For loans in cash, the proceeds of the loan are brought into Peru as foreign currency through local banks or are used to finance the import of goods.
- The proceeds of the loan are used for business purposes in Peru.
- The participation of the foreign bank is not primarily intended to cover a transaction between related parties (back-to-back loans).
- The interest rate does not exceed the London Interbank Offered Rate (LIBOR) plus seven points. For this purpose, interest includes expenses, commissions, premiums and any other amounts in addition to the interest paid.

If the first three conditions described above are satisfied and the interest rate exceeds the LIBOR plus seven points, only the excess interest is subject to withholding tax at the regular rate of 30%.

Interest arising from loans granted by international banks to Peruvian banks and financial institutions is subject to a 4.99% withholding tax.

In general, interest derived from bonds and other debt instruments is also subject to a withholding tax rate of 4.99%, unless the holder of the bonds or other debt instruments is related to the issuer or its participation is primarily intended to avoid transactions between related parties (back-to-back transactions).

Interest earned on bonds issued by the government is exempt from tax. Effective from 1 January 2010, interest on bonds issued by Peruvian corporations before 11 March 2007, in general through public offerings, is exempt from tax. Interest from deposits in Peruvian banks is subject to a 4.99% withholding tax if the beneficiary is a foreign entity.

**Other withholding taxes.** Payments for technical assistance used in Peru are subject to withholding tax at a rate of 15%, regardless of whether the technical assistance is effectively provided. If the consideration exceeds 140 Tax Units (approximately USD 162,886), the local user must obtain and provide to the Peruvian tax authorities a report from an audit company confirming that the technical assistance services were actually rendered.

Payments for digital services that are provided through the internet or a similar platform and used in Peru are subject to withholding tax at a rate of 30%.

Payments for non-technical services provided in Peru are subject to withholding tax at a rate of 30%.

**Foreign tax relief.** Tax credits are permitted, within certain limits, for taxes paid abroad on foreign-source income. Under domestic legislation, a direct tax credit is allowed. Under certain treaties, an indirect tax credit is allowed.

### C. Determination of trading income

**General.** Taxable income of business enterprises is generally computed by reducing gross revenue by the cost of goods sold and all expenses necessary to produce the income or to maintain the source of income. However, certain types of revenue must be computed as specified in the tax law, and some expenses are not fully deductible for tax purposes. Business transactions must be recorded in legally authorized accounting records that are in full compliance with International Financial Reporting Standards (IFRS). The accounting records must be maintained in Spanish and must be expressed in Peruvian currency. However, under certain circumstances, foreign investors who invest in foreign currency may enter into an agreement with the state or with state-owned corporations that allows them to keep their accounting books in foreign currency.

**Research and development expenses.** Up to 31 December 2013, the deduction of scientific and technological research and innovation expenses incurred by a company was limited to 10% of the



annual net income, with a maximum annual limitation of 300 Tax Units (approximately USD349,042). Effective from 1 January 2014, these limits were eliminated.

In addition, to be tax-deductible, the expenses must be previously qualified. Effective from 1 February 2014, the treatment of research and development expenses varies depending on whether they are related to the core business of the taxpayer.

A temporary tax benefit is available for taxpayers that carry out scientific research, technological and innovation development projects beginning on or after 1 January 2016. The tax benefit is an additional expense deduction of 50% or 75%, if certain conditions are met. The projects do not have to be related to the taxpayer's core business. The additional deduction of 50% or 75% cannot exceed 1,335 Tax Units (approximately USD1,553,240). The benefit will be effective until the 2019 fiscal year.

**Inflation adjustments.** For tax and accounting purposes, inflation adjustments apply only until 31 December 2004. Consequently, beginning 1 January 2005, transactions are recognized and recorded in local books at their historical value.

**Special activities.** Nonresident corporations, including their branches and agencies, engaged in certain specified activities provided partially in Peru are subject to tax on only a percentage of their gross income derived from such activities. This tax is withheld at source. The following are the applicable percentages for some of these specified activities.

Activity	Applicable percentage (%)
Air transportation	1 (a)(b)
Marine transportation	2 (a)(b)
Leasing of aircraft	60 (c)
Leasing of ships	80 (c)
International news agencies	10 (a)

(a) The withholding tax rate is 30%. As a result, the effective tax rates are 0.3% for air transportation, 0.6% for marine transportation and 3% for international news agencies.

(b) This percentage applies to services rendered partly in Peru and partly abroad.

(c) The withholding tax rate is 10%. As a result, the effective tax rates are 6% for leasing of aircraft and 8% for leasing of ships.

**Inventories.** Inventories must be carried at cost. Cost may be determined specifically or by the first-in, first-out (FIFO), average, retail or basic inventory method. The last-in, first-out (LIFO) method is not permitted.

**Provisions.** Provisions for bad debts, bonuses, vacations, employees' severance indemnities and other expenses are allowed if made in accordance with certain tax regulations.

**Tax depreciation.** Depreciation rates are applied to the acquisition cost of fixed assets. The following are some of the maximum annual depreciation rates allowed by law.

<b>Asset</b>	<b>Maximum rate (%)</b>
Buildings and structures	5*
Cattle and fishing nets	25
Vehicles	20
Machinery and equipment for construction, mining and oil activities	20
Machinery and equipment for other activities	10
Data processing equipment	25
Other fixed assets	10

\* This is a fixed rate rather than a maximum rate. Also, see below.

Taxpayers may apply any depreciation method for their fixed assets other than buildings and structures, taking into account the characteristics of the business as long as the resulting depreciation rate does not exceed the maximum rates stated above.

In general, except for buildings and structures, tax depreciation must match financial depreciation.

Under the Special Regime of Depreciation for Buildings, which is effective from 1 January 2015, buildings can be depreciated for income tax purposes at an annual depreciation rate of 20% if certain conditions are met.

**Relief for losses.** Taxpayers may select from the following two systems to obtain relief for their losses:

- Carrying forward losses to the four consecutive years beginning with the year following the year in which the loss is generated
- Carrying forward losses indefinitely, subject to an annual deductible limit equal to 50% of the taxpayer's taxable income in each year

Loss carrybacks are not allowed.

## **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Temporal net assets tax; imposed on companies, and on agencies, branches and permanent establishments of foreign entities; the tax base equals the value of the net assets of the taxpayer as of 31 December of the preceding year that exceeds PEN1 million (approximately USD294,551); the tax payments may offset the advance payments required under the general income tax regime or may be claimed as a credit against the income tax payable for the tax year; a refund may be requested for any balance of tax payment that is not used in the current year; the tax does not apply to certain companies; tax is payable beginning in the year following the first year of productive activities	0.4

Nature of tax	Rate (%)
Sales tax, on the sale of goods, services and the import of most products (The government has announced that the tax rate will be reduced to 17%, effective from 2017. However, at the time of writing, the law containing this change had not yet been enacted.)	18
Excise tax, on goods and imports; the tax is either a fixed amount or an amount determined by applying a percentage rate	Various
Social security contributions to the Peruvian Health Social Security Office, on salaries and legal bonuses; paid by employer	9
Pension Fund; paid by employee (Alternatively, employees may contribute approximately 11.8% of their salaries to the Private Pension Funds Trustee [AFP].)	13
Employees' profit sharing; calculated on pretax income and deductible as an expense in determining taxable income; rate varies depending on companies' activities (mining, fishing, manufacturing, telecommunications and other activities)	5 to 10
Tax on Financial Transactions; imposed on debits and credits in Peruvian bank accounts	0.005

## E. Miscellaneous matters

**Foreign-exchange controls.** Peru does not impose foreign-currency controls. Exchange rates are determined by supply and demand.

**Means of payment.** Any payment in excess of PEN3,500 or USD1,000 must be made through the Peruvian banking system using the so-called "Means of Payment," which include bank deposits, wire transfers, pay orders, credit and debit cards and non-negotiable checks. Non-compliance with this measure results in the disallowance of the corresponding expense or cost for income tax purposes. In addition, any sales tax (see Section D) related to the acquisition of goods and services is not creditable.

**Related-party transactions.** Expenses incurred abroad by a non-resident parent company, affiliates or the home office of a Peruvian subsidiary or branch (or prorated allocations of administrative expenses incurred by those entities) are deemed by law to be related to the generation of foreign revenue and, accordingly, non-deductible, unless the taxpayer can prove the contrary.

**Transfer pricing.** Peru has introduced transfer-pricing rules, which are consistent with the Organisation for Economic Co-operation and Development (OECD) guidelines. Intercompany charges must be determined at arm's length. Regardless of the relationship between the parties involved, the fair market value (FMV) must be used in various types of transactions, such as the following:

- Sales
- Contributions of property
- Transfers of property
- Provision of services

For the sale of merchandise (inventory), the FMV is the price typically charged to third parties in profit-making transactions. For frequent transactions involving fixed assets, the FMV is the value used in such frequent transactions by other taxpayers or parties. For sporadic transactions involving fixed assets, the FMV is the appraisal value.

In the event that the transactions are performed without using the FMV, the tax authorities make the appropriate adjustments for the parties to the transaction.

The FMV of transactions between related parties is the value used by the taxpayer in identical or similar transactions with unrelated parties. The tax authorities may apply the most appropriate of the following transfer pricing methods to reflect the economic reality of the transactions:

- Comparable uncontrolled price method
- Cost-plus method
- Resale price method
- Profit-based method

Effective from January 2013, specific rules are introduced for applying the comparable uncontrolled price method to the exportation and importation of commodities and other products, with prices set by reference to commodity prices.

The transfer-pricing rules provide for advance pricing agreements between taxpayers and the Peruvian tax authorities.

From 1 January 2017, taxpayers must file with the Peruvian tax authorities the following reports:

- Local File, if the accrued revenues exceed 2,300 Tax Units (approximately USD2,776,933). This report provides detailed information on intercompany transactions (both domestic and cross-border) and transactions between the local taxpayer and residents in tax-haven jurisdictions. In addition, information with respect to the benefit test must be included in the Local File for the specific case of services. Also, see the next paragraph regarding a special rule for the filing of the Local File.
- Master File, if the accrued revenues exceed 20,000 Tax Units (approximately USD24,147,245). This report contains high-level information on the group's business operations, the group's transfer-pricing policies and the group's global allocation of income and economic activity.
- Country-by-Country Report (CbCR) for taxpayers forming part of multinational groups, in accordance with Action 13 of Base Erosion and Profit Shifting (BEPS) Action Plan of the OECD. This report must include aggregate worldwide tax jurisdiction information relating to the global allocation of the revenue, profits (or losses), income taxes paid (and accrued) and certain indicators of the location of economic activity among tax jurisdictions in which the multinational enterprise group operates. The CbCR also must contain a listing of all of the constituent entities of the group. This listing must include the tax jurisdictions of incorporation, as well as the nature of the main business activities carried out by the constituent entities.

The changes regarding the submission of the Local File apply from the 2016 fiscal year, while the Master File and the CbCR are mandatory from the 2017 fiscal year.

To deduct services provided between related parties or to parties in tax havens, the taxpayer must comply with the benefit test. The benefit test is met if the services rendered provide economic or commercial value to the recipient of the service or improves or maintains the commercial position of the recipient. This can be established if independent parties would be satisfied as to the need for the service, whether they execute the services themselves or through a third party. In this regard, the information and documentation provided must evidence the actual execution of the service, the nature of the service, the actual necessity for the service, and the cost and expenses incurred by the service provider.

**Debt-to-equity rules.** Interest on loans from related parties in excess of a 3:1 debt-to-equity ratio is not deductible.

**Transactions with residents in low-tax jurisdictions (tax havens).**

Expenses incurred in transactions with residents in low-tax jurisdictions (tax havens) are not deductible for tax purposes, except for the following:

- Toll payments for the right to pass across the Panama Channel
- Expenses related to credit operations, insurance or reinsurance, leasing of ships or aircraft and freight services to and from Peru

The following are considered low-tax jurisdictions.

Alderney	Dominica	Netherlands
Andorra	Gibraltar	Antilles
Anguilla	Granada	Niue
Antigua and Barbuda	Guernsey	Panama
Aruba	Hong Kong SAR	St. Kitts and Nevis
Bahamas	Isle of Man	St. Lucia
Bahrain	Jersey	St. Vincent and the Grenadines
Barbados	Labuan	Seychelles
Belize	Liberia	Tonga
Bermuda	Liechtenstein	Turks and Caicos Islands
British Virgin Islands	Luxembourg	US Virgin Islands
Cayman Islands	Maldives	Vanuatu
Cook Islands	Marshall Islands	Western Samoa
Cyprus	Monaco	
	Montserrat	
	Nauru	

The double tax treaty between Peru and Portugal became effective on 1 January 2015. Consequently, for Peruvian tax purposes, Madeira is no longer considered to be a tax haven.

In addition to the jurisdictions mentioned above, other jurisdictions are considered low-tax jurisdictions if the effective rate of income tax in the jurisdiction is 0% or if the effective rate that would apply to the relevant income is at least 50% less than the rate that would apply under the general income tax regime in Peru, and if one of the following additional conditions is met:

- The jurisdiction does not provide information regarding the taxation of companies in the jurisdiction.
- A tax benefit regime in the jurisdiction applies to nonresidents only.
- Beneficiaries of tax benefits in the jurisdiction may not carry out business activities in the jurisdiction.

- The jurisdiction promotes itself as a jurisdiction that can assist companies in the reduction of their taxation in their home countries.

**Controlled foreign corporations.** The Peruvian Income Tax Law contains the International Fiscal Transparency System, which applies to Peruvian residents who own a controlled foreign corporation (CFC). The law provides requirements for a foreign company to be qualified as a CFC. For these purposes, the ownership threshold is set at more than 50% of the equity, economic value or voting rights of a nonresident entity.

In addition, to be considered a CFC, a nonresident entity must be a resident of either of the following:

- A tax-haven jurisdiction
- A country in which passive income is either not subject to income tax or subject to an income tax that is equal to or less than 75% of the income tax that would have applied in Peru

The law also provides a list of the types of passive income that must be recognized by the Peruvian resident (such as dividends, interest, royalties and capital gains).

The revenues are allocated based on the participation that the Peruvian entity owns in a CFC as of 31 December.

**General anti-avoidance rule.** Under a general anti-avoidance rule, which took effect on 19 July 2012, to determine the true nature of a taxable event, the Peruvian tax authorities take into account the events, situations and economic relationships that are actually carried out by the taxpayers.

If the Peruvian tax authorities identify a tax-avoidance case, it may demand payment of the omitted tax debt or decrease the amount of any credits, net operating losses or other tax benefits obtained by the taxpayer.

In addition, the rule establishes specific requirements to determine whether a taxpayer intended to avoid all or part of a taxable event or reduce the tax base or tax liability.

Also, if the Peruvian tax authorities determine that the taxpayer executed sham transactions, it applies the appropriate tax rules to such acts.

Nonetheless, the application of the general anti-avoidance rule has been temporally suspended until the issuance of further guidance explaining the conditions that must be met to apply this rule.

**Domestic reorganizations.** Under the existing Income Tax Law, domestic reorganizations are subject to a tax-free regime, to the extent that the basis of the assets included in the reorganization is kept at historical value. A law, which is effective from 1 January 2013, maintains this regime but establishes a minimum holding period in cases of spin-off reorganizations. The law states that the shareholders of the company being spun off that receive shares in the company to which the assets are contributed must keep the shares of the latter company until the closing of the next fiscal year following the reorganization. If the shares are transferred before that time, the underlying assets are deemed to be transferred by the acquiring company at market value. The tax is

determined by the difference between the historic tax basis and the market value. In addition, the shareholder selling the shares is subject to the ordinary capital gains tax.

## F. Tax treaties

Peru has entered into double tax treaties with Brazil, Canada, Chile, Korea (South), Mexico, Portugal and Switzerland. It has also signed an agreement to avoid double taxation with the other members of the Andean Community (Bolivia, Colombia and Ecuador) under which the exclusive right to tax is granted to the source country. The following is a table of treaty withholding tax rates.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Brazil	10/15 (a)	15	15
Canada	10/15 (a)	15	15
Chile	10/15 (a)	15	15
Korea (South)	10	15	10/15
Mexico	10/15 (a)	15	15
Portugal	10/15 (a)	10/15	10/15
Switzerland	10/15 (a)	10/15	10/15
Non-treaty jurisdictions	5 (b)	4.99/30 (b)	30

(a) The dividends tax rate may vary depending on the percentage of the direct or indirect ownership of the beneficiary in the payer company.

(b) See Section B.

# Philippines

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**A. At a glance**

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	
Real Property	6 (a)
Shares (b)	
Sellers Who are Citizens, Resident Aliens or Domestic Corporations	15 (c)
Other Sellers	5/10 (d)
Branch Income Tax Rate	30 (e)
Withholding Tax	
Dividends	
Nonresident Foreign Corporations	15/30 (f)
Domestic Corporations and Resident Foreign Corporations	0 (g)
Interest on Peso Deposits	20 (h)(i)
Royalties from Patents, Know-how, etc.	20 (i)
Branch Profits Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (j)

(a) See Section B.

- (b) These rates apply to capital gains on shares in domestic corporations not traded on a local stock exchange. See *Capital gains* in Section B for further details and for the rates applicable to gains derived from sales of shares traded on a local stock exchange.
- (c) The capital gains tax rate for these types of sellers was increased to 15%, effective from 1 January 2018.
- (d) The 5% rate applies to the net capital gain not exceeding PHP100,000 and the 10% rate applies to the excess.
- (e) Certain types of Philippine-source income of foreign corporations are taxed at preferential rates (see Section B).
- (f) As a general rule, the withholding tax on dividends paid to a nonresident foreign corporation is 30%, which can be reduced to 15% under certain conditions.
- (g) Under domestic law, dividends paid to domestic corporations or resident foreign corporations are not subject to tax.
- (h) The withholding tax rate for interest on peso deposits derived by domestic and resident foreign corporations is 20%. For preferential rates under tax treaties for nonresident foreign corporations, see Section F. For preferential rates on interest derived from foreign-currency deposits, see Section B.
- (i) Under domestic law, if the recipient is a nonresident foreign corporation, the final withholding tax rate is 30%. For reduced rates under tax treaties for nonresident foreign corporations, see Section F.
- (j) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Domestic corporations are taxed on their worldwide net taxable income. Domestic corporations are corporations incorporated under the laws of the Philippines. Resident foreign corporations are taxed on net taxable income derived from the Philippines, and nonresident foreign corporations are taxed on gross income derived from the Philippines. A resident foreign corporation (a branch) is one created under foreign laws and engaged in trade or business in the Philippines. Any other foreign corporation is considered a nonresident.

**Rates of corporate tax.** Domestic and foreign corporations are subject to tax at a rate of 30%.

Subject to certain exceptions, a 2% Minimum Corporate Income Tax (MCIT) may be imposed on domestic and resident foreign corporations beginning with the fourth tax year following the year of commencement of business operations. The MCIT must be paid if the corporation has zero or negative taxable income or if the MCIT is greater than the regular corporate income tax liability.

Philippine-source income of foreign corporations taxed at preferential rates includes the following.

<b>Type of income</b>	<b>Rate (%)</b>
Interest income derived by offshore banking units (OBUs) from foreign-currency loans granted to residents	10
Income derived by OBUs authorized by Bangko Sentral ng Pilipinas (BSP; the central bank) from foreign-currency transactions with nonresidents, other OBUs and local commercial banks, including branches of foreign banks authorized by the BSP to transact business with OBUs	0
Interest income of domestic corporations and resident foreign corporations from peso bank deposits and yields or other monetary benefits from deposit substitutes and from trust funds or similar arrangements	20

Type of income	Rate (%)
Interest income of domestic corporations and resident foreign corporations from depository banks under the expanded foreign-currency deposit system	15
Income of nonresidents from transactions with OBUs and depository banks under the expanded foreign-currency deposit system	0
Royalties derived by resident foreign corporations from sources in the Philippines	20
Gross Philippine billings of international carriers doing business in the Philippines	2.5
Taxable income of regional operating headquarters of multinational companies engaged in the following: general administration and planning services, business planning and coordination, sourcing and procurement of raw materials and components, corporate finance and advisory services, marketing control and sales promotion, training and personnel management, logistic services, research and development services and product development, technical support and maintenance, data processing and communication, and business development	10
Rentals, charter fees and other fees derived by nonresident owners or lessors of vessels chartered by Philippine nationals	4.5
Rentals, charter fees and other fees derived by nonresident lessors of aircraft, machinery and other equipment	7.5
Gross income of nonresident cinematographic film owners, lessors or distributors	25
Interest on foreign loans	20

Domestic and foreign enterprises registered with the Board of Investments under the 1987 Omnibus Investments Code may be granted an income tax holiday and exemption from certain other taxes and duties. Enterprises located in special-economic zones that are registered with the Philippine Economic Zone Authority (PEZA) or the special-economic zones may be granted an income tax holiday or a special tax regime under which a 5% tax is imposed on gross income instead of all national and local taxes.

Profits remitted by a branch to its head office are subject to a 15% tax. This tax is imposed on the total profits remitted, or earmarked for remittance, without deduction of tax. The tax does not apply to profits from activities registered with the PEZA. Dividends, interest, royalties, rent and similar income received by a foreign corporation from sources in the Philippines are not treated as branch profits unless they are effectively connected with the conduct of a trade or business in the Philippines.

**Capital gains.** A 6% tax is imposed on capital gains presumed to have been derived from the sale, exchange or disposition of land or buildings classified as capital assets. The tax is applied to the gross selling price or the fair market value, whichever is higher.

As a general rule, gains derived from the sale of shares of domestic corporations not traded on the stock exchange are subject to

tax at a rate of 5% of the net capital gain not exceeding PHP100,000 and at a rate of 10% on the excess. Beginning 1 January 2018, if the seller is a Filipino citizen, a resident alien or a domestic corporation, the tax on such gain is a flat rate of 15%.

If the shares are listed and traded through the facilities of the Philippine Stock Exchange, the tax is 0.6% of the gross selling price. A tax is also imposed on the sale, barter, exchange or other disposition through an initial public offering of shares of stock in a closely held corporation at a rate of 1%, 2% or 4% of the gross sales price of the shares.

**Administration.** A corporation may use the calendar year or a fiscal year as its tax year.

Corporations must file quarterly returns within 60 days from the close of each of the first three quarters of the tax year, and a final or adjusted return on or before the 15th day of the fourth month following the close of the tax year. The corresponding tax is paid at the time the return is filed.

**Dividends.** Dividends received by a domestic or resident foreign corporation from a domestic corporation are not subject to tax. If the recipient is a nonresident foreign corporation, the 30% tax may be reduced to 15% if any of the following circumstances exists:

- The country of domicile of the recipient does not impose any tax on offshore or foreign-source income.
- The country of domicile of the recipient allows a credit for taxes deemed paid in the Philippines equal to 15%, which represents the difference between the regular corporate income tax rate of 30% and the 15% preferential tax on dividends.
- The dividend is not taxed in the recipient's country of domicile.

**Foreign tax relief.** For domestic corporations, tax credits are allowed for income taxes paid or accrued to any foreign country, subject to certain limitations. Alternatively, such income taxes may be claimed as a deduction from taxable income. Resident foreign corporations are not allowed to credit tax paid to foreign countries against Philippine income.

### C. Determination of trading income

**General.** The computation of income for income tax purposes must be in accordance with the accounting method regularly employed in maintaining the taxpayer's books of account, provided that method clearly reflects income.

Other allowable deductions include the usual, ordinary and necessary business expenses, such as interest, taxes, losses, bad debts, charitable and other contributions, and contributions to a pension trust. All of these expenses are required to be directly attributable to the development, management, operation or conduct of a trade or business in the Philippines.

The deduction for interest expense is reduced by an amount equal to 33% of interest income that has been subject to final tax. Interest incurred to acquire property used in a trade or business may be claimed as a deduction or treated as a capital expenditure.

Research and development expenses that are paid or incurred during the tax year in connection with a trade or business and that are not chargeable to a capital account or treated as deferred expenses may be claimed as deductible expenses.

**Inventories.** Inventory valuation must conform as nearly as possible to the best accounting practice in the trade or business and must clearly reflect income. The most commonly used methods of inventory valuation are cost and the lower of cost or market.

**Tax depreciation.** Taxpayers may deduct a reasonable allowance for exhaustion and wear and tear (including obsolescence) of property used in a trade or business. The depreciation method used must be reasonable and generally accepted in the particular industry. Depreciation methods that are generally acceptable include the straight-line method, declining-balance method, the sum-of-the-years' digits method or any other method that may be prescribed by the Secretary of Finance. Resident foreign corporations may claim depreciation only on property located in the Philippines.

**Relief for losses.** Net operating losses may be carried forward three years to offset future income in those years. A net operating loss is defined as the excess of allowable deductions over gross income in a tax year. Net losses may not be carried forward if the losses are incurred in a year in which a corporation is exempt from income tax or if a substantial change of ownership occurs.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT); imposed on all persons who, in the course of their trade or business, sell, barter, exchange or lease goods or properties (including intangible personal properties and real properties), render services or import goods; services rendered in the Philippines by nonresident foreign persons are deemed to be rendered in the course of trade or business; specific goods and transactions are exempt; in general, exports of goods and services are subject to a 0% rate	12%
Improperly accumulated earnings tax; levied on accumulated income of corporations if the income was accumulated to avoid tax with respect to the shareholders of the corporation or other corporations; a corporation serving as a holding company or investment company is prima facie evidence of a purpose to avoid tax with respect to shareholders; publicly held companies, banks and nonbank financial intermediaries, and insurance companies are exempt	10%
Fringe benefit tax; applied to the grossed-up monetary value of fringe benefits received by managerial and supervisory employees; the grossed-up monetary value is determined	

Nature of tax	Rate
by dividing the monetary value of the benefit by 65%; the employer must withhold the tax and pay it to the tax authorities; the tax does not apply if the benefit is required for or is necessary to the trade or business of the employer or if the benefit is granted for the convenience of the employer; this tax is considered to be a final tax	
General rate	35%
Benefits paid to nonresident alien individuals who are not engaged in a trade or business in the Philippines (monetary value of benefit is divided by 75%)	25%
Documentary stamp tax	
Original issue of all debt instruments; imposed on issue price	PHP1.50 per PHP200
Original issue of stock certificates; imposed on the par value or the consideration if no par value	PHP2 per PHP200
Transfer that is not made through a local stock exchange	PHP1.50 per PHP200
Bills of exchange or drafts; imposed on the face value	PHP0.60 per PHP200
Other specified transactions and documents	Various

### E. Miscellaneous matters

**Foreign-exchange controls.** The Philippines has adopted liberal foreign-exchange policies. In general, no restrictions are imposed on the repatriation of capital, profits or income earned in the Philippines. Foreign loans and foreign investments may be registered with the Philippine Central Bank (BSP). Only loans registered with the BSP are eligible for servicing through the use of foreign exchange purchased from the banking system. However, the registration of a foreign investment is required only if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings is sourced in the banking system.

**Transfer pricing.** The method used by a corporation to fix prices must be consistent worldwide.

The Bureau of Internal Revenue (BIR) issued Revenue Regulations 2-2013 on Transfer Pricing (TP Regulations) in January 2013. These regulations are largely based on the arm's-length methodologies prescribed by the Transfer Pricing Guidelines of the Organisation for Economic Co-operation and Development (OECD). The following are significant aspects of the TP Regulations:

- They implement the authority of the Commissioner of Internal Revenue under Section 50 of the Tax Code to review controlled transactions among associated enterprises and to allocate or distribute their income and deductions to determine their appropriate revenues and taxable income.

- They provide the methods of establishing an arm's-length price.
- They require the maintenance and safekeeping of the documents necessary for the taxpayer to prove that efforts were exerted to determine the arm's-length price. The TP Regulations apply to both cross-border and domestic transactions between associated enterprises.

**Related-party transactions.** Related-party transactions must comply with the arm's-length standard. Under certain conditions, a deduction may not be claimed for losses on sales or exchanges of properties or for interest incurred on transactions between related parties. The BIR Commissioner may reallocate gross income or deductions among related entities to prevent manipulation of reported income.

## F. Treaty withholding tax rates

The table below lists the maximum withholding rates for dividends, interest and royalties provided under the treaties. Most of the treaties require that the recipient be the beneficial owner of the income for the preferential rates to apply. The BIR requires the filing of a tax treaty relief application when claiming a tax exemption or beneficial treaty rate.

	<b>Dividends (v)</b>	<b>Interest (w)</b>	<b>Royalties</b>
	%	%	%
Australia	25 (a)	15 (b)	25 (c)
Austria	25 (d)	15 (b)	15 (c)(e)
Bahrain	15 (f)	10	15 (t)
Bangladesh	15 (k)	15	15
Belgium	15 (f)	10	15
Brazil	25 (i)	15 (b)	25 (g)
Canada	25 (d)	15 (b)(h)	25 (e)(h)
China (mainland)	15 (f)	10	15 (s)
Czech Republic	15 (f)	10	15 (u)
Denmark	15 (k)	10	15
Finland	15 (r)	15 (b)	25 (c)
France	15 (r)	15 (b)	15
Germany	15 (k)	10 (l)	10 (m)
Hungary	20 (k)	15	15 (e)
India	20 (o)	15 (b)	15 (p)
Indonesia	20 (k)	15 (b)	25 (c)
Israel	15 (f)	10	15 (e)
Italy	15	15 (b)	25 (c)
Japan	15 (d)	10 (b)	10 (c)
Korea (South)	25 (k)	15 (b)	15 (c)
Kuwait	15 (f)	10 (q)	20
Malaysia	25 (i)	15	25 (c)
Netherlands	15 (f)	15 (l)	15 (c)
New Zealand	15	10	15
Nigeria	15 (x)	15 (q)	20
Norway	25 (d)	15	25 (e)(p)
Pakistan	25 (n)	15 (b)	25 (c)
Poland	15 (k)	10	15
Qatar	15 (f)	10	15
Romania	15 (d)	15 (q)	25 (j)
Russian Federation	15	15	15
Singapore	25 (r)	15 (b)	25 (c)



	<b>Dividends (v)</b>	<b>Interest (w)</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Spain	15 (d)	15 (l)	15 (c)
Sweden	15 (k)	10	15
Switzerland	15 (f)	10	15
Thailand	15 (r)	15 (b)	25 (c)
Turkey	15 (k)	10	10 (c)
United Arab Emirates	15 (f)	10 (q)	10
United Kingdom	25 (d)	15 (b)	25 (c)
United States	25 (r)	15 (b)	25 (c)(e)
Vietnam	15 (k)	15	15
Non-treaty jurisdictions	15/30 (y)	20/30 (y)	20/30 (y)

- (a) The rate is 15% if a rebate or credit is granted to the recipient.
- (b) The rate is 10% if the interest is paid with respect to public issues of bonds, debentures or similar obligations (under the United States treaty, with respect to public issues of bonded indebtedness). Under the Austria, Japan and Korea (South) treaties, the 10% rate also applies to interest paid by a Board of Investments (BOI)-registered preferred pioneer enterprise. Under the India treaty, the 10% rate also applies to interest paid to financial institutions, including insurance companies.
- (c) The rate is 10% (Austria, Japan, Korea (South), Netherlands and Spain) or 15% (Australia, Finland, Indonesia, Italy, Malaysia, New Zealand, Pakistan, Singapore, Thailand, the United Kingdom and the United States) for royalties paid by a BOI-registered preferred enterprise (under the Austria, Japan and Korea (South) treaties, the enterprise must be a pioneer enterprise). The 15% rate also applies to royalties paid with respect to cinematographic films or tapes for television or broadcasting under the treaties with Finland, Italy, Japan, Malaysia, Singapore, Thailand, Turkey and the United Kingdom. Under the Spain treaty, the rate is 20% for such royalties. Under the Finland treaty, the rate is also 15% for royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works.
- (d) The rate is 10% (Canada, Japan, Norway, and the United Kingdom, 15%) if the recipient holds 10% (Romania, 25%) of the voting shares of the payer corporation. Under the treaties with Austria and Japan, the rate is also 10% if the payer holds 10% (Japan, 25%) of the total shares issued by the payer during the six months immediately preceding the dividend payment date. Under the Japan treaty, the rate is also 10% if the dividends are paid by a BOI-registered pioneer enterprise. Under the Romania and Spain treaties, the 10% rate does not apply to partnerships. Under the treaty with Romania, the shares must have been owned for at least two years preceding the date of the dividend payment.
- (e) This rate is subject to the "most-favored-nation" provision of the treaty.
- (f) The rate is 10% if the recipient of the dividends holds directly at least 10% of the capital of the payer. Under the treaties with Bahrain, Israel, Kuwait, Qatar, Switzerland and the United Arab Emirates, partnerships do not qualify for the 10% rate. Under the treaty with the United Arab Emirates, the dividends are exempt from tax if the beneficial owner of the dividends is the government of a contracting state, a local government, a political subdivision, a local authority or any of their governmental institutions or entities.
- (g) The 25% rate applies to royalties paid for the use of, or the right to use, trademarks, cinematographic films, or films or tapes for television or radio broadcasting. A 15% rate applies to other royalties.
- (h) This rate applies if the interest payments or royalties are taxable in Canada.
- (i) A 15% rate applies if the recipient is a company (under the Brazil treaty, a partnership also qualifies). The 25% rate applies in all other cases. Under the Malaysia treaty, the recipient must be subject to tax in Malaysia.
- (j) The rate is 15% for royalties paid with respect to cinematographic films and tapes for television or broadcasting. The rate is 10% if the payer is registered with the BOI as a preferred pioneer enterprise.
- (k) The rate is 10% (Hungary and Indonesia, 15%) if the recipient holds directly at least 25% of the capital of the payer. Under the treaties with Bangladesh, Denmark, Germany, Korea (South), Poland, Sweden, Turkey and Vietnam, a partnership does not qualify for the 10% rate. Under the Korea (South) treaty, the 10% rate also applies if the dividends are paid by a BOI-registered preferred pioneer enterprise. The new treaty with Germany (see footnote [z]) provides for a withholding tax of 15% on dividends, which is reduced to 10%

or 5% if the beneficial owner is a company other than a partnership and if the following additional condition is satisfied:

- The beneficial owner holds directly at least 25% of the capital of the company paying the dividends (rate reduced to 10%).
  - The beneficial owner holds directly at least 70% of the capital of the company paying the dividends (rate reduced to 5%).
- (l) The rate is 10% for interest paid with respect to sales on credit of industrial, commercial or scientific equipment or with respect to public issues of bonds, debentures or similar obligations. Under the Netherlands treaty, the 10% rate also applies to interest on bank loans. Under the new Germany treaty (see footnote [z]), the withholding tax rate on interest is 10%, but no withholding tax applies if any of the following circumstances exist:
- The interest is paid in connection with the sale of commercial or scientific equipment on credit.
  - The interest is paid in connection with the sale of goods by an enterprise to another enterprise on credit.
  - The interest is paid in consideration of a loan guaranteed by the Federal Republic of Germany with respect to an export or foreign direct investment or it is paid to the government of the Federal Republic of Germany, the Deutsche Bundesbank, the Kreditanstalt für Wiederaufbau or the DEG mbH.
- (m) Under the new treaty with Germany (see footnote [z]), the withholding tax on royalties is 10%, and the term “royalties” means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematographic film, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience. The term “royalties” also includes payments of any kind for the use of or the right to use a person’s name, picture, or any other similar personality rights and payments received as consideration for the registration of entertainers’ or sportspersons’ performances by radio or television.
- (n) The rate is 15% if the recipient held 25% of the capital of the payer during the two tax years preceding the year of the dividend payment. Partnerships do not qualify for the 15% rate.
- (o) The rate is 15% if the beneficiary of the dividends owns at least 10% of the shares of the payer.
- (p) The rate is 10% (India, 15%) if the Philippine payer is registered with the BOI (under the Norway treaty, the enterprise must be a preferred pioneer enterprise). Under the Norway treaty, the rate is 7.5% for payments for the use of containers.
- (q) Under the treaty with Romania, the rate is 10% for interest paid with respect to sales on credit of industrial, commercial or scientific machines or equipment; bank loans; or public issues of bonds, debentures or similar obligations. Under the treaty with the United Arab Emirates, interest is exempt from tax if it is derived with respect to a loan made, guaranteed or insured by the government of the other contracting state or a political subdivision, local authority or local government, including financial institutions wholly owned by the government or any other instrumentality, as agreed by the contracting states. Under the treaty with Nigeria, interest is exempt if it is derived and beneficially owned by the government of the other contracting state or a local authority thereof or an agency or instrumentality of that government or local authority. Under the treaty with Kuwait, the interest is exempt in the following circumstances:
- It is derived by the government of the other contracting state or a governmental institution or other entity thereof as defined in Paragraph 2 of Article 4 of the treaty.
  - It is derived by an institution or company that is a resident of the other contracting state, and the institution or company’s capital is wholly owned by the government or a governmental institution or other entity thereof, as defined in Paragraph 2 of Article 4 of the treaty and as agreed to by the competent authorities of the two governments.
  - It is paid on loans guaranteed by the government of the other contracting state or a governmental institution or other entity thereof, as defined in paragraph 2 of Article 4 of the treaty.
- (r) The 15% rate (France, 10%; United States, 20%) applies if the recipient holds at least 10% (Thailand and Singapore, 15%) of the voting shares of the payer. Under the Finland and France treaties, partnerships do not qualify for the 10% rate. Under the Singapore and United States treaties, the shares must have been owned for at least two tax years preceding the year of the dividend payment.

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- (s) The 15% rate applies to royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or broadcasting. A 10% rate applies to royalties paid for the following:
- The use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes
  - The use of, or the right to use, industrial, commercial or scientific equipment
  - Information concerning industrial, commercial or scientific experience
- (t) This rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or broadcasting. The rate is 10% for other royalties.
- (u) The 15% rate applies to royalties paid for the use of, or the right to use, copyrights of cinematographic films, and films or tapes for television or radio broadcasting. A 10% rate applies to royalties paid for the following:
- The use of, or the right to use, copyrights of literary, artistic or scientific works, with certain exceptions
  - The use of, or the right to use, patents, trademarks, designs or models, plans, or secret formulas or processes
  - The use of, or the right to use, industrial, commercial or scientific equipment
  - Information concerning industrial, commercial or scientific experience
- (v) A preferential rate of 15% under the National Internal Revenue Code may apply if the recipient's country of domicile allows a credit for taxes deemed paid in the Philippines equal to 15%. This credit represents the difference between the regular corporate income tax rate of 30% and the 15% preferential rate. The 15% rate also applies if the dividend is not taxed in the recipient's country of domicile.
- (w) Under Philippine domestic law, interest on foreign-currency deposits of non-residents is exempt from tax.
- (x) The rate is 12.5% if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the paying company.
- (y) See Section A.

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*Because of the rapidly changing regulatory framework in Poland, readers should obtain updated information before engaging in transactions.*

**A. At a glance**

Corporate Income Tax Rate (%)	15/19 (a)
Capital Gains Tax Rate (%)	19
Branch Tax Rate (%)	19
Withholding Tax (%)	
Dividends	19 (b)(c)
Interest	20 (d)(e)
Royalties	20 (d)(e)
Services	20 (f)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (g)

- (a) The 15% corporate tax rate applies only to start-up taxpayers and taxpayers whose revenue from sales (including value-added tax [VAT] due) in the preceding tax year did not exceed the zloty (PLN) equivalent of EUR1,200,000 (small taxpayers).
- (b) This tax is imposed on dividends paid to residents and nonresidents.
- (c) This rate may be reduced by a tax treaty, or under domestic law, if certain conditions are met (see Section B).
- (d) This rate applies only to interest and royalties paid to nonresidents.
- (e) The tax rate may be reduced by a tax treaty or under domestic law if certain conditions are met (see Section B).
- (f) This withholding tax applies only to service payments made to nonresidents. In general, a foreign-service provider based in a treaty country is typically exempt from this tax if it submits a certificate of residency to the service recipient.
- (g) No more than 50% of the original loss can be deducted in one year.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Resident companies (including companies in the process of incorporating or registering) are subject to corporate tax on their worldwide income and capital gains. Non-resident companies are taxed only on income earned in Poland. Effective from 1 January 2017, for corporate income tax purposes, Polish-source income includes income (revenue) from, among others, the following:

- Activities conducted in Poland, including activities of foreign permanent establishments located in Poland
- Real estate located in Poland or rights resulting from such real estate (including sales of real estate or related rights)
- Transfers of shares (stocks), participation rights in partnership profits, investment fund certificates as well as receivables connected with those rights, if real estate located in Poland, directly or indirectly, accounts for at least 50% of the total value of the assets
- Securities and derivatives listed on a stock exchange in Poland, including income (revenue) from the sales or execution of resulting rights
- Receivables owed to Polish taxpayers, regardless of the place where the agreement was concluded or where the agreed action was performed

A company is resident in Poland for tax purposes if it is incorporated in Poland or managed in Poland. For this purpose, the concept of management is broadly equivalent to the effective management test in many treaties and is typically deemed to be exercised where the board of directors (or equivalent) meets. A branch of a nonresident company is generally taxed according to the same rules as a Polish company. Partnerships (in Poland, they include civil law partnerships, limited partnerships and general partnerships) are tax transparent except for foreign partnerships that are treated in their countries as taxpayers subject to corporate income tax. Under an amending law passed in 2013, Polish limited joint-stock partnerships are treated as corporate income tax taxpayers. The new law entered into force on 1 January 2014 (or some later date for certain partnerships with a non-calendar accounting year).

Under most tax treaties, income from an overseas representative office or permanent establishment of a Polish resident company is exempt from tax. Alternatively, certain tax treaties grant a tax credit for the foreign tax imposed on foreign-source income.

**Tax rates.** The general corporate income tax rate is 19%. In the limited cases mentioned below, the rate is 15%.

Effective from 1 January 2017, a corporate income tax rate of 15% may apply to the following taxpayers:

- Start-up taxpayer (the 15% rate applies in the tax year in which the taxpayer begins its operations, subject to the conditions mentioned below)
- Taxpayer whose revenue from sales (including VAT due) in the preceding tax year did not exceed the zloty (PLN) equivalent of EUR1,200,000 (small taxpayer)

The 15% corporate income tax rate does not apply to start-up taxpayers that were created as a result of certain restructuring activities including, among others, mergers, spin-offs (demergers), transformations (except transformations that do not change the status for corporate income tax purposes; that is, both prior and after the transformation the entity remains a corporate income tax taxpayer) and contributions in-kind (including contributions of an organized part of an enterprise; that is, a going concern). In such a case, a reduced 15% corporate income tax rate might not be applied for the first and second tax year after the restructuring event takes place.

**Capital gains.** Effective from 1 January 2018, capital gains constitute a separate revenue “basket” from other sources of revenue. Capital gains include, among others, the following:

- Revenues from sharing in profits of legal entities, including, among others, the following:
  - Dividends
  - Revenues from redemption of shares (stock)
  - Proceeds from liquidation of a company
  - Profits of a company designated to increase its share capital as well as amounts transferred from other capital of a company to increase its share capital
  - Additional payments received in connection with a merger or demerger of a company by a shareholder of that company
  - Revenues derived by a shareholder of a demerged company, if property taken over as a result of the demerger or a property remaining at the level of a demerged company does not constitute an organized part of the business
  - Additional payments received in connection with an exchange of shares
  - Undivided profits and profits designated to capital other than share capital in a transformed company in the case of its transformation into a partnership
  - Interest from certain profit-participation loans
  - Revenues from transformations, mergers or demergers
- Revenues from a contribution in kind to a company
- Revenues from shares in a company other than those mentioned above, including the following:
  - Revenues from the disposal of shares (including disposal of shares as a part of a redemption process)
  - Revenues from an exchange of shares
- Revenues from the disposal of an interest in a partnership
- Revenues from the disposal of receivables acquired by a taxpayer and receivables connected with revenues treated as capital gains
- Revenues from the following:
  - Certain property rights (including copyrights, licenses, industrial property rights and know-how), excluding revenues from licenses directly connected with revenues not treated as capital gains
  - Securities and derivatives, excluding derivatives hedging revenues or costs that are not treated as capital gains
  - Participations in investment funds or institutions for common investments
  - Renting or disposal of the above rights

Income from capital gains is added to income from other sources and taxed at the regular 19% corporate tax rate. In general, taxable income from a given source should be calculated as the difference between taxable revenues from that source and tax-deductible costs connected with that source of income. Taxable income or loss should be calculated separately for capital gains and for other sources of income. Capital losses do not offset income from other sources and vice versa.

Capital gains derived by nonresidents from sales and other disposals of state bonds issued on foreign markets may be effectively exempt from tax in Poland under domestic regulations if certain conditions are satisfied.



**Administration.** The Polish tax year must last 12 consecutive months, and it is usually the calendar year. However, a company can choose a different period of 12 consecutive months as its tax year by notifying the relevant tax office by certain deadlines. The first tax year after a change must extend for at least 12 months, but no longer than 23 months. If a company incorporated in the first half of a calendar year chooses the calendar year as its tax year, its first tax year is shorter than 12 months. A company incorporated in the second half of a calendar year may elect a period of up to 18 months for its first tax year (that is, a period covering the second half of the year of incorporation and the subsequent year).

In general, companies must pay monthly advances based on preliminary income statements. Monthly declarations do not need to be filed. In certain circumstances, a company may benefit from a simplified advance tax payment procedure.

Companies must file an annual income tax return within three months after the end of the company's tax year. They must pay any balance of tax due at that time.

An overpayment declared in an annual tax return is refunded within three months. However, before the overpayment is refunded, it is credited against any past and current tax liability of the company. If the company has no tax liability, it may request that the tax office credit the overpayment against future tax liabilities or refund the overpayment in cash. Overpayments earn interest at the same rate that is charged on late payments. Under the tax code, the rate of penalty interest on unpaid taxes varies according to the fluctuation of the Lombard credit rate. The interest rate on tax arrears is 200% of the Lombard credit rate, plus 2%. It cannot be lower than 8%. The penalty interest rate was 8% on 1 January 2018.

**Dividends.** A 19% withholding tax is imposed on dividends and other profit distributions (other revenues from sharing in profits of legal entities) paid to residents and nonresidents. Resident recipients do not aggregate domestic dividends received with their taxable income subject to the regular rate. For nonresident recipients, the withholding tax is considered a final tax and, accordingly, the recipient is not subject to any further tax on the dividend received. A treaty may reduce the tax rate for distributions to nonresidents if the recipient who is the beneficial owner of the dividend provides the required certificate indicating that its tax residence is located in the other treaty country.

Polish companies (and joint-stock partnerships, effective from 1 January 2014), other European Economic Area (EEA; the EEA consists of the European Union [EU] countries and Iceland, Liechtenstein and Norway) companies and Swiss companies are exempt from tax on dividends received from Polish subsidiaries, profits of a subsidiary (or amounts from certain capital) designated to increase its share capital and undivided profits of a subsidiary and profits designated to capital other than share capital on transformation of the subsidiary into a partnership, if they satisfy all of the following conditions:

- They are subject to income tax in Poland, an EU/EEA member state or Switzerland on their total income, regardless of the

source of the income (the exemption applies also to dividends or other profit distributions paid to permanent establishments, located in EU/EEA member states or in Switzerland, of such companies).

- They do not benefit from income tax exemption on their total income (which should be documented with their written statement).
- For at least two years, they hold directly at least 10% (25% for Swiss recipients) of the capital of the company paying the dividend. The two-year holding period can be met after payment is made. If the two-year holding period is eventually not met (for example, the shareholder disposes of the shares before the two-year holding requirement is met), the shareholder must pay the withholding tax and penalty interest. Broadly, except for some specific cases, full ownership of the shares is required.
- The Polish payer documents the tax residency of the recipient with a certificate of residency issued by the competent foreign tax authorities (if payments are received by a permanent establishment, some other documents may be needed).
- A legal basis exists for a tax authority to request information from the tax administration of the country where the taxpayer is established, under a double tax treaty or other ratified international treaty to which Poland is a party.
- The dividend payer is provided with a written statement confirming that the recipient of the dividend does not benefit from exemption from income tax on its worldwide income, regardless of the source from which such income is derived.

The above exemption does not apply to revenues earned by a general partner from its share in the profits of a limited joint-stock partnership.

The tax exemption for inbound dividends and the exemption from withholding tax on outbound dividends do not apply if the dividends are connected with an agreement, other legal action or a series of related actions and if the main purpose or one of the main purposes is to benefit from these tax exemptions (see Section E).

Specific rules exist regarding the corporate income taxation of the general partner of a limited joint-stock partnership. In general, such partner is subject to regular withholding tax on dividends in Poland. However, the amount of withholding tax on revenue earned by a general partner in a limited joint-stock partnership is reduced by the amount calculated by multiplying the percentage of the share in profits attributable to the general partner and the amount of the tax due on the total income of the limited joint-stock partnership.

The income (revenue) allocated to a Polish branch is subject to regular taxation in Poland. Withholding tax is not imposed on transfers of profits from such branch to its head office because from a legal perspective, a branch is regarded as an organizational unit of the foreign enterprise.

**Interest, royalties and service fees.** Under the domestic tax law in Poland, a 20% withholding tax is imposed on interest, royalties and fees for certain services paid to nonresidents. This withholding tax may be eliminated or reduced if the following conditions are satisfied:

- The payer can document the tax residency of the recipient (beneficial owner) of the payment or the service provider with a certificate indicating that the recipient or service provider's tax residence is in a country that has concluded a double tax treaty with Poland.
- The relevant treaty allocates taxing rights to the country of the service provider or recipient, or provides a different rate.

Under most of Poland's tax treaties, the withholding tax on fees for services may not be imposed in Poland.

Poland was granted a transitional period for the implementation of the EU Interest and Royalties Directive (2003/49/EC). Under the transitional rules, Poland was required to incorporate the directive provisions into its domestic law, but it was entitled to impose withholding tax at reduced rates until 30 June 2013. Effective from 1 July 2013, the full exemption applies to interest and royalties paid to qualifying entities if the following conditions are met:

- The payer is a company that is a Polish corporate income taxpayer (the exemption does not apply to joint-stock partnerships) with a place of management or registered office in Poland (the exemption applies also to payments made by permanent establishments located in Poland of entities subject to income tax in the EU on their total income, regardless of the source of the income, provided that such payments qualify as tax-deductible costs in computing the taxable income subject to tax in Poland).
- The entity earning the income is a recipient of such income and is a company subject to income tax in an EU/EEA member state (other than Poland) on its total income, regardless of the source of the income (the exemption applies also to payments made to permanent establishments of such companies if the income earned as a result of such a payment is subject to income tax in the EU member state in which the permanent establishment is located). In addition, the company must not benefit from income tax exemption on its total income.
- For at least two years, the recipient of the payments holds directly at least 25% of the share capital of the payer or the payer holds directly at least 25% of the share capital of the recipient of the payments. This condition is also met if the same entity holds directly at least 25% of both the share capital of the payer and the share capital of the recipient of the payments and such entity is subject to income tax in an EU/EEA member state on its total income, regardless of the source of the income. The two-year holding period can be met after payment is made. If the two-year holding period is eventually not met (for example, the shareholder disposes of the shares before the two-year holding requirement is met), the shareholder must pay the withholding tax together with the penalty interest. Full ownership of the shares is required.
- The Polish payer documents the tax residency of the recipients of the payments with a certificate of tax residency issued by the competent foreign tax authorities (if payments are received by a permanent establishment, some other documents may be needed).
- A legal basis exists for a tax authority to request information from the tax administration of the country where the taxpayer is established, under a double tax treaty or other ratified international treaty to which Poland is a party.

- The recipient of the payments provides a written statement confirming that it does not benefit from exemption from income tax on its total income, regardless of the source of the income, and that it is the “beneficial owner” (see below) of the payments received.

As of 1 January 2017, the definition of “beneficial owner” was introduced in the Polish Corporate Income Tax Act. Under the act, a “beneficial owner” is an entity receiving income for its own benefit, and is not an intermediary, agent, trustee or another entity obliged to pass on all or part of the income to another entity.

Certain types of income are excluded from the exemption.

**Foreign tax relief.** Under its tax treaties, Poland exempts foreign-source income from tax or grants a tax credit (usually with respect to dividends, interest and royalties). Broadly, foreign taxes are creditable against Polish tax only up to the amount of Polish tax attributable to the foreign income.

In addition to a credit for tax on dividends (that is, a deduction of withholding tax; direct tax credit), Polish companies (or Polish permanent establishments of EU/EEA resident companies) may also claim a credit for the tax on profits generated by their subsidiaries in other treaty countries (indirect tax credit). A Polish company receiving a dividend from a subsidiary that is not resident in the EU, EEA or Switzerland may deduct from its tax the amount of income tax paid by the subsidiary on that part of the profit from which the dividend was paid if the Polish parent company has held directly at least 75% of the foreign subsidiary’s shares for an uninterrupted period of at least 2 years. The total deduction is limited to the amount of Polish tax attributable to the foreign income.

Foreign-source dividends are added to other profits of a Polish taxpayer in the capital gains basket and are taxed at the standard 19% rate.

Dividends from companies resident in EU/EEA states or in Switzerland may be exempt in Poland if the Polish recipient holds directly at least 10% (25% in the case of Switzerland) of the share capital of the foreign subsidiary for an uninterrupted period of at least 2 years. The shareholding period requirement does not have to be met as of the payment date. The exemption does not apply if the dividends (or dividend-like income) are deductible for tax purposes in any form.

The tax exemption for inbound dividends does not apply if the dividends are connected with an agreement or other legal action or a series of related actions and if the main purpose or one of the main purposes is to benefit from this exemption (see Section E).

The above exemption also does not apply if income from the participation, including redemption proceeds, is received as a result of the liquidation of the legal entity making the payments.

The domestic exemption or tax credit can be applied if a legal basis exists for a tax authority to request information from the tax administration of the country from which the income was derived, under a double tax treaty or other ratified international treaty to which Poland is a party.

Broadly, except for some specific cases, full ownership of the shares is required to claim the credits and exemptions discussed above.

### C. Determination of trading income

**General.** Taxable income is calculated as the sum of taxable income from the capital gains basket (source) and taxable income from other sources of revenues. Taxable income from a given source of revenue equals the difference between taxable revenues and tax-deductible costs related to that source in a given tax year. If tax-deductible costs are higher than revenues, the difference constitutes a tax loss from a given source of revenue. Taxable income or loss should be calculated separately for capital gains and for other sources of revenue. Capital losses do not offset income from other sources and vice versa.

In general, taxable revenues of corporate entities carrying out business activities are recognized on an accrual basis. Revenues are generally recognized on the date of disposal of goods or property rights or the date on which services are supplied (or supplied in part), but no later than the following:

- Date of issuance of the invoice
- Date of receipt of payment

If the parties agree that services of a continuous nature are accounted for over more than one reporting period, revenue is recognized on the last day of the reporting period set out in the contract or on the invoice (however, not less frequently than once a year).

The definition of revenues includes free and partially free benefits.

Expenses are generally allowed as deductions if they relate to taxable revenues derived in Poland, but certain expenses are specifically disallowed. Payments in the amount of at least EUR15,000 should be made through a bank account; otherwise, effective from 1 January 2017, such expenses might not be allowed as deductions for tax purposes.

Branches and permanent establishments of foreign companies are taxed on income determined on the basis of the accounting records, which must be kept in Polish currency. However, regulations provide coefficients for specific revenue categories, which may be applied if the tax base for foreign companies cannot be determined from the accounting records.

**Limitation on the deductibility of costs of intangible services and royalties.** Effective from 1 January 2018, fees for certain intangible services and royalties exceeding in total 5% of the adjusted tax base (broadly, 5% of taxable earnings before interest, taxes, depreciation and amortization [EBITDA]) are not deductible (with a safe harbor of PLN3 million). The limit applies to the following:

- Services such as advisory, market research, advertising, management, data processing, insurance, providing guarantees and other similar services
- Payments for the use of licenses, trademarks and certain other rights

- Payments for credit-risk instruments or derivatives regarding non-banking loans, made directly or indirectly to related parties or entities in a blacklisted territory or state

Certain exceptions exist, including direct costs of goods or services sold and transactions for which a taxpayer obtains an Advanced Pricing Agreement (APA) from the Polish Ministry of Finance.

A carryforward mechanism of five years for non-deducted costs is provided, with certain restrictions.

**Depreciation.** For tax purposes, depreciation calculated in accordance with the statutory rates is deductible. Depreciation is computed using the straight-line method. However, in certain circumstances, the reducing-balance method may be allowed. The following are some of the applicable annual straight-line rates.

Asset	Rate (%)
Buildings	1.5 to 10*
Office equipment	14
Office furniture	20
Computers	30
Motor vehicles	20
Plant and machinery	4.5 to 20

\* For used buildings, an individual depreciation rate may be applied (the minimum depreciation period is calculated as a difference between 40 years and the time of use of the building).

For certain types of assets, depreciation rates may be increased. Companies may also apply reduced depreciation rates.

Intangibles are amortized over a minimum period, which usually ranges from 12 months (for example, development costs) to 60 months (for example, goodwill).

**Relief for losses.** Losses from the capital gains basket may not offset income from another basket (source) and vice versa. Losses from a given basket (source) may be carried forward to the following five tax years to offset profits from that source of income that are derived in those years. Up to 50% of the original loss may offset profits in any of the five tax years. Losses from capital gains cannot offset profits from another source and vice versa. Losses may not be carried back.

**Groups of companies.** Groups of related companies (limited-liability companies and joint-stock companies; the group rules do not apply to limited joint-stock partnerships) may report combined taxable income and pay one combined tax for all companies belonging to the group. To qualify as a tax group, related companies must satisfy several conditions, including the following:

- The average share capital per each company is not lower than PLN500,000.
- The parent company in the tax group must directly own 75% of the shares of the subsidiary companies.
- The agreement on setting up a tax group must be concluded for a period of at least three years. It must be concluded in front of a notary public and registered with the tax office.
- The taxable income of the group companies in each tax year must amount to at least 2% of the gross taxable revenues of the group companies.

- The members of the group may not benefit from any corporate income tax exemptions based on laws other than the Corporate Income Tax Law.

In practice, the applicability of the rules for tax groups is limited, primarily as a result of the profitability requirement and certain other restrictive conditions.

#### D. Other significant taxes

The following table discusses other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); imposed on goods sold and services rendered in Poland, exports, imports, and acquisitions and supplies of goods within the EU; Poland has adopted most of the EU VAT rules; certain goods and services are exempt	
Standard rate	23
Reduced rates (applicable to specified goods and services indicated in the VAT Act, such as food, agricultural products and medical equipment)	5/8
Exports and supplies of goods within the EU	0
Tax on retail sales; imposed on revenues earned on retail sales; for purposes of this tax, revenues from retail sales are revenues earned on sales of goods to consumers (that is, individuals not engaged in economic activity) in Poland that are connected with the taxpayer's business activity	
Monthly revenues between PLN17 million and PLN170 million	0.8
Monthly revenues exceeding PLN170 million (The European Commission issued a negative decision on the introduction of the tax on retail sales in Poland; in September 2017, the Polish Ministry of Finance appealed to the European Court of Justice against the decision; the collection of the tax has been suspended until the end of 2018.)	1.4
Tax on certain financial institutions; monthly tax on assets of selected financial institutions (domestic banks, consumer loan lending institutions and insurance companies as well as branches of foreign banks and insurance companies; tax base is the excess of total assets of the taxpayer over PLN4 billion (in some cases, lower thresholds may apply); tax is due monthly; taxpayers must file self-assessment declarations by the 25th day of the following month; tax is not deductible for corporate income tax purposes in Poland	0.0366
Tax on commercial property (malls and office buildings) with an initial value exceeding PLN10 million (effective from 1 January 2018); an exception exists for office buildings used solely or mainly for the own purposes of the taxpayer; the tax is payable monthly and is creditable against the corporate income tax	0.035

## E. Miscellaneous matters

**Foreign-exchange controls.** Polish-based companies may open foreign-exchange accounts. All export proceeds received in convertible currencies and receipts from most foreign sources may be deposited in these accounts. Businesses may open foreign currency accounts abroad. However, restrictions apply to the opening of accounts in countries that are not members of the EU, EEA or the Organisation for Economic Co-operation and Development (OECD). No permit is required for most loans obtained by Polish-based companies from abroad, including loans from foreign shareholders. Reporting requirements are imposed for certain loans and credits granted from abroad.

**Anti-avoidance legislation.** In applying the tax law, the tax authorities refer to the substance of a transaction in addition to its form.

If under the name (legal form) of the transaction, the parties have hidden some other transaction, the tax authorities may disregard the name (legal form) used by the parties and determine the tax implications of the transaction on the basis of actual intent of the parties.

If the tax authorities have doubts about the existence or the substance of the legal relationship between the parties, they refer the case to the common court to establish the type of the actual legal relationship.

New Polish anti-avoidance rules implementing EU Council Directive 2015/121 of 27 January 2015 are effective from 1 January 2016. Under these rules, the tax exemption for inbound dividends, as well as the exemption from withholding tax on outbound dividends, do not apply if the dividends are connected with an agreement or other legal action or a series of related actions and if the following three circumstances exist:

- The main purpose or one of the main purposes of the agreement or action is to benefit from the above tax exemptions.
- The application of the exemption does not result only in elimination of double taxation.
- Such agreement or other legal action has no real character.

For purposes of the above rule, an agreement or other legal action does not have real character to the extent that it is not performed for justified economic reasons.

The above anti-abuse rule applies only to entities that can benefit from withholding tax exemption based on the Polish domestic rules implementing the EU Parent Subsidiary Directive.

Certain anti-avoidance rules relate to the neutrality of a merger, demerger and a share-for-share exchange.

Further, a bill adding a General Anti-Abuse Rule (GAAR) to the Polish Tax Ordinance Act entered into force as of 15 July 2016. Broadly, under the GAAR provisions, a transaction that is carried out primarily with the aim to generate a tax benefit and that is contrary in the circumstances to the subject and objective of a tax statute may not result in a tax benefit to the extent that the conduct was artificial (tax avoidance). In such case, the tax implications of a transaction are determined by reference to the facts that would have been generated if a suitable transaction had been carried out.



The GAAR does not apply if any of the following circumstances exists:

- The total amount of tax benefit resulting from the transaction is less than PLN100,000 (approximately, EUR23,000) in a given tax period.
- An entity receives a securing opinion issued by the Minister of Finance. A separate procedure, which costs PLN20,000 (approximately EUR4,500), exists for obtaining such securing opinion.
- Other tax law provisions (in particular other anti-abuse rules) counteract the tax avoidance.

**Debt-to-equity rules.** Apart from the above, targeted regulations address certain specific transactions.

**Thin-capitalization rules.** The Polish thin-capitalization rules are amended, effective from 1 January 2018. The new rules limit deductibility of the excess of financing costs over interest income to 30% of the adjusted tax base (broadly, 30% of taxable EBITDA). The limitation applies also to financing provided by third parties. A safe harbor for financing costs up to PLN3 million per year is provided. Nondeductible costs can be carried forward up to five consecutive years, within a relevant basket of income. Loans granted before the effective date of the new law are grandfathered under the rules in effect before 1 January 2018 but only through the end of 2018. The new rules do not apply to certain financing institutions.

Under the rules that were in force until the end of 2014, the deductibility of interest was restricted only on loans from direct shareholders or direct sister companies. Effective from 1 January 2015, in general, interest on all intra-group loans (as well as those from indirectly related entities) could be subject to deductibility restriction. If the value of debt owed to specified related parties exceeded the equity of the borrower, part (calculated based on a proportion) of the interest paid on a loan from a related party was not deductible for tax purposes. For purposes of these rules, equity was determined on the last day of the month preceding the month of the interest payment without taking into account a revaluation reserve and subordinated loans. The value of equity was further decreased by the value of the share capital that was not actually transferred to this capital or was covered with shareholder's loans, receivables and intangibles that were not subject to amortization. The definition of loan covered any form of debt financing, including the issuance of bonds, credits, and bank and non-bank deposits. The definition did not cover derivatives. The above thin-capitalization rules applied to interest on loans granted by Polish and foreign qualified entities. They covered the following loans:

- Loans granted by an entity that holds directly or indirectly at least 25% of the voting rights in the borrower
- Loans granted jointly by entities that jointly hold directly or indirectly at least 25% of the voting rights in the borrower
- Loans granted by one company to another company if the same entity holds directly or indirectly at least 25% of the voting rights in both the lender and the borrower

For general partners in a limited joint-stock partnership, the conditions concerning the minimum share (voting rights) are fulfilled, regardless of the general partner's share.

Effective from 1 January 2015, taxpayers also had the right to opt for an alternative thin-capitalization calculation method. The alternative method contained a general limitation applicable to all interest (including interest on third-party loans) based on a reference rate of the National Bank of Poland and a tax value of assets (excluding intangible assets) capped at 50% of earnings before interest and taxes. Interest that was not deducted in a tax year could be deducted in the following consecutive five tax years.

Apart from the thin-capitalization rules, a new restriction concerning debt capacity is introduced from 1 January 2018. Although the wording of the relevant provision is expected to be further clarified, broadly, in a case in which the taxpayer's indebtedness exceeds the level of financing that such taxpayer could receive from third parties (exceeds market debt capacity), the tax authorities may reassess the taxpayer's taxable income or loss. When evaluating market debt capacity of a given taxpayer, security or guarantees from related parties and debt capacity resulting from capital relationships should be disregarded.

Deductibility of interest may also be affected in certain cases by the introduction of the separate capital gains basket from 1 January 2018.

**Controlled foreign companies.** Effective from 1 January 2015, certain income or gains derived by foreign subsidiaries of Polish taxpayers that fulfill the definition of a controlled foreign company (CFC) are subject to tax in Poland. The CFC rules were subsequently modified, effective from 1 January 2018.

Under the rules in effect from 1 January 2018, the following foreign companies are considered CFCs:

- A foreign company that has its registered office or management in a blacklisted territory or state
- A foreign company that has its registered office or management in a state with which Poland or the EU has not concluded an agreement containing an exchange-of-information clause
- A foreign company that fulfills all of the following criteria:
  - A Polish taxpayer holds individually or together with related parties for at least 30 days directly or indirectly at least 50% of the shares, voting rights or profit participation rights in this company.
  - At least 33% of this company's revenues is derived from dividends and other revenues from sharing in the profits of legal persons, disposals of shares, receivables, interest and other loan proceeds, the interest part of leasing installments, guarantees and warranty claims, copyrights, industrial property rights including disposals of such rights, derivatives, insurance, banking or other financial activities and transactions with related parties if the company does not add value from an economic perspective to those transactions or such value is marginal.
  - The tax paid by this company is lower than the difference between tax that would have been paid if the company was a Polish tax resident and that the tax actually paid by that company is not subject to refund or deductible.

A CFC's income is subject to tax in Poland at 19% at the level of the Polish shareholder. The shareholder is taxed on the part of the profits of the CFC in which the shareholder participates after

deducting dividends received from the CFC and gains on disposals of shares in the CFC, if they are included in the shareholder's tax base (these amounts may be deducted in the following five tax years). The tax payable in Poland may be decreased by the relevant proportion of corporate income tax paid by the CFC.

CFCs in blacklisted territories or states (and to some extent, CFCs in non-treaty countries) are subject to more restrictive rules.

Taxation under the CFC rules does not apply if the CFC is subject to tax on its worldwide income in an EU/EEA member state and carries a "substantial genuine business activity" in that state.

The CFC rules also apply to taxpayers carrying on business activity through a permanent establishment located outside of Poland, with certain exceptions, as well as to non-Polish tax residents carrying out its activities through a permanent establishment located in Poland to the extent that such activities are connected with activities carried out by the permanent establishment located outside Poland.

**Standard audit file for tax purposes.** The standard audit file for tax (SAF-T) is a standardized form for transmitting tax information to the tax authorities. The format in which SAF-T reports are prepared is XML.

The scope of information that should be transferred to the tax authorities in the form of SAF-T covers the following:

- Account books
- Bank account statements
- Inventory turnover
- Invoices
- VAT registers
- Tax revenue and expense ledger
- Revenue records

The above structures should generally be provided to the tax authorities at their request. However, the SAF-T for the VAT register needs to be provided to the Ministry of Finance on a monthly basis automatically (that is, no summons of the tax authorities is required in the case of this item).

For "large enterprises," a requirement to submit all of the SAF-T structures on demand of the tax authorities has applied since 1 July 2016. From that date, "large enterprises" are required to submit the SAF-T files for the VAT register on a monthly basis. For this purpose, "large enterprises" are entities that have met in at least one of the last two financial years either of the following criteria:

- Annual headcount of not less than 250 (on a yearly average)
- Annual volume of sales of at least EUR50 million and assets amounting to at least EUR43 million

Other entities (medium, small and micro enterprises) must submit the on-demand SAF-T structures to the tax authorities from 1 July 2018. However, they must submit the SAF-T files for the VAT register on a monthly basis from the following dates:

- Medium and small enterprises: 1 January 2017
- Micro enterprises: 1 January 2018

The tax authorities conduct automatic controls of SAF-T reports submitted by taxpayers.

**Transfer pricing.** The Polish tax law includes specific rules on transfer pricing. Effective from 2017, fundamental changes are introduced regarding the obligations and scope with respect to transfer-pricing documentation. The main rules, which are based on the OECD guidelines, are contained in the Corporate Income Tax Law and the Personal Income Tax Law.

Under the Corporate Income Tax Law, the following are related parties:

- A domestic entity (a legal person, natural person or organizational unit without legal form having its registered office [place of management] or residence in Poland) and a foreign entity (a legal or natural person having its registered office [place of management] or residence abroad), if any of the following circumstances exist:
  - The domestic entity participates, directly or indirectly, in the management, control or capital of the foreign entity.
  - The foreign entity participates, directly or indirectly, in the management, control or capital of the domestic entity.
  - The same legal person, natural person or organizational unit without legal form participates, directly or indirectly, in the management, control or capital of both the domestic entity and the foreign entity.
- Two domestic entities, if the following circumstances exist:
  - The domestic entity participates, directly or indirectly, in the management, control or capital of the other domestic entity.
  - The same legal person, natural person or organizational unit without legal form participates, directly or indirectly, in the management, control or capital of the domestic entities.
  - Family, capital, property or employment relations exist between the entities or the management, supervision or control personnel of the entities, or the same persons carry out management, supervision or control functions in the entities.

Effective from 2017, the capital relationship threshold for related parties is 25% (previously 5%).

Polish tax law enumerates transfer-pricing methods that must be followed by the tax authorities in testing the prices applied in intercompany transactions (taxpayers do not have to apply these methods). The tax law provides for the following traditional transfer-pricing methods:

- The comparable uncontrolled price method (preferable one)
- The resale-price method
- The cost-plus method

If the above methods are inapplicable, the transactional methods (profit-split method and transactional net margin method) can be considered.

Polish transfer-pricing regulations indicate that the tax authorities must examine the terms agreed to or imposed with respect to business restructuring projects between related parties for compatibility with the terms that independent companies would have negotiated. They also cover the examination of the accuracy of

the grounds for the right of related parties to receive a fee, and the amount of such fee, in business restructuring projects.

Effective from 2017, an obligation to prepare a three-tiered standardized transfer-pricing documentation is introduced. The required transfer-pricing documentation is determined by the size of the taxpayer (measured by the total revenues or total costs) in the year preceding the given tax year. The following is the required documentation:

- Below EUR2 million: no documentation prepared upfront is required.
- Between EUR2 million and EUR10 million: local documentation file with extended scope is required. The documentation should include, among other items, a business description (organizational or management chart, business strategy and competitors) and a description of compliance of transactional terms with market conditions (in practice, justification of arm's-length character).
- Between EUR10 million and EUR20 million: local documentation file including comparative analyses reflecting local market conditions to support the arm's-length character of the transactional prices applied is required, as well as a supplement to the annual corporate income tax return, which is a simplified report on transactions with the related parties (CIT-TP).
- Between EUR20 million and EUR750 million: the documentation mentioned in the preceding bullet plus Masterfile documentation.
- Above EUR750 million: the documentation mentioned in the preceding bullet plus Country-by-Country Reporting (CbCR).

Documentation must be also prepared for the year following the year in which the obligation exists, even if the size of taxpayer does not meet the above criteria.

For transactions with tax havens, the obligation to prepare transfer-pricing documentation exists if the transaction amount exceeds EUR20,000.

Thresholds for each documented transaction or event depends on the size of the company (measured by its total revenues or total costs). The following are the thresholds:

- Between EUR2 million and EUR20 million: the documentation threshold amounts to EUR50,000, plus EUR5,000 for each additional EUR1 million of revenue or costs above EUR2 million.
- Between EUR20 million and EUR100 million: the documentation threshold amounts to EUR140,000 (plus EUR45,000 for each additional EUR10 million of revenue or costs above EUR20 million).
- Above EUR100 million: the documentation threshold amounts to EUR500,000.

During tax audits, authorities can ask for documentation of other transactions; taxpayers have 30 days to submit this documentation.

The documentation obligation applies to the following:

- Regular transactions
- Liquidity management, joint ventures, consortiums and similar enterprises (the EUR 50,000 threshold applies)
- Other events (business restructurings)

No documentation requirement applies if public regulators set the prices or if the transaction is covered by an APA.

The documentation must be in Polish.

Taxpayers must submit a signed declaration confirming that local transfer-pricing documentation is in place at the date on which the annual corporate income tax return is filed.

Taxpayers must present transfer-pricing documentation within seven days after the date of the request of the tax authorities.

If the tax authorities assess additional income to a taxpayer and if a taxpayer does not provide the transfer-pricing documentation required by the law or provides documentation that is incomplete, the additional income that is assessed in connection with inter-company transactions that are not covered with the documentation is taxed at a penalty tax rate of 50%. Also, penalties from the Penal Fiscal Code may be applied.

The transfer-pricing documentation requirements applicable to Polish entities also apply to permanent establishments of foreign residents located in Poland and to permanent establishments of Polish entities. In addition, if income earned by the permanent establishment of a foreign resident is reassessed in Poland and if no transfer-pricing documentation is submitted by the statutory deadline, a corporate income tax rate of 50% can be applied to any additionally reassessed income. Also, penalties from the Penal Fiscal Code may be applied.

The APA regulations entered into force on 1 January 2006. An APA concluded for a particular transaction is binding on the tax authorities with respect to the method selected by the taxpayer. APAs may apply to transactions that have not yet been executed or transactions that are in progress when the taxpayer submits an application for an APA.

In June 2006, Poland ratified the EU convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises (90/436/EEC).

Effective from 2015, it is possible to eliminate double taxation in domestic transactions.

Polish headquarters with consolidated revenues (as defined in the Accounting Act) in Poland and outside of Poland that exceeded in the previous fiscal year the equivalent of EUR750 million must file a CbCR report within 12 months after the end of the reporting year of the group. The first reporting year is 2016. In addition, Polish law includes a secondary filling mechanism (under this mechanism, if no agreement on the exchange of tax information exists between two given countries and if no other entity from the group is responsible for the preparation of a CbCR report, the Polish tax authorities may request the Polish entity to prepare a CbCR report).

Polish subsidiaries are required to file with the Head of Tax Administration a notification on which entity within the group is responsible for CbCR preparation. Such notification should be filed by the end of the financial year (the exceptional deadline for the 2016 fiscal year was 10 months from the year-end).

Financial penalties up to an amount of PLN1 million can be imposed for not fulfilling reporting obligations. These penalties can be imposed on the entities belonging to the group that, despite the obligation to submit the CbCR report, failed to do so, provided incomplete information or did not send a notification. Under the Fiscal Penal Code, a fine of up to 240 daily rates (the daily rate is calculated based on the minimum wage in force in Poland on the day on which a penalty is imposed) may be imposed on entities acting on behalf of or in the taxpayer's interest that submit false information about entities that are part of a group.

## F. Treaty withholding tax rates

The standard withholding tax rates are 19% for dividends and 20% for interest and royalties. The rate may be reduced under a double tax treaty on presentation of a certificate of tax residence or, in some cases, under domestic regulations. Poland ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (Multilateral Instrument or "MLI"), which may modify the application of Polish double tax treaties in the future. The following table shows the withholding tax rates under Polish double tax treaties without taking into account the impact of the MLI.

	Dividends %	Interest %	Royalties %
Albania	5/10 (d)	10	5
Algeria (gg)	5/15 (d)	0/10 (k)	10
Armenia	10	5	10
Australia	15	10	10
Austria	5/15 (a)	0/5 (k)	5
Azerbaijan	10	10	10
Bangladesh	10/15 (a)	0/10 (k)	10
Belarus	10/15 (e)	10	0
Belgium	5/15 (cc)	0/5 (k)	5
Bosnia and Herzegovina	5/15 (r)	0/10 (k)	10
Bulgaria	10	0/10 (k)	5
Canada	5/15 (a)	0/10 (pp)	5/10 (qq)
Chile	5/15 (c)	15 (dd)	5/15 (h)(ee)
China (mainland)	10	0/10 (k)	7/10 (h)
Croatia	5/15 (d)	0/10 (k)	10
Cyprus	0/5 (oo)	0/5 (k)	5
Czech Republic	5	0/5 (k)	10
Denmark	0/5/15 (s)	0/5 (k)	5
Egypt	12	0/12 (k)	12
Estonia	5/15 (d)	0/10 (k)	10
Finland	5/15 (y)	0/5 (k)	5
France	5/15 (a)	0	0/10 (p)
Georgia	10	0/8 (k)	8
Germany	5/15 (jj)	0/5 (k)	5
Greece	19	10	10
Hungary	10	0/10 (k)	10
Iceland	5/15 (y)	0/10 (k)	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
India	10	0/10 (k)	15
Indonesia	10/15 (c)	0/10 (k)	15
Iran	7	0/10 (k)	10
Ireland	0/15 (kk)	0/10 (k)	0/10 (v)
Israel	5/10 (b)	5	5/10 (h)
Italy	10	0/10 (k)	10
Japan	10	0/10 (k)	0/10 (i)
Jordan	10	0/10 (k)	10
Kazakhstan	10/15 (c)	0/10 (k)	10
Korea (South)	5/10 (a)	0/10 (k)	10
Kuwait	0/5 (z)	0/5 (k)	15
Kyrgyzstan	10	0/10 (k)	10
Latvia	5/15 (d)	0/10 (k)	10
Lebanon	5	0/5 (k)	10
Lithuania	5/15 (d)	0/10 (k)	10
Luxembourg	0/15 (oo)	0/5 (k)	5
Macedonia	5/15 (d)	0/10 (k)	10
Malaysia	0	15	15
Malta	0/10 (hh)	0/5 (k)	5
Mexico	5/15 (d)	0/10/15 (k)(aa)	10
Moldova	5/15 (d)	0/10 (k)	10
Mongolia	10	0/10 (k)	5
Morocco	7/15 (d)	10	10
Netherlands	5/15 (a)	0/5 (k)	5
New Zealand	15	10	10
Nigeria (gg)	10	0/10 (k)	10
Norway	0/15 (hh)	0/5 (k)	5
Pakistan	15 (j)	0/20 (k)	15/20 (n)
Philippines	10/15 (d)	0/10 (k)	15
Portugal	10/15 (o)	0/10 (k)	10
Qatar	5	0/5 (k)	5
Romania	5/15 (d)	0/10 (k)	10
Russian Federation	10	0/10 (k)	10 (w)
Saudi Arabia	5	0/5 (k)	10
Singapore	0/5/10 (bb)(oo)	0/5 (k)	2/5 (h)
Slovak Republic	0/5 (oo)	0/5 (k)	5
Slovenia	5/15 (d)	0/10 (k)	10
South Africa	5/15 (d)	0/10 (k)	10
Spain	5/15 (d)	0	0/10 (f)
Sri Lanka	15	0/10 (k)	0/10 (l)
Sweden	5/15 (d)	0	5
Switzerland	0/15 (ll)	0/5/10 (mm)	0/5/10 (nn)
Syria	10	0/10 (k)	18
Tajikistan	5/15 (d)	10	10
Thailand	19 (t)	0/10/20 (k)(m)	5/15 (f)
Tunisia	5/10 (d)	12	12
Turkey	10/15 (d)	0/10 (k)	10
Ukraine	5/15 (d)	0/10 (k)	10
United Arab Emirates	0/5 (z)	0/5 (k)	5
United Kingdom	0/10 (ff)	0/5 (k)	5



	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
United States	5/15 (g)	0	10
Uruguay (gg)	15	0/15 (k)	15
Uzbekistan	5/15 (c)	0/10 (k)	10
Vietnam	10/15 (d)	10	10/15 (q)
Yugoslavia (u)	5/15 (y)	10	10
Zimbabwe	10/15 (d)	10	10
Non-treaty jurisdictions	19	20	20 (x)

- (a) The lower rate applies if the recipient of the dividends is a company that owns at least 10% of the payer.
- (b) The lower rate applies if the recipient of the dividends is a company that owns at least 15% of the payer.
- (c) The lower rate applies if the recipient of the dividends is a company that owns at least 20% of the payer.
- (d) The lower rate applies if the recipient of the dividends is a company that owns at least 25% of the payer.
- (e) The lower rate applies if the recipient of the dividends is a company that owns more than 30% of the payer.
- (f) The lower rate applies to royalties paid for copyrights, among other items; the higher rate applies to royalties for patents, trademarks and industrial, commercial or scientific equipment or information.
- (g) The lower rate applies if the recipient of the dividends is a company that owns at least 10% of the voting shares of the payer.
- (h) The lower rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
- (i) The lower rate applies to cultural royalties.
- (j) This rate applies if the recipient of the dividends is a company that owns at least one-third of the payer.
- (k) The 0% rate applies to among other items, interest paid to government units, local authorities and central banks. In the case of certain countries, the rate also applies to banks (the list of exempt or preferred recipients varies by country). The relevant treaty should be consulted in all cases.
- (l) The 0% rate applies to royalties paid for, among other items, copyrights. The 10% rate applies to royalties paid for patents, trademarks and for industrial, commercial or scientific equipment or information.
- (m) The 20% rate applies if the recipient of the interest is not a financial or insurance institution or government unit.
- (n) The lower rate applies to know-how; the higher rate applies to copyrights, patents and trademarks.
- (o) The 10% rate applies if, on the date of the payment of dividends, the recipient of the dividends has owned at least 25% of the share capital of the payer for an uninterrupted period of at least two years. The 15% rate applies to other dividends.
- (p) The lower rate applies to royalties paid for the following:
- Copyrights
  - The use of or the right to use industrial, commercial and scientific equipment
  - Services comprising scientific or technical studies
  - Research and advisory, supervisory or management services
- The treaty should be checked in all cases.
- (q) The lower rate applies to know-how, patents and trademarks.
- (r) The 5% rate applies if the recipient is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends.
- (s) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the payer of the dividends for at least one year and if the dividends are declared within such holding period. The 5% rate applies to dividends paid to pension funds or other similar institutions operating in the field of pension systems. The 15% rate applies to other dividends.
- (t) Because the rate under the domestic law of Poland is 19%, the treaty rate of 20% does not apply.
- (u) The treaty with the former Federal Republic of Yugoslavia that applied to the Union of Serbia and Montenegro should apply to the Republics of Montenegro and Serbia.

- (v) The lower rate applies to fees for technical services.
- (w) The 10% rate also applies to fees for technical services.
- (x) The 20% rate also applies to certain services (for example advisory, accounting, market research, legal assistance, advertising, management and control, data processing, search and selection services, guarantees and pledges and similar services).
- (y) The lower rate applies if the beneficial owner is a company (other than a partnership) that controls directly at least 25% of the capital of the company paying the dividends.
- (z) The lower rate applies if the owner of the dividends is the government or a government institution.
- (aa) The 10% rate applies to interest paid to banks and insurance companies and to interest on bonds that are regularly and substantially traded.
- (bb) The 0% rate applies to certain dividends paid to government units or companies.
- (cc) The lower rate applies if the recipient of the dividends is a company that owns either of the following:
- At least 25% of the payer
  - At least 10% of the payer, provided the value of the investment amounts to at least EUR500,000 or its equivalent
- (dd) The treaty rate is 15% for all types of interest. However, under a most-favored-nation clause in a protocol to the treaty, the 15% rate is replaced by any more beneficial rate agreed to by Chile in a treaty entered into with another jurisdiction. For example, under Chile's tax treaty with Spain, a 5% rate applies to certain types of interest payments, including interest paid to banks or insurance companies or interest derived from bonds or securities that are regularly and substantially traded on a recognized securities market.
- (ee) The general treaty rate for royalties is 15%. However, under a most-favored-nation clause in a protocol to the treaty, the 15% rate is replaced by any more beneficial rate agreed to by Chile in a treaty entered into with another jurisdiction. For example, under Chile's tax treaty with Spain, the general withholding tax rate for royalties is 10%.
- (ff) The 0% rate applies if the beneficial owner of the dividends is a company that holds at least 10% of the share capital of the payer of the dividends for an uninterrupted period of at least two years.
- (gg) The treaty has not yet entered into force.
- (hh) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends on the date on which the dividends are paid and has held the capital or will hold the capital for an uninterrupted 24-month period that includes the date of payment of the dividends.
- (ii) The rate is 10% if Switzerland imposes a withholding tax on royalties paid to nonresidents.
- (jj) The lower rate applies if the recipient of the dividends is a company (other than a partnership) that owns directly at least 10% of the payer. Certain limitations to the application of the preferential rates may apply.
- (kk) The lower rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the voting power of the payer. Under the Ireland treaty, if Ireland levies tax at source on dividends, the 0% rate is replaced by a rate of 5%.
- (ll) The 0% rate applies to dividends paid to a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends on the date the dividends are paid and has done so or will have done so for an uninterrupted 24-month period in which that date falls. The 0% rate may also apply to dividends paid to certain pension funds.
- (mm) The 10% rate applies to interest paid before 1 July 2013. For interest paid on or after 1 July 2013, the 5% rate applies unless an exemption applies. The 0% rate applies to such interest if any of the following conditions is satisfied:
- The beneficial owner of the interest is a company (other than a partnership) that holds directly at least 25% of the share capital of the payer of the interest.
  - The payer of the interest holds directly at least 25% of the share capital of the beneficial owner of the interest.
  - An EU/EEA company holds directly at least 25% of the share capital of both the beneficial owner of the interest and the payer of the interest.
- (nn) For royalties paid before 1 July 2013, the 10% rate applies if Switzerland imposes in its local provisions a withholding tax on royalties paid to nonresidents. Otherwise, a 0% rate applies. For royalties paid on or after 1 July 2013, a 5% rate applies unless an exemption applies. The 0% rate applies to such royalties if any of the following conditions is satisfied:

- 
- The beneficial owner of the royalties is a company (other than a partnership) that holds directly at least 25% of the share capital of the payer of the royalties.
  - The payer of the royalties holds directly at least 25% of the share capital of the beneficial owner of the royalties.
  - An EU/EEA company holds directly at least 25% of the share capital of both the beneficial owner of the royalties and the payer of the royalties. Furthermore, If Poland enters into an agreement with an EU or EEA country that allows it to apply a rate that is lower than 5%, such lower rate will also apply to royalties paid between Poland and Switzerland.
- (oo) The lower rate (5% rate under the Singapore treaty) applies if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends for an uninterrupted period of 24 months.
- (pp) The 0% rate applies to the following:
- Interest arising in Poland and paid to a resident of Canada with respect to a loan made, guaranteed or insured by Export Development Canada or to a credit extended, guaranteed or insured by Export Development Canada
  - Interest arising in Canada and paid to a resident of Poland with respect to a loan made, guaranteed or insured by an export financing organization that is wholly owned by the state of Poland or to a credit extended, guaranteed or insured by an export financing organization that is wholly owned by the state of Poland
  - Interest arising in Poland or Canada and paid to a resident of the other contracting state with respect to indebtedness arising as a result of the sale by a resident of the other contracting state of equipment, merchandise or services (unless the sale or indebtedness is between related persons or unless the beneficial owner of the interest is a person other than the vendor or a person related to the vendor)
- (qq) The lower rate applies to copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or artistic works and royalties for the use of, or the right to use, patents or information concerning industrial, commercial or scientific experience (with some exceptions).

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**A. At a glance**

Corporate Income Tax Rate (%)	
Corporate Income Tax	21 (a)
Municipal Surcharge	1.5 (b)
State Surcharge	3/5/9 (c)
Branch Tax Rate (%)	21 (a)
Capital Gains Tax Rate (%)	21 (d)
Withholding Tax (%)	
Dividends	
Paid to Residents	25 (e)(f)
Paid to Nonresidents	25 (f)(g)
Interest	
Shareholders' Loans	
Resident Shareholders	25 (e)
Nonresident Shareholders	25 (f)(g)
Bonds Issued by Companies	
Resident Holders	25 (e)(f)

Nonresident Holders	25 (f)(g)(h)(i)(j)
Government Bonds	25 (f)(j)
Bank Deposits	
Resident Depositors	25 (e)(f)
Nonresident Depositors	25 (f)(g)
Royalties	
Paid to Residents	25 (e)
Paid to Nonresidents	25 (f)(g)
Payments for Services and Commissions	
Paid to Residents	0
Paid to Nonresidents	25 (k)
Rental Income	
Paid to Residents	25 (e)
Paid to Nonresidents	25 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (l)

- (a) Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or IRC) applies to resident companies and nonresident companies with permanent establishments (PEs) in Portugal. Small and medium-sized companies can benefit from a 17% reduced rate for the first EUR15,000 of taxable income. Micro, small and medium-sized companies located in the interior of Portugal can benefit from a 12.5% reduced rate for the first EUR15,000 of taxable income. See Section B for details of other rates.
- (b) A municipal surcharge of 1.5% is generally imposed on the taxable profit determined for IRC purposes. Certain municipalities do not levy the surcharge. For further details, see Section B.
- (c) A state surcharge of 3% is imposed on the taxable profit determined for IRC purposes between EUR1,500,000 and EUR7,500,000. If the taxable profit for IRC purposes exceeds EUR7,500,000, the state surcharge is levied at a rate of 5% on the excess up to EUR35 million. If the taxable profit for IRC purposes exceeds EUR35 million, the state surcharge is levied at a rate of 9% on the excess.
- (d) See Section B.
- (e) Income must be declared and is subject to the normal tax rates. Amounts withheld may be credited against the IRC due. See Section B.
- (f) Investment income paid to tax-haven entities is subject to a 35% withholding tax. The same tax applies if the beneficial owner of the income paid into a bank account is not properly disclosed.
- (g) These rates may be reduced by tax treaties or by European Union (EU) Directives. Under the EU Parent-Subsidiary Directive (also applicable to dividends paid to Swiss parent companies), the rate on dividends may be reduced to 0%. The rate may also be reduced to 0% if the beneficiary is resident in a tax treaty country and if certain other conditions are met. Under the EU Interest and Royalties Directive, the rate on interest or royalties may be reduced to 0% if the interest or royalties are paid between EU associated companies.
- (h) This tax applies to interest from private and public company bonds.
- (i) This tax applies to interest on bonds issued after 15 October 1994. A 25% withholding tax applies to interest on bonds issued on or before that date.
- (j) Interest on certain bonds traded on the stock exchange and paid to nonresidents not operating in Portugal through a PE may in certain circumstances be exempt from tax. The same exemption may also apply to capital gains derived from disposals of such bonds. The exemption does not apply to entities resident in tax havens (except central banks and other government agencies), unless an applicable tax treaty or an exchange of information agreement with Portugal exists.
- (k) The 25% rate applies to most services and commissions. The 25% rate applies to services performed by artists and sportspersons and to fees paid to board members. This tax does not apply to communication, financial and transportation services. The tax is eliminated by most tax treaties, but this may not be the case for income derived from the performance of artists and sportspersons.
- (l) For tax losses computed before 2010, the prior six-year carryforward period applies. For tax losses computed in 2010 or 2011, a four-year carryforward period applies. For tax losses computed in 2012 or 2013, a five-year carryforward period applies. For tax losses used from 1 January 2014, the amount

deductible each year is capped by 70% of the taxable profit for the year. For tax losses computed in 2014, 2015 and 2016, a 12-year carryforward period applies. It continues to apply for micro, small and medium-sized companies from 2017 and onward.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax (Imposto sobre o Rendimento das Pessoas Colectivas, or IRC) is levied on resident and nonresident entities.

*Resident entities.* Companies and other entities, including non-legal entities, whose principal activity is commercial, industrial or agricultural, are subject to IRC on worldwide profits, but a foreign tax credit may reduce the amount of IRC payable (see *Foreign tax relief*).

Companies and other entities, including non-legal entities, that do not carry out commercial, industrial or agricultural activities, are generally subject to tax on their worldwide income (for details regarding the calculation of the taxable profit of these entities, see Section C).

*Nonresident entities.* Companies or other entities that operate in Portugal through a PE are subject to IRC on the profits attributable to the PEs.

Companies or other entities without a PE in Portugal are subject to IRC on income deemed to be obtained in Portugal.

For tax purposes, companies or other entities are considered to have a PE in Portugal if they have a fixed installation or a permanent representation in Portugal through which they engage in a commercial, industrial or agricultural activity. Under rules that generally conform to the Organisation for Economic Co-operation and Development (OECD) model convention, a PE may arise from a building site or installation project that lasts for more than six months or from the existence of a dependent agent. Under these rules, commissionaire structures, dependent agents and services rendered in Portugal are more likely to result in a PE for IRC purposes.

Double tax treaties may further limit the scope of a PE in Portugal.

**Tax rates.** For 2018, IRC is levied at the following rates.

Type of enterprise	Rate (%)
Companies or other entities with a head office or effective management control in Portugal, whose principal activity is commercial, industrial or agricultural	21
Companies or other entities with a head office or effective management control in the autonomous region of the Azores, or with a branch, office, premises or other representation there	16.8
Companies or other entities with a head office or effective management control in the autonomous region of the Madeira, or with a branch, office, premises or other representation there	21

Type of enterprise	Rate (%)
Entities other than companies with a head office or effective management control in Portugal, whose principal activity is not commercial, industrial or agricultural PEs	21
Nonresident companies or other entities without a head office, effective management control or a PE in Portugal	21
Standard rate	25
Rental income	25

Certain types of income earned by companies in the last category of companies listed above are subject to the following withholding taxes.

Type of income	Rate (%)
Copyrights and royalties	25
Technical assistance	25
Income from shares	25
Income from government bonds	25
Revenues derived from the use of, or the right to use, equipment	25
Other revenues from the application of capital	25
Payments for services rendered or used in Portugal, and all types of commissions	25*

\* This tax does not apply to communications, financial and transportation services. It is eliminated under most tax treaties.

Applicable double tax treaties, EU directives or the agreement entered into between the EU and Switzerland may reduce the above withholding tax rates.

A 35% final withholding tax rate applies if income is paid or made available in a bank account and if the beneficial owner is not identified. A 35% final withholding tax rate also applies to investment income obtained by an entity located in a tax haven.

A municipal surcharge (*derrama municipal*) is imposed on resident companies and nonresident companies with a PE in Portugal. The rate of the municipal surcharge, which may be up to 1.5%, is set by the respective municipalities. The rate is applied to the taxable profit determined for IRC purposes. Consequently, the maximum combined rate of the IRC and the municipal surcharge on companies is 22.5%.

A state surcharge (*derrama estadual*) is also imposed on resident companies and nonresident companies with a PE in Portugal. The rate of the state surcharge, which is 3%, is applied to the taxable profit determined for IRC purposes between EUR1,500,000 and EUR7,500,000. For taxable profits exceeding EUR7,500,000, a 5% rate of state surcharge is levied on the excess up to EUR35 million. For taxable profits exceeding EUR35 million, a 9% rate of state surcharge is levied on the excess. Consequently, the maximum combined rate of the IRC and the surcharges on companies is 31.5%.

Companies established in the free zones of Madeira and the Azores enjoyed a tax holiday until 2011. The more important of the two,



Madeira, is internationally known as the Madeira Free Zone (Zona Franca da Madeira). An extended regime has been approved for companies licensed between 2007 and 2013 (extended to 31 December 2014). Under this extended regime, the reduced rate is 5% for 2013 through 2020. This rate applies to taxable income, subject to a cap, which is generally based on the existing number of jobs. Requirements and limitations apply to the issuance of licenses for the Madeira Free Zone. This regime is also available for companies licensed before 2007. However, it was subject to a formal option that should have been elected on or before 30 December 2011. A new regime has been approved for companies licensed between 2015 and 2020. Under the new regime, the reduced rate is 5% for 2015 through 2027. This rate applies to taxable income, subject to a cap, which is generally based on the existing number of jobs as well as other criteria (annual gross value-added, employment costs or turnover). New requirements and limitations apply to the issuance of licenses for the Madeira Free Zone. The new regime is also available for companies licensed before 2015. In addition to the benefits that previously been available, the new regime provides for exemptions regarding dividends and interest paid to nonresident shareholders, provided certain conditions are met.

Significant incentives are also available for qualifying new investment projects established before 31 December 2020. To qualify for the incentives, the projects must satisfy the following requirements:

- They must have a value exceeding EUR3 million.
- They must develop sectors considered to be of strategic importance to the Portuguese economy.
- They must be designed to reduce regional economic imbalances, create jobs and stimulate technological innovation and scientific research in Portugal.

Qualifying projects may enjoy the following tax benefits for up to 10 years:

- A tax credit of 10% to 20% of amounts invested in plant, equipment and intangibles used in the project. However, buildings and furniture qualify only if they are directly connected to the development of the activity.
- An exemption from, or a reduction of, the municipal real estate holding tax for buildings used in the project.
- An exemption from, or a reduction of, the property transfer tax (see Section D) for buildings used in the project.
- An exemption from, or a reduction of, the stamp duty for acts and contracts necessary to complete the project, including finance agreements.

Portuguese tax law also provides for significant tax credits and deductions concerning research and development (R&D) investments, fixed-asset investments (some of which must have been performed by 31 December 2013) and creation of jobs. In addition, a specific tax benefit is introduced for the reinvestment of profits by small and medium-sized companies. Under this measure, such companies can benefit from a tax credit of 10% of the retained earnings (capped to the lower of 25% of the IRC liability [50% in the case of micro and small companies] and EUR750,000 per year) reinvested in the acquisition of eligible fixed assets if several conditions are met.

Companies can benefit for a six-year period from a notional interest deduction of 7% on the amount of cash contributions or conversions of loans by shareholders to share capital, if they are made on or after 1 January 2017, as well as conversions of payables to share capital, if they are made on or after 1 January 2018. The amount on which the notional interest deduction applies is capped at EUR2 million.

Certain incentives are also available to land transportation of passengers and stock activities, car-sharing and bike-sharing, and activities related to bicycle fleets. Incentives are also available for cinema production activity and urban rehabilitation.

**Undertakings for Collective Investment.** Effective from 1 July 2015, a special tax regime is introduced for Undertakings for Collective Investment (UCIs) incorporated and operating in accordance with Portuguese law. UCIs can take the form of a fund or a company. UCIs are subject to IRC but benefit from a tax exemption for investment income, rental income and capital gains, unless the income or gains originated from a tax haven. UCIs are exempt from municipal and state surcharges.

UCIs are liable to stamp duty on net assets, which is payable quarterly. The rate of tax is 0.0025% for UCIs investing in securities and 0.0125% in the remaining cases.

Resident participants in UCIs are subject to tax at IRC rates and surcharges (legal entities) or 28% (individuals).

Nonresident participants benefit from a tax exemption regarding securities' UCIs, while a 10% rate applies with respect to real estate UCIs. A 25% to 35% rate, depending on the nature of the income and the type of UCI, applies to the following nonresident entities:

- Entities controlled more than 25% by resident entities, unless the nonresident entity is located in the EU, in an EEA member state that has entered into cooperation agreement on tax matters or in a country that has entered into a tax treaty with Portugal that includes an exchange of tax information clause
- Entities located in tax havens
- Other entities if the income is paid into a bank account for which the beneficial owner is not identified

**Simplified regime of taxation.** Resident companies that have annual turnover not exceeding EUR200,000 and total assets not exceeding EUR500,000 and that meet certain other conditions may opt to be taxed under a simplified regime of taxation. The taxable income corresponds to a percentage ranging between 4% and 100% of gross income, depending on the nature of the income.

**Capital gains.** Capital gains derived from the sale of fixed assets and from the sale of financial assets are included in taxable income subject to IRC. The capital gain on fixed assets is equal to the difference between the sales value and the acquisition value, adjusted by depreciation and by an official index. The tax authorities may determine the sales value for real estate to be an amount other than the amount provided in the sales contract.

Fifty percent of the capital gains derived from disposals of tangible fixed assets, intangibles assets and non-consumable

biological assets held for more than one year may be exempt if the sales proceeds are invested in similar assets during the period beginning one year before the year of the disposal and ending two years after the year of the disposal. A statement of the intention to reinvest the gains must be included in the annual tax return for the year of disposal. The remaining 50% of the net gains derived from the disposal is subject to tax in the year of the disposal.

If only a portion of the proceeds is reinvested, the exemption is reduced proportionally. If by the end of the second year following the disposal no reinvestment is made, the net capital gains remaining untaxed (50%) are added to taxable profit for that year, increased by 15%.

A full participation regime is available for capital gains and losses on shareholdings held for at least 12 months if the remaining conditions for the dividends participation regime are met. The regime does not apply if the main assets of the company that issued the shares being transferred are composed, directly or indirectly, of Portuguese real estate (except real estate allocated to an agricultural, industrial or commercial activity [other than real estate trading activities]). This applies to gains and losses from onerous transfers of shares and other equity instruments (namely, supplementary contributions), capital reductions, restructuring transactions and liquidations.

Losses from the onerous transfer of shareholdings in tax-haven entities are not allowed as deductions. Losses resulting from shares and equity instruments are not deductible in the portion corresponding to the amount of dividends and capital gains that were excluded from tax during the previous four years under the participation regime or the underlying foreign tax credit relief.

Liquidation proceeds are treated as capital gains or losses. The losses from the liquidation of subsidiaries are deductible only if the shares have been held for at least four years. If within the four-year period after the liquidation of the subsidiary, its activity is transferred so that it is carried out by a shareholder or a related party, 115% of any loss deducted by the shareholder on liquidation of the subsidiary is added back.

Tax credits are available for a venture capital company (*sociedade de capital de risco*, or SCR) as a result of investments made in certain types of companies.

Nonresident companies that do not have a head office, effective management control or a PE in Portugal are subject to IRC on capital gains derived from sales of corporate participations, securities and financial instruments if any of the following apply:

- More than 25% of the nonresident entities is held, directly or indirectly, by resident entities (unless the seller is resident in an EU, EEA or double tax treaty jurisdiction and certain requirements are met).
- The nonresident entities are resident in territories listed on a blacklist contained in a Ministerial Order issued by the Finance Minister.
- The capital gains arise from the transfer of shares held in a Portuguese property company in which more than 50% of the assets comprise Portuguese real estate or in a holding company that controls such a company.

Nonresident entities are also subject to IRC on capital gains derived from the transfer of shares and other rights in a foreign entity if, at any moment during the previous 365 days, more than 50% of the respective value of the shares derived, directly or indirectly, from Portuguese real estate (except real estate allocated to an agricultural, industrial or commercial activity [other than real estate trading activities]).

Nonresident companies that do not have a head office, effective management control or a PE in Portugal are taxed at a 25% rate on taxable capital gains derived from disposals of real estate, shares and other securities. For this purpose, nonresident entities must file a tax return. A tax treaty may override this taxation.

*Exit taxes.* The IRC Code provides that the transfer abroad of the legal seat and place of effective management of a Portuguese company, without the company being liquidated, results in a taxable gain or loss equal to the difference between the market value of the assets and the tax basis of assets as of the date of the deemed closing of the activity. This rule does not apply to assets and liabilities remaining in Portugal as part of the property of a Portuguese PE of the transferor company if certain requirements are met.

The exit tax also applies to a PE of a nonresident company on the closing of an activity in Portugal or on the transfer of the company's assets abroad.

Following the European Court of Justice decision in Case C-38/10, significant changes to the existing exit tax rules were made. Under the revised rules, on a change of residency to an EU or EEA member state, the taxpayer may now opt for one of the following alternatives:

- Immediate payment of the full tax amount
- Payment of the tax whenever the gains are (deemed) realized
- Payment of the full tax amount in equal installments during a five-year period

The deferral of the tax payment triggers late payment interest. In addition, a bank guarantee may be requested. This guarantee equals the tax due plus 25%. In addition, annual tax returns are required if the tax is deferred.

**Administration.** Companies with a head office, effective management control or a PE in Portugal are required to make estimated payments with respect to the current financial year. The payments are due in July, September and December. For companies with turnover of up to EUR500,000, the total of the estimated payments must equal at least 80% of the preceding year's tax. For companies with turnover exceeding EUR500,000, the total of the estimated payments must equal at least 95% of the preceding year's tax. The first payment is mandatory. However, the obligation to pay the other installments depends on the tax situation of the company. For example, a company may be excused from making the third installment if it establishes by adequate evidence that it is suffering losses in the current year. However, if a company ceases making installment payments and if the balance due exceeds by 20% or more the tax due for that year under normal conditions, compensatory interest is charged. Companies must

file a tax return by 31 May of the following year. Companies must pay any balance due when they file their annual tax return.

Companies with a head office, effective management control or a PE in Portugal that have adopted a financial year other than the calendar year must make estimated payments as outlined above, but in the 7th, 9th and 12th months of their financial year. They must file a tax return by the end of the 5th month following the end of that year.

Advance payments concerning the state surcharge are also required in the 7th, 9th and 12th months of the tax year.

In addition, companies must make a Special Payment on Account (SPA) in the 3rd month of the financial year, or they can elect to pay the amount in the 3rd and 10th months. The SPA is equal to the difference between the following amounts:

- 1% of turnover of the preceding year, with a minimum limit of EUR850, or, if the minimum limit is exceeded, EUR850 plus 20% of the excess with a maximum limit of EUR70,000
- The ordinary payments on account made in the preceding year

Under certain conditions, a small reduction of the SPA may be available in 2018.

The SPA may be subtracted from the tax liability in the following six years, or refunded if, on the occurrence of certain events (for example, the closing of activity), a petition is filed.

A nonresident company without a PE in Portugal must appoint an individual or company, resident in Portugal, to represent it concerning any tax liabilities. The representative must sign and file the tax return using the general tax return form. IRC on capital gains derived from the sale of real estate must be paid within 30 days from the date of sale. IRC on rents from leasing buildings must be paid by 31 May of the following year.

*Binding rulings.* A general time frame of 150 days exists in the tax law to obtain a binding ruling. This period can be reduced to 75 days if the taxpayer pays a fee between EUR2,550 and EUR25,500 and if the ruling petition with respect to an already executed transaction contains the proposed tax treatment of the transaction as understood by the taxpayer. This tax treatment is deemed to be tacitly accepted by the tax authorities if an answer is not given within the 90-day period.

**Dividends.** Dividends paid by companies to residents and nonresidents are generally subject to withholding tax at a rate of 25%.

On distributions to resident parent companies, the 25% withholding tax is treated as a payment on account of the final IRC due.

A resident company subject to IRC may deduct 100% of dividends received from another resident company if all of the following conditions apply:

- The recipient company owns directly or directly and indirectly at least 10% of the capital or voting rights of the payer.
- The recipient company holds the interest described above for an uninterrupted period of at least one year that includes the date of distribution of the dividends, or it makes a commitment to hold the interest until the one-year holding period is complete.

- The payer of the dividends is a Portuguese resident company that is also subject to, and not exempt from, IRC or Game Tax (tax imposed on income from gambling derived by entities such as casinos).

A 100% dividends-received deduction is granted for dividends paid by entities from EU member countries to Portuguese entities (or Portuguese PEs of EU entities) if the above conditions are satisfied and if both the payer and recipient of the dividends qualify under the EU Parent-Subsidiary Directive. The same regime is also available for dividends received from European Economic Area (EEA) subsidiaries. The participation exemption regime also applies to dividends from subsidiaries in other countries, except tax havens, if the subsidiary is subject to corporate tax at a rate not lower than 60% of the standard IRC rate (this requirement can be waived in certain situations).

The participation exemption regime does not apply in certain circumstances, including among others, the following:

- The dividends are tax deductible for the entity making the distribution.
- The dividends are distributed by an entity not subject to or exempt from income tax, or if applicable, the dividends are paid out of profits not subject to or exempt from income tax at the level of sub-affiliates, unless the entity making the distribution is resident of an EU or an EEA member state that is bound to administrative cooperation in tax matters equivalent to that established within the EU.

If a recipient qualifies for the 100% deduction, the payer of the dividends does not need to withhold tax. This requires the satisfaction of a one-year holding period requirement before distribution.

A withholding tax exemption applies to dividends distributed to EU and EEA parent companies and to companies resident in treaty countries that have entered into tax treaties with Portugal that includes an exchange of tax information clause, owning (directly or indirectly and indirectly through eligible companies) at least 10% of a Portuguese subsidiary for more than one year. Companies outside the EU and EEA must be subject to corporate tax at a rate not lower than 60% of the standard IRC rate. A full or partial refund of the withholding tax may be available under certain conditions. A withholding tax exemption is also available for dividends paid to a Swiss parent company, but the minimum holding percentage is increased to 25%.

The participation exemption on dividends received and the withholding tax on distributed dividends does not apply if an arrangement or a series of arrangements are performed with the primary purpose, or with one of the principal purposes, to obtain a tax advantage that frustrates the goal of eliminating double taxation on the income and if the arrangement or series of arrangements is not deemed genuine, taking into account all of the relevant facts and circumstances. For this purpose, an arrangement or series of arrangements is deemed not to be genuine if it is not performed for sound and valid economic reasons and does not reflect economic substance.

The withholding tax exemption on dividends distributed to non-resident entities is also not available if the Portuguese distributing company does not comply with the legal disclosure requirements regarding its ultimate beneficial owners or if any of the reported ultimate beneficial owners is located in a tax haven (unless it is proven that the parent company did not integrate an arrangement or series of arrangements deemed not to be genuine).

**Foreign PE profits.** Resident taxpayers may opt for an exemption regime for foreign PE profits. Under this regime, foreign PE losses are also not deductible if the PE is subject to one of the taxes listed in the EU Parent-Subsidiary Directive or to corporate tax at a rate not lower than 60% of the standard IRC rate and if the PE is not located in a tax-haven territory.

Transactions between the head office and the foreign PE must respect the arm's-length principle, and the costs related to the PE are not deductible for the head office.

The following are recapture rules:

- PE profits are not exempt up to the amount of PE losses deducted by the head office in the 12 preceding years (5 years from 2017).
- If the PE is incorporated, subsequent dividends and capital gains from shares are not exempt up to the amount of PE losses deducted by the head office in the 12 preceding years (5 years from 2017).
- If the exemption regime ceases to apply, the PE losses as well as the dividends and capital gains from shares (if the PE was previously incorporated) are not deductible or exempt, respectively, up to the amount of the PE profits that were exempt from tax during the preceding 12 years (5 years from 2017).

**Foreign tax relief.** Foreign-source income is taxable in Portugal. However, direct foreign tax may be credited against the Portuguese tax liability up to the amount of IRC attributable to the net foreign-source income. The foreign tax credit can be carried forward for five years.

In addition, taxpayers may opt to apply an underlying foreign tax credit with respect to foreign-source dividends that are not eligible for the participation exemption regime. Several conditions must be met, including the following:

- The minimum holding percentage is 10% for at least 12 months.
- The entity distributing the dividends is not located in a tax-haven territory, and indirect subsidiaries are not held through a tax-haven entity.

### C. Determination of trading income

**General.** Taxable profit is determined according to the following rules:

- For companies with a head office or effective management control in Portugal that are principally engaged in commercial, agricultural or industrial activities, the taxable profit is the net accounting profit calculated in accordance with Portuguese generally accepted accounting principles (GAAP), as adjusted by the IRC Code.
- For companies with a head office or effective management control in Portugal that do not principally engage in commercial,

industrial or agricultural activities, the taxable profit is the net total of revenues from various categories of income as described in the Personal Tax (IRS) Code, less expenses.

- For PEs, the taxable profit is determined as outlined in the first item. In calculating taxable profit, general administrative expenses that are attributable to the PE may be deducted as a cost if justified and acceptable to the fiscal authorities.

Effective from 2010, Portuguese GAAP is similar to International Financial Reporting Standards (IFRS). In addition, the tax law has been adapted to the new GAAP, but several adjustments are still required between net accounting profit and taxable profit.

An intellectual property (IP) regime provides for a 50% exclusion from the tax base with respect to income derived from contracts for the transfer or temporary use of patents and industrial designs or models. To benefit from the IP regime, several conditions must be satisfied. This regime applies to patents and industrial designs or models registered on or after 1 January 2014. For patents and industrial designs or models registered on or after 1 July 2016, the regime is very much connected to the underlying R&D expenses.

Expenses that are considered essential for the generation or maintenance of profits are deductible. However, certain expenses are not deductible including, but not limited to, the following:

- The tax depreciation of private cars, on the amount of the acquisition price exceeding EUR25,000 but not exceeding EUR62,500 (depending on the acquisition date and type of vehicle), as well as all expenses concerning pleasure boats and tourism airplanes, except for those allocated to public transportation companies or used for rental purposes as part of the company's normal activities
- Daily allowances and compensation for costs incurred in traveling in the employees' own vehicles at the service of the employer that are not charged to clients if the company does not maintain a control map of the expenses, allowing it to identify the place, length and purpose of the displacements, except for the amounts on which the beneficiary is subject to IRS
- Expenses shown on documents issued by entities without a valid taxpayer number
- Improperly documented expenses
- IRC and surcharges (see Section B)
- Penalties and interest charges
- Contribution on banking sector (see Section D)
- Contribution on energy sector (see Section D)
- Contribution on pharmaceutical industry (see Section D)

Assets under financial leases are deemed to be owned by the lessee, and consequently the lessee may deduct only applicable tax depreciation and any interest included in the rent payments. Special rules apply to sale and leaseback transactions.

Although representation expenses and expenses related to private cars are deductible with some limits, they are subject to a special stand-alone tax at a rate of 10%. This rate is increased to 27.5% for expenses related to private cars if the acquisition price of the car is between EUR25,000 and EUR35,000, or to 35% if the acquisition price of the car exceeds EUR35,000. The rates applicable



to expenses related to private cars may be significantly reduced, depending on the type of car (electric, liquefied petroleum gas [LPG] or natural gas powered and hybrid plug-in).

The 5% tax also applies to daily allowances and compensation for costs incurred in traveling in the employees' own vehicles at the service of the employer that is not charged to clients and not subject to IRS.

Undocumented expenses are not deductible. In addition, these expenses are subject to a special stand-alone rate of 50% (70% with respect to entities partially or totally exempt from IRC, not principally engaged in commercial, industrial or agricultural activities or subject to the Game Tax). The tax authorities may classify an expense as undocumented if insufficient supporting documentation exists.

Certain indemnities and compensation paid to board members and managers (including "golden parachutes") are subject to a special stand-alone tax at a rate of 35%.

A special stand-alone tax at a rate of 35% applies to bonuses and other variable compensation paid to board members and managers, if such compensation exceeds 25% of the annual remuneration and EUR27,500. This tax does not apply if at least 50% of the payment is deferred over a period of at least three years and conditioned on the positive performance of the company during such period.

A "Robin Hood" tax is levied on both oil production and distribution companies and is charged based on the rise in value of the oil stocks held. For tax purposes, the first-in, first-out (FIFO) method or the weighted average cost method is deemed to be used for the valuation of oil stocks. The positive difference between the gross margin determined based on these methods and the gross margin determined under the accounting method used by the company is subject to a stand-alone tax at a flat rate of 25%. This tax is not deductible for IRC purposes and cannot be reflected in the purchase price paid by the final consumer.

The above stand-alone taxes are imposed regardless of whether the company earns a taxable profit or suffers a tax loss in the year in which it incurs the expenses. In addition, all stand-alone rates are increased by 10 percentage points if the taxpayer incurs a tax loss in the relevant year.

**Inventories.** Inventories must be consistently valued by any of the following criteria:

- Effective cost of acquisition or production
- Standard costs in accordance with adequate technical and accounting principles
- Cost of sales less the normal profit margin
- Cost of sales of products cropped from biological assets, which is determined at the time of cropping, less the estimated costs at the point of sale, excluding transportation and other costs required to place the products in the market
- Any other special valuation considered basic or normal, provided that it has the prior approval of the tax authorities

Changes in the method of valuation must be justifiable and acceptable to the tax authorities.

**Provisions.** The following provisions, among others, are deductible:

- Bad and doubtful debts, based on a judicial claim or on an analysis of the accounts receivable
- Inventory losses (inventory values in excess of market value)
- Warranty expenditures
- Technical provisions imposed by the Bank of Portugal or the Portuguese Insurance Institute

**Depreciation.** In general, depreciation is calculated using the straight-line method. The declining-balance method may be used for new tangible fixed assets other than buildings, office furniture and automobiles not used for public transport or rental. Maximum depreciation rates are established by law for general purposes and for certain specific industries. If rates that are less than 50% of the official rates are used, total depreciation will not be achieved over the life of the asset. The following are the principal official straight-line rates.

<b>Asset</b>	<b>Rate (%)</b>
Commercial buildings	2
Industrial buildings	5
Office equipment	12.5 to 25
Motor vehicles	12.5 to 25
Plant and machinery	5 to 33.33

Companies may request the prior approval of the tax authorities for the use of depreciation methods other than straight-line or declining-balance or rates up to double the official rates. Approval is granted only if the request is justified by the company's business activities.

For tax purposes, the maximum depreciable cost of private motor cars is between EUR25,000 and EUR50,000, depending on the acquisition date and type of vehicle.

Intangibles (excluding patents and goodwill from shares) that are acquired on or after 1 January 2014 for consideration and that do not have a defined economic life can be amortized over 20 years. Investment properties and non-consumable biological assets that are subsequently measured at fair value can also be depreciated during the remaining period of their maximum economic life.

**Relief for losses.** Tax losses may be carried forward for 12 years (6 years if the losses were computed before 2010, 4 years if the losses were computed in 2010 or 2011, or 5 years if the losses were computed in 2012 or 2013). For losses incurred in or after 2017, the 12-year period is reduced to 5 years (except for micro, small and medium-sized companies). For tax losses used from 1 January 2014, the amount deductible each year is capped at 70% of the taxable profit for the year. Loss carrybacks are not allowed. Tax losses existing at the time of the occurrence of certain changes may not be carried forward. A change of at least 50% of the shareholders or voting rights can trigger the cancellation of tax losses, unless it is derived from certain situations.

**Groups of companies.** Resident groups of companies may elect to be taxed on their consolidated profit. To qualify for tax consolidation, a group must satisfy certain conditions, including the following:

- The parent company must hold, directly or indirectly, at least 75% of the subsidiaries' registered capital, provided that the holding accounts for more than 50% of the voting rights.
- The parent company may not be deemed to be dominated by the other resident company.
- All companies belonging to the group must have their head office and place of effective management in Portugal.
- The parent company must hold the participation in the subsidiary for more than one year beginning from the date the regime begins to be applied.
- All group companies must be subject to IRC at the standard rate of 21%.

Effective from 2015, tax grouping is also allowed if the parent entity of the Portuguese resident companies is a local branch of an EU or EEA resident company or if Portuguese resident companies are under common control by the same EU or EEA resident company.

Applications for consolidated reporting must be filed with the Ministry of Finance before the end of the third month of the year for which the application is intended to take effect.

Losses of individual group companies may be offset against taxable profit within the consolidated group, in accordance with the following rules:

- Losses of individual group companies incurred in years before the consolidation can only be offset up to the amount of the taxable profit derived by the company that incurred such losses.
- Consolidated losses may be offset against consolidated profits only.
- Consolidated losses may not be offset against profits generated by companies after they leave the group.
- The consolidated group may not deduct losses incurred by companies after they leave the group.

The cap of 70% of the taxable profit with respect to deductible losses also applies for tax group purposes.

The consolidated taxable profit equals the sum of the group's companies' taxable profits or losses, as shown in each of the respective tax returns.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate</b>
Value-added tax (IVA), levied on goods and services, other than exempt services	
General rates	
Portugal	23%
Madeira	22%
Azores	18%
Intermediate rates	
Portugal	13%

<b>Nature of tax</b>	<b>Rate</b>
Madeira	12%
Azores	9%
Reduced rates	
Portugal	6%
Madeira	5%
Azores	4%
Social security contributions, on salaries, wages and regular bonuses but excluding meal subsidies, up to a specified amount; paid by	
Employer	23.75%
Employee	11%
Property transfer tax; payable by purchaser	
Buildings	6.5%
Farm land	5%
Offshore companies	10%
Municipal real estate holding tax; local tax imposed annually on the assessed tax value of the property on 31 December; tax payable by the owner of the property; tax rate for urban property established by the Municipal Assembly in the location of the property	
Offshore companies	7.5%
Other entities	0.3% to 0.45%
Additional municipal real estate holding tax; local tax imposed annually on the assessed tax value of urban property (for residential purposes and land for construction) on 1 January; tax payable by the owner of the property (for individuals, the tax is due only if the value of all properties owned exceeds EUR600,000)	
Collective persons	
General rate	0.4%
Certain situations	0.7%/1%
Individuals	
Tax value up to EUR1 million	0.7%
Tax value exceeding EUR1 million	1%
Offshore entities	7.5%
Stamp duty	
Loans and mortgages (maximum rate)	0.6%
Interest on bank loans	4%
Transfer of real estate	0.8%
Insurance premiums	3% to 9%
Transfer of business as a going concern	5%
Contribution on banking sector; imposed on Portuguese resident credit institutions and branches of credit institutions resident outside the EU	
Debt deducted by own funds (Tier 1 and Tier 2; own funds are computed based on the regulations of the Bank of Portugal) and deposits covered by the Deposits Guarantee Fund	0.01% to 0.11%

Nature of tax	Rate
Notional value of derivate financial instruments not stated in the balance sheet	0.0001% to 0.0003%
Contribution on energy sector that is applicable to entities that integrate the national energy sector and that have their domicile, legal seat, effective management or PE in Portugal; the tax base is the sum of the value of the tangible fixed assets, intangible fixed assets (except industrial property) and financial assets allocated to concessions or licensed activities; for regulated activities, the tax base is the value of the regulated assets, if higher	0.285% to 0.85%
Contribution on energy sector; applicable to long-term provisioning contracts under a take-or-pay regime (long-term contracts for the supply of gas)	
On the equivalent economic value (the fair market value of the contract, taking into consideration several factors)	1.45%
On the excess of the equivalent economic value, taking into account the real value (positive difference between the equivalent economic value described above and the initial equivalent economic value calculated based on a regulation issued in May 2015)	1.77%
Contribution on pharmaceutical industry; applicable to entities that commercialize medicines; tax base is the turnover for each quarter	2.5% to 14.3%
Contribution on light plastic bags; applicable to entities that produce, import or acquire light plastic bags from outside mainland Portugal; tax base is each light plastic bag	EUR0.08

## E. Miscellaneous matters

**Foreign-exchange controls.** Portugal does not impose foreign-exchange controls. No restrictions are imposed on inbound or outbound investments.

**Mergers and reorganizations.** Mergers and other types of corporate reorganizations may be tax-neutral in Portugal if certain conditions are met.

**Entities deemed to be subject to a clearly more favorable tax regime.** A nonresident entity is deemed to be subject to a clearly more favorable tax regime if any of the following circumstances exist:

- The entity is not subject to corporate income tax.
- It is subject to tax at a rate of tax equal to or lower than 60% of the IRC standard rate.
- Its place of business is included in a blacklist of tax-haven territories provided in a Ministerial Order of the Finance Minister.

The first two above criteria should only be relevant if the nonresident is related to the Portuguese entity. An entity resident in the EU or in an EEA member state that has entered into cooperation agreement on tax matters is not deemed to be subject to a clearly more favorable tax regime.

In general, payments made by Portuguese residents to nonresidents subject to a clearly more favorable tax regime, including payments made to bank accounts in financial institutions in the home countries of the nonresidents, are not deductible for tax purposes and the payers are subject to a stand-alone tax rate of 35% (55% for entities partially or fully exempt from IRC or not principally engaged in commercial, industrial or agricultural activities). However, these payments may be deducted and are not subject to stand-alone taxation if the payer establishes the following:

- The payments were made in real transactions.
- The payments are normal.
- The amounts of the payments are not unreasonable.

The nondeductibility of payments to nonresidents subject to a clearly more favorable tax regime also applies if the payments are made indirectly to those entities; that is, the payer knew or should have known of the final destination of such payments. This is deemed to occur if special relations exist between the payer and the nonresident entity subject to a clearly more favorable tax regime or between the payer and the intermediary that makes the payment to the nonresident entity subject to a clearly more favorable tax regime.

**Controlled foreign entities.** The rules described below apply to controlled foreign entities (CFEs) deemed to be subject to a clearly more favorable tax regime.

A Portuguese resident owning, directly or indirectly, at least 25% in the capital, voting rights or rights to income or estate of a CFE is subject to tax on its allocable share of the CFE's net profit or income. However, if at least 50% of the CFE's capital or rights is owned by Portuguese residents, the percentage described in the preceding sentence is reduced to 10%. For computing the 25% or 10% threshold, the capital and rights owned, directly or indirectly, by related parties are also considered.

Several rules, which are based on the nature of the activity and whether the activity is predominantly directed to the Portuguese market, may result in the non-imputation of profits or income.

The income of the CFE is allocated to the first company subject to the regular IRC rate. This prevents the imposition of a Madeira Free Zone company, which may be exempt from tax or subject to a reduced rate but is considered to be resident in Portugal for tax purposes, between a CFE and a Portuguese resident company.

The CFE rules do not apply to entities resident in the EU or in the EEA if the EEA entity has entered into a cooperation agreement on tax matters and if the taxpayer proves that the incorporation and functioning of the nonresident entity is based on valid economic reasons and that the entity carries out an agricultural, commercial, industrial or service activity.

**Related-party transactions.** For related-party transactions (transactions between parties with a special relationship), the tax authorities may make adjustments to taxable profit that are necessary to reflect transactions on an arm's-length basis. The IRC Code contains transfer-pricing rules, which are applied on the basis of the OECD guidelines. In addition, recent legislation had provided details regarding these rules.

A special relationship is deemed to exist if one entity has the capacity, directly or indirectly, to influence in a decisive manner the management decisions of another entity. This capacity is deemed to exist in the following relationships:

- Between one entity and its shareholders, or their spouses, ascendants or descendants, if they possess, directly or indirectly, 20% of the capital or voting rights of the entity
- Between one entity and the members of its board, administration, management or fiscal bodies, as well as the members' spouses, ascendants and descendants
- Between any entities bound by group relations
- Between any entities bound by dominance relations
- Between one entity and the other if the first entity's business activities depend on the other entity as a result of a commercial, financial, professional or legal relationship
- Between a resident entity and an entity located in a blacklisted territory

The IRC Code provides for Advance Pricing Agreements. It now also provides for Country-by-Country Reporting.

**Debt-to-equity rules.** The previous thin-capitalization rules contained in the IRC Code are abolished, effective from 2013.

A limitation to the deduction of interest expenses (net of interest revenues) applies, effective from 2013. The tax deduction for net financial expenses is capped by the higher of the following amounts:

- EUR1 million
- 30% of the earnings before interest, taxes, depreciation and amortization (EBITDA)

The nondeductible excess, as well as the unused fraction of the 30% threshold, may be carried forward to the following five years.

Effective from 2014, several adjustments are required to determine the relevant EBITDA. These adjustments exclude, among others, several items that are disregarded (not taxed or not deductible) for tax purposes and other items specifically stated in the law.

It is possible to consider the EBITDA on a group basis if tax grouping is being applied.

**Tax-planning disclosure.** Certain tax planning (use of low-tax entities, use of partially or fully exempt entities, use of hybrid instruments or entities, use of tax losses or the existence of a limitation or exclusion from responsibility clause for the promoter) must be disclosed to the tax authorities by the entity promoting the planning or by the respective user (in the absence of a locally registered promoter). Significant penalties apply for the lack of reporting.

**F. Treaty withholding tax rates**

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Algeria	10/15 (d)	15	10
Andorra	5/15 (w)	10	5
Austria	15 (b)	10	5/10 (a)
Bahrain	10/15 (c)	10	5
Belgium	15 (b)	15	10
Brazil	10/15 (d)	15	15
Bulgaria	10/15 (d)	10	10
Canada	10/15 (d)	10	10
Cape Verde	10	10	10
Chile	10/15 (c)	5/10/15 (n)	5/10 (o)
China (mainland)	10	10	10
Colombia	10	10	10
Côte d'Ivoire	10	10	5
Croatia	5/10 (p)	10	10
Cuba	5/10 (j)	10	5
Cyprus	10	10	10
Czech Republic	10/15 (b)(d)	10	10
Denmark	10 (b)	10	10
Estonia	10 (b)	10	10
Ethiopia	5/10 (j)	10	5
Finland	10/15 (b)(c)	15	10
France	15 (b)	10/12 (g)	5
Georgia	5/10 (j)	10	5
Germany	15 (b)	10/15 (e)	10
Greece	15 (b)	15	10
Guinea-Bissau	10	10	10
Hong Kong SAR	5/10 (p)	10	5
Hungary	10/15 (b)(d)	10	10
Iceland	10/15 (d)	10	10
India	10/15 (d)	10	10
Indonesia	10	10	10
Ireland	15 (b)	15	10
Israel	5/10/15 (j)(l)	10	10
Italy	15 (b)	15	12
Japan	5/10 (p)	5/10 (r)	5
Korea (South)	10/15 (d)	15	10
Kuwait	5/10 (p)	10	10
Latvia	10 (b)	10	10
Lithuania	10 (b)	10	10
Luxembourg	15 (b)	10/15 (h)	10
Macau SAR	10	10	10
Malta	10/15 (b)(d)	10	10
Mexico	10	10	10
Moldova	5/10 (j)	10	8
Morocco	10/15 (d)	12	10
Mozambique	10	10	10
Netherlands	10 (b)	10	10
Norway	5/15 (p)	10	10
Oman	5/10/15 (z)	10	8
Pakistan	10/15 (d)	10	10
Panama	10/15 (q)	10	10
Peru	10/15 (u)	10/15 (v)	10/15 (x)
Poland	10/15 (b)(d)	10	10



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Qatar	5/10 (y)	10	10
Romania	10/15 (d)	10	10
Russian Federation	10/15 (d)	10	10
San Marino	10/15 (c)	10	10
São Tomé and Príncipe	10/15 (c)	10	10
Saudi Arabia	5/10 (y)	10	8
Senegal	5/10 (j)	10	10
Singapore	10	10	10
Slovak Republic	10/15 (b)(d)	10	10
Slovenia	5/15 (b)(j)	10	5
South Africa	10/15 (d)	10	10
Spain	10/15 (b)(c)	15	5
Sweden	10 (b)	10	10
Switzerland	0/5/15 (s)	0/10 (t)	0/5 (t)
Tunisia	15	15	10
Turkey	5/15 (j)	10/15 (k)	10
Ukraine	10/15 (d)	10	10
United Arab Emirates	5/15 (p)	10	5
United Kingdom	10/15 (b)(c)	10	5
United States	5/15 (i)	10	10
Uruguay	5/10 (j)	10	10
Venezuela	10	10	10/12 (f)
Vietnam	5/10/15 (aa)	10	7.5/10 (bb)
Non-treaty jurisdictions (m)	25 (b)	25	25

- (a) The 10% rate applies if the recipient holds directly more than 50% of the capital of the payer. For other royalties, the rate is 5%.
- (b) See Section B for details regarding a 0% rate for distributions to parent companies in EU member states.
- (c) The 10% rate applies if the recipient holds directly at least 25% of the capital of the payer. The 15% rate applies to other dividends.
- (d) The 10% rate applies if, at the date of payment of the dividend, the recipient has owned directly at least 25% of the payer for an uninterrupted period of at least two years. The 15% rate applies to other dividends.
- (e) The 10% rate applies to interest on loans considered to be of economic or social interest by the Portuguese government. The 15% rate applies to other interest.
- (f) The rate is 10% for technical assistance fees.
- (g) The 10% rate applies to interest on bonds issued in France after 1965. The 12% rate applies to other interest payments.
- (h) The 10% rate applies to interest paid by an enterprise of a contracting state if a financial establishment resident in the other contracting state may deduct such interest. The 15% rate applies to other interest payments.
- (i) If the beneficial owner of the dividends is a company that owns 25% or more of the capital of the payer, and if, at the date of the distribution of the dividends, the participation has been held for at least two years, the withholding tax rate is 5%. For other dividends, the rate is 15%.
- (j) The 5% rate applies if the recipient holds directly at least 25% of the capital of the payer. The higher rate applies to other dividends.
- (k) The 10% rate applies to interest on loans with a duration of more than two years. The 15% rate applies in all other cases.
- (l) The 10% rate applies to dividends paid by a company resident in Israel if the beneficial owner is a company that holds directly at least 25% of the capital of the payer of the dividends and if the dividends are paid out of profits that are subject to tax in Israel at a rate lower than the normal rate of Israeli company tax.
- (m) See Sections A and B for details.
- (n) The 5% rate applies to interest on bonds and other titles regularly and substantially traded on a recognized market. The 10% rate applies to interest on loans granted by banks and insurance companies as well as to interest from credit sales of machinery and equipment. The 15% rate applies in all other cases.

- (o) The 5% rate applies to the leases of equipment. The 10% rate applies in all other cases.
- (p) The 5% rate applies if the recipient holds directly at least 10% of the capital of the payer. The higher rate applies to other dividends.
- (q) The 10% rate applies if the recipient holds directly at least 10% of the capital of the payer. The higher rate applies to other dividends.
- (r) The 5% rate applies if the recipient is a bank resident in the other contracting state.
- (s) The 0% rate applies if the recipient holds directly at least 25% of the capital of the payer for at least two years and if both companies comply with certain requirements. The 5% rate applies if the recipient holds directly at least 25% of the capital of the payer. The higher rate applies to other dividends.
- (t) The 0% rate applies if the recipient and the payer are associated companies that comply with certain requirements. The higher rate applies to other interest and royalties.
- (u) The 10% rate applies if the recipient holds directly at least 10% of the capital or of the voting rights of the payer. The 15% rate applies to other dividends.
- (v) The 10% rate applies if the recipient is a bank resident in the other contracting state.
- (w) The 5% rate applies if the recipient is a company that holds directly during a period of 12 months before the dividend distribution at least 10% of the capital of the payer. The 15% rate applies to other dividends.
- (x) The rate is 10% for technical assistance fees associated with copyrights or know-how.
- (y) The 5% rate applies if the recipient holds directly at least 10% of the capital of the payer or the beneficiary is the state. The 10% rate applies to other dividends.
- (z) The 5% rate applies if the recipient is the state of Portugal, the Bank of Portugal, the state of Oman, the Oman Central Bank, the Oman State General Reserve Fund or the Omani Investment Fund (as well as other entities). The 10% rate applies if the recipient is a company that holds directly at least 10% of the payer. The 15% rate applies to other dividends.
- (aa) The 5% rate applies if the recipient is a company that holds directly at least 70% of the payer. The 10% rate applies if the recipient is a company that holds directly at least 25% of the payer. The 15% rate applies to other dividends.
- (bb) The 7.5% applies to technical services.

Portugal has also signed double tax treaties with Barbados, Montenegro and Timor-Leste, but these treaties are not yet in force.

# Puerto Rico

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## A. At a glance

Corporate Income Tax Rate (%)	39 (a)
Capital Gains Tax Rate (%)	20 (b)
Branch Income Tax Rate (%)	39 (a)
Withholding Tax (%)	
Dividends	10
Interest	0 (c)
Royalties	2 to 29
Services Rendered	7 to 15
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	7/10/12 (d)

- (a) This is the maximum tax rate (see Section B). An alternative minimum tax (AMT) may apply instead of the regular tax. For details regarding the AMT, see Section B.
- (b) Under Act 77-2014, this rate applies to long-term capital gains realized after 30 June 2014.
- (c) A 29% withholding tax is imposed on interest paid to foreign corporations on related-party loans.
- (d) Net operating losses incurred during tax years beginning after 31 December 2004 and before 1 January 2013 may be carried forward for 12 years. For net operating losses incurred during tax years beginning after 31 December 2012, the carryforward period is 10 years. For years beginning before 1 January 2005, the carryforward period was seven years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies organized in Puerto Rico are subject to Puerto Rico income tax on worldwide income. Foreign companies engaged in trade or business in Puerto Rico are taxable on income earned in Puerto Rico and on income that is effectively connected with their Puerto Rico operation. Partnerships are treated as pass-through entities. Accordingly, their partners are taxed on their distributive shares of the income and expenses of the partnership.

Limited liability companies are subject to tax in the same manner as regular corporations. However, they can elect to be taxed as

partnerships or pass-through entities under certain conditions. If a limited liability company is treated as a partnership or a pass-through entity for federal tax purposes or in a foreign jurisdiction, it is treated as a partnership for Puerto Rico tax purposes. However, a limited liability company that is treated as a partnership for federal tax purposes or in a foreign jurisdiction is not treated as a partnership for Puerto Rico tax purposes if the entity was operating under any of the tax incentive laws or filed an application for a tax grant (a private contract between the Commonwealth of Puerto Rico and the grantee whereby the tax benefits and responsibilities of the grantee are established) before 1 January 2011.

**Rates of corporate income tax.** The corporate income tax rates range from 20% to 39%. The election made by taxpayers to compute their tax liability under the provisions of the Puerto Rico Internal Revenue Code of 1994 (Option 94) terminates in the tax year beginning after 31 December 2014 and before 1 January 2016 (2015 tax year). Consequently, effective for tax years beginning after 31 December 2015 (2016 tax year) and subsequent years, taxpayers who exercised Option 94 determine their tax liability based on the Puerto Rico Internal Revenue Code of 2011s, as amended (PR Code).

Certain companies currently doing business in Puerto Rico are operating under the benefits of industrial tax exemption under various industrial incentives acts enacted by the government in 1963, 1978, 1987 and 1998. Under these acts, the period of tax exemption (10 to 25 years) is determined based on the degree of industrialization of the area or zone where the business is located. Under the 1963, 1978 and 1987 acts, businesses qualifying for industrial tax exemption are exempt from income taxes and property taxes at a rate of 90% and from municipal license taxes at a rate of 60% during the entire period of tax exemption. In addition, these corporations are not subject to alternative minimum tax (see *Alternative minimum tax*) on their industrial development income (IDI), and they benefit from favorable withholding tax rates on profit remittances. Activities qualifying for exemption under the various tax incentives acts include manufacturing, tourism, agriculture and export of services.

Under the Puerto Rico Tax Incentives Act of 1998, which expired on 30 June 2008, exempt businesses are subject to flat income tax rates ranging from 2% to 7% on their IDI. Dividends are not subject to withholding tax. Royalties are subject to a withholding tax rate ranging from 2% to 15%.

The Economic Incentives for the Development of Puerto Rico Act of 2008 (the 2008 Act) took effect on 1 July 2008. The exemption period under the 2008 Act is 15 years, regardless of the location of the exempt business.

The 2008 Act applies to the following:

- Eligible businesses engaged in the manufacturing or production of articles in Puerto Rico
- Entities that intend to perform on a commercial scale in Puerto Rico services destined for foreign markets
- Entities that provide services subcontracted in Puerto Rico or that provide key supplier services rendered in Puerto Rico at a

- commercial scale and on a continuous basis to exempt manufacturing businesses
- Entities engaged in the manufacturing of high-technology industrial units for the production of energy, other than fossil fuels, for use in Puerto Rico, and in the assembly of equipment for the generation of such energy
  - Entities engaged in the construction of social-interest homes (affordable or low-interest housing)
  - Entities dedicated to recycling activities
  - Entities operating at a commercial scale that are engaged in the development of licensed or patented software
  - Certain strategic projects, and entities devoted to the research, development, manufacture, transport, launch and operation of satellites from Puerto Rico
  - Entities engaged in the development of service centers for processing or warehousing of data
  - Value-added activities for the operation of ports

The 2008 Act provides for a 4% flat tax rate on IDI derived by companies that obtain exemption grants. The 2008 Act also contains a provision that may require a minimum tax payment depending on the amount of income tax withheld on royalty payments.

Special rules may apply to exempted businesses that have engaged in operations under Act No. 135 of 2 December 1997, as amended; these businesses may continue to enjoy a fixed income tax rate on their IDI under this act equal to the rate imposed under the predecessor grant, but not lower than 2%.

An additional 0.5% reduction in the tax rate on IDI is available to exempt businesses operating in a zone of low or intermediate industrial development. The 2008 Act provides a 100% tax exemption during the first 10 years of operations for IDI derived from businesses located in the municipalities of Culebra and Vieques. The 2008 Act provides for no withholding tax on dividends and a 12% withholding tax on royalties paid by exempt businesses to entities not engaged in trade or business in Puerto Rico. Exempt businesses can take advantage of a 2% alternative tax on royalties instead of the 12% withholding tax, but such businesses are subject to a tax at a rate of 8% on IDI. Manufacturers may benefit from a 100% exemption from excise taxes and sales and use tax on raw materials, machinery and equipment. As provided in previous tax incentives acts, the 2008 Act provides a 90% property tax exemption and a 60% municipal license tax exemption. It also grants certain special deductions and credits with respect to the following:

- Job creation
- Energy costs
- Use of intangible property
- Strategic projects
- Research and development
- Net operating losses
- Investments in buildings, structures, machinery and equipment
- Purchases of locally manufactured products

On 7 March 2017, Puerto Rico's Financial Advisory Authority and Fiscal Agency issued Administrative Order (AO) 2017-01,

which provides limitations on the use and granting of existing and new tax credits under various laws, including the tax credits under Act 73-2008 and Act 135-1997. AO 2017-01 provides for the creation of the Authorization Committee for Disbursements and Tax Credits (the Committee), which has the authority to take various actions with respect to the tax credits, including the following:

- Imposition of limitations on the use and carryover period of the credits granted
- Evaluation of credits requested but not yet authorized and credits newly requested

On 22 March 2017, the Committee issued Resolution 2017-01 establishing, generally, that credits granted as of the date of the AO can be used in the 2016 tax year without limitation.

The Committee established through Resolution 2017-05 (R 17-05) of 20 June 2017 that the credits granted and used in the 2017 tax year and future years are limited to 25% of the income tax liability of the credit holder. Also, R 17-05 limits the carry-over period of those credits to four years, which can be extended for three additional years, subject to approval from the Committee. However, the 25% limitation and four-year carryover period rules apply beginning with the 2018 tax year for certain credits that would be used for their first time in the 2017 tax year. On 25 July 2017, the Committee issued Resolution 2017-08 and Resolution 2017-09 to establish the procedure to review and approve applications for tax credits, including those applications pending approval as of 7 March 2017 and the rules for the use of credits granted under such applications.

The Export Services Act took effect on 17 January 2012. The exemption period under this act is 20 years.

The Export Services Act applies to eligible businesses. These are entities that have bona fide offices located in Puerto Rico and that have the main purpose of providing services to clients outside Puerto Rico. These services include but are not limited to the following:

- Research and development
- Advertising and public relations
- Consulting
- Creative industries
- Professional services
- Centralized management services
- Data processing centers
- Development of computer programs
- Scientific, management and information technology services
- Call centers
- Shared service centers
- Hospital and laboratory services
- Promotion services for the establishment of new business in Puerto Rico
- Distribution of products manufactured in Puerto Rico for jurisdictions outside Puerto Rico
- Assembly, bottling and packaging operations of products for export
- Operations of trading companies

- Any other service that the Secretary of Economic Development and Commerce determines, after consulting with the Secretary of the Treasury, to be an eligible export service, based on factors such as jobs to be created, payroll generated and proposed investment in Puerto Rico

The Export Services Act provides for a 4% flat income tax rate on export income received from services provided by eligible businesses. An additional 1% reduction in the tax rate on export income is available to exempt businesses that derive 90% of their gross income from export services that are considered strategic services, subject to certain requirements.

The Export Services Act provides a 90% or 100% property tax exemption for certain eligible activities and a 60% municipal license tax exemption. A 90% municipal license tax exemption is available to exempt businesses operating in the special industrial development zone constituted by the municipalities of Culebra and Vieques.

The Export Services Act requires a minimum of five employees per application for applications filed on or after 1 December 2015. An applicant is subject to a five-direct job requirement beginning two years from the commencement of operations and for the remaining exempted period with respect to the activities covered in the grant. Within that two-year period, applicants are subject to a three-job requirement beginning six months from the commencement of operations.

The Small and Medium Business Employment Creation and Retention Incentives Act (Act 120-2014) is intended to encourage the creation and expansion of small and medium businesses operating in Puerto Rico by providing state tax and payroll incentives. The following businesses may apply for these incentives:

- Microbusiness: annual gross income less than USD500,000 and 7 or fewer employees
- Small business: annual gross income less than USD3 million and 25 or fewer employees
- Medium business: annual gross income less than USD10 million and 50 or fewer employees

Other Puerto Rico legislation grants tax exemptions to enterprises engaged in specified economic activities. For example, under the Puerto Rico Tourist Development Act of 1993, as amended, or under the Puerto Rico Tourist Development Act of 2010, qualified tourist activities may enjoy exemption from income tax (90% to 100%), municipal license tax (90% to 100%), excise tax (100%) and real and personal property taxes (90%). In addition, under the Agricultural Tax Incentives Act of 1995, as amended, bona fide farmers may enjoy exemption from income tax (90%), municipal license tax (100%), excise tax (100%) and real and personal property taxes (100%).

**Alternative minimum tax.** The alternative minimum tax (AMT) is designed to prevent corporations with substantial economic income from using preferential deductions, exclusions and credits to substantially reduce or eliminate their tax liability. The rate of AMT is 30% and applies to the extent that the AMT exceeds the regular tax liability.

Alternative minimum taxable income is determined by adding back certain tax preferential deductions to the taxable income computed for regular income tax purposes. For purposes of the AMT calculation, the net operating loss deduction is limited to 70% (rather than 80%) of the alternative minimum taxable income. In addition, 60% of adjusted financial statement income in excess of adjusted taxable income is included in determining the amount subject to tax. Any AMT paid may be recovered in subsequent years as a credit to the regular tax when the regular tax is in excess of that year's AMT. The allowable credit may not exceed 25% of the excess of the net regular tax over the net AMT.

In March 2016, the US District Court for the District of Puerto Rico ruled that a portion of the AMT violated the following:

- The dormant Commerce Clause
- The Equal Protection Clause
- The Federal Relations Act

The District Court also granted an injunction barring the enforcement of the AMT.

The First Circuit Court of Appeals affirmed the District Court's decision in August 2016 and ruled that a portion of Puerto Rico's corporate AMT, as amended in 2015, violated the dormant Commerce Clause of the US Constitution. As a result, the Court continued the injunction against the collection of the AMT.

*AMT calculation for tax year beginning on 1 January 2016.* The Puerto Rico Treasury Department (PRTD) determined that taxpayers subject to the AMT will not have to calculate the sum of their related-party expenses and personal property under Section 1022.03(b)(2) of the PR Code (Second Measure) to determine the minimum tentative tax for the 2016 tax year. The PRTD also determined that, for the tax year beginning on 1 January 2016, taxpayers subject to the AMT under Section 1022.03(a) of the PR Code should determine their minimum tentative tax by calculating 30% of the amount by which their alternative minimum net income for the tax year exceeds the exempt amount, reduced by the alternative minimum credit for taxes paid abroad for the tax year (30% Rule).

In accordance with the First Circuit decision, the PRTD plans to modify Corporation Schedule A, "Alternative Minimum Tax," and states taxpayers should not use the schedule for tax years before the 2016 tax year.

*Estimated tax for 2016 tax year.* Under the new rules, taxpayers do not have to calculate the sum of their related-party expenses and personal property under the Second Measure to compute their estimated tax. If a taxpayer paid the estimated tax and it was attributable to the Second Measure, the taxpayer may apply that amount to the income tax for the tax year.

To determine the estimated tax for the tax year beginning on 1 January 2016, taxpayers should determine the minimum tentative tax by calculating the sum of the items set forth in Section 1022.03(b)(1) of the PR Code under the 30% Rule. Taxpayers who made estimated tax installments that are equal to or greater than the estimated tax amount (excluding the Second Measure's



calculation) do not have to pay the remaining estimated tax installments for the tax year.

*AMT calculation for 2015 tax year.* The PRTD determined that taxpayers that were subject to the AMT under Section 1022.03(a) of the PR Code by reason of the Second Measure for the 2015 tax year can recalculate the AMT without taking into consideration Section 1022.03(b)(2). The taxpayer should recalculate the AMT by calculating the minimum tentative tax only under the 30% Rule. After he minimum tentative tax is calculated, the taxpayer must determine whether it overpaid taxes by computing the difference, if any, between the minimum tentative tax and the regular tax. If the amount of the AMT paid on the original return filed for the 2015 tax year exceeds the recalculated AMT, taxpayers may claim a credit for the overpaid taxes.

Taxpayers that have a credit for overpaid AMT may opt to use the excess as one of the following:

- A credit of AMT in subsequent years, subject to the limitations in Section 1051.02 of the PR Code
- Payment of estimated tax for the 2016 tax year

Taxpayers that opt to treat the overpaid AMT as an estimated tax payment for the 2016 tax year should file an amended income tax return for the 2015 tax year with new Form 483.3, "Corporation Schedule A — Part V 2015 Tax Year." Taxpayers may not claim a refund on the amended return for the amount of overpaid AMT.

**Capital gains.** The holding period for long-term capital transactions is one year for sales or exchanges occurring after 30 June 2014, and the special applicable tax rate is 20%.

Losses from the sale or exchange of capital assets are allowed only to the extent of 80% of the gains from the sale or exchange of such assets for tax years beginning after 31 December 2014.

Capital losses can be carried forward for seven years to offset capital gains for tax periods after 31 December 2012.

Business assets that are not part of inventory are generally accorded capital gain treatment in the case of a gain and ordinary loss treatment in the case of a loss.

**Administration.** Corporate tax returns are due on the 15th day of the fourth month after the close of the taxable year. Extensions are available for up to three months; however, the tax must be fully paid by the original due date. Estimated tax payments are required on a quarterly basis. Estimated tax equals the lesser of the following:

- 90% of the tax for the tax year
- The greater of the following:
  - 100% of the total tax liability of the prior year
  - The tax liability determined using current tax rates and applicable law based on the taxable income from the preceding year's tax return

Tax returns of partnerships, Special Partnerships and limited liability companies that elected to be treated as partnerships and corporations of individuals, among others, are due on the 15th day of the third month after the close of the tax year. Extensions are

also available for up to three months. However, the tax must be fully paid by the original due date.

The PR Code grants the PRTD the authority to establish the form, manner and place in which “large taxpayers” must file their income tax returns. For this purpose, a “large taxpayer” is a taxpayer engaged in a trade or business in Puerto Rico that meets at least one of the following requirements:

- It is a commercial bank or trust company.
- It is a private bank.
- It is an insurance company.
- It is an entity engaged in the business of telecommunications.
- It is an entity that had a volume of business of USD50 million or more in the preceding tax year.

**Dividends.** Corporations engaged in a trade or business in Puerto Rico may deduct 85% of the dividends they receive from domestic (Puerto Rican) corporations, subject to limitations. Dividends received by domestic corporations or partnerships from controlled domestic corporations or partnerships are 100% deductible.

Dividends paid to nonresident corporations are subject to a 10% withholding tax.

A 10% tax is imposed on implicit dividends. This tax is imposed on the implicit dividend received by a foreign owner from an entity taxed as a corporation. A foreign shareholder is defined as a nonresident person who owns directly or indirectly 50% or more of the interests in an entity. For these purposes, an implicit dividend is defined as the lesser of the following:

- The average value of certain assets held outside Puerto Rico
- Earnings and profits of the corporation at the end of the year

The following entities are excluded from this tax:

- Not-for-profit organizations
- International insurers
- International financial entities
- Foreign corporations taxed under IRCPR Section 1092.02

**Foreign tax relief.** A tax credit is allowed for foreign taxes incurred, but is limited to the equivalent Puerto Rican tax on the foreign-source portion of taxable income. A foreign tax credit is also allowable under the AMT system, subject to limitations.

### **C. Determination of trading income**

**General.** Income for tax purposes is computed in accordance with generally accepted accounting principles, as adjusted for certain statutory provisions. Consequently, taxable income frequently does not equal income for financial reporting purposes.

Interest income derived from certain instruments issued by the governments of the United States or Puerto Rico is exempt from tax. Expenses related to the generation of this type of income are not deductible.

For expenses to be deductible, they must be incurred wholly and exclusively for the production of income. Statutory provisions limit the amounts of certain deductible expenses. Only 50% of travel and entertainment expenses is deductible. The deduction for

charitable contributions may not exceed 10% of taxable income before such deduction.

A disallowance of 51% of payments made to related parties not engaged in trade or business in Puerto Rico, including the allocation of expenses between a branch and its home office, applies in the calculation of taxable income for regular income tax purposes. This adjustment does not apply to entities operating with tax grants under tax incentive laws.

**Inventories.** Inventory is valued for tax purposes at either cost or the lower of cost or market value. In determining the cost of goods sold, the two most commonly used methods are first-in, first-out (FIFO) and last-in, first-out (LIFO). The method chosen must be applied consistently, except that an election to change from FIFO to LIFO may be made without prior permission.

**Tax depreciation.** A depreciation deduction is available for most property (except land) used in a trade or business. The time period over which an asset is depreciated is based on the asset classification. The following three depreciation methods are allowed in Puerto Rico:

- Straight-line
- A method similar to the US ACRS method
- Flexible depreciation

Deductions for ACRS depreciation are allowed only for assets acquired in tax years beginning on or after 1 July 1995. Deductions for flexible depreciation are allowed only for assets acquired in tax years beginning before 1 July 1995. The flexible method is limited to the following types of businesses:

- Construction
- Agriculture
- Selling or leasing of buildings
- Manufacturing
- Tourism
- Shipping

Businesses enjoying tax exemption (see Section B) may not use the flexible depreciation method. The amount of the flexible depreciation deduction is limited to a percentage of taxable income.

The depreciation expense deduction applicable to automobiles may not exceed USD6,000 per year per automobile for up to five years except, under certain circumstances, for lease businesses (operating leases) and taxi or limousine transportation businesses.

Depreciation computed under the straight-line depreciation method is not recaptured on the sale of an asset, but depreciation computed under the flexible depreciation and ACRS methods is subject to recapture.

Intangible property (other than goodwill) acquired by purchase or developed after 1 September 2010 is depreciated using the straight-line method over the lesser of 15 years or the useful life of the property.

**Groups of companies.** Affiliated corporations doing business in Puerto Rico may not elect to file a single income tax return on a consolidated basis.

**D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Special excise tax; imposed on the acquisition from a related party of personal property manufactured in Puerto Rico and related services by a nonresident foreign corporation or partnership; if the provider has gross receipts in excess of USD75 million for any of the three preceding taxable years and if certain other requirements are met (the tax rate is fixed until 2017 when the tax expires)	4
Sales and use tax imposed on tangible personal property, taxable services, admission rights and mixed transactions; specific exemptions and exclusions are provided	10.5
Municipal sales and use tax; imposed by municipalities on taxable items; specific exemptions and exclusions are provided	1
Sales and use tax; imposed on certain business-to-business (B2B) services and designated professional services (DPS); B2B services and DPS are not subject to the 1% municipal sales and use tax	4
Excise taxes on specified items, such as imports of cigarettes, gasoline and other fuels, vehicles and alcoholic beverages	Various
<b>Payroll taxes</b>	
Federal unemployment insurance (FUTA), imposed on first USD7,000 of wages (a credit of 5.4% is given for Puerto Rican unemployment tax; the overall rate can be less than 6%)	6
Workmen's compensation insurance, varies depending on nature of employee's activities	Various
Social security contributions; subject to the same limitations as in the United States; imposed on	
Wages up to USD127,200 (for 2017); paid by	
Employer	6.2
Employee	6.2
Medicare portion (hospital insurance; for 2017); paid by	
Employer	1.45
Employee (subject to an additional 0.9% of Medicare tax for wages in excess of USD200,000; no employer matching contribution for Medicare Tax)	1.45
Municipal license tax; on gross sales volume (if volume exceeds USD3 million, a financial statement certified by a certified public accountant [CPA] licensed in Puerto Rico must accompany the business volume declaration); rate varies by municipality; payable by	
Financial institutions	1 to 1.5

<b>Nature of tax</b>	<b>Rate (%)</b>
Other businesses	0.2 to 0.5
Property taxes (if volume exceeds USD3 million, a financial statement certified by a CPA licensed in Puerto Rico must accompany the tax return); rate varies by municipality	
Personal property	5.80 to 9.83
Real property	8.03 to 12.33
Additional special tax on insurance premiums; imposed on premiums earned by insurance companies; tax must be paid on or before 31 March of the following year (exemption is provided for domestic insurers maintaining a home office in Puerto Rico)	1

**E. Miscellaneous matters**

**Financial statements requirements.** All entities engaged in trade or business in Puerto Rico must submit specified financial statements with their income tax returns.

Audited financial statements are required if the volume of business is equal to or greater than USD3 million. Not-for-profit corporations and entities with a volume of business of less than USD3 million are not required to file audited financial statements.

Financial statements must be prepared in accordance with US generally accepted accounting principles (GAAP) and issued by a CPA licensed to practice in Puerto Rico. Other detailed rules apply to the preparation of financial statements, including rules regarding foreign corporations and related entities.

Entities engaged in a trade or business in Puerto Rico that have a volume of business in excess of USD3 million must submit, together with their property and volume of business declaration tax returns, audited financial statements certified by a CPA licensed to practice in Puerto Rico. In addition, audited financial statements are required to be attached to the annual report filed with the Secretary of State in the case of a corporation with a volume of business in excess of USD3 million for tax years beginning on or after 1 August 2008. For corporations with a volume of business of USD3 million or less, a balance sheet with relevant footnotes, prepared by a person with general knowledge in accounting, must accompany the annual report filed with the Secretary of State.

For a group of related entities, the business volume is determined by adding the business volume of each of the entities included in the group. If the total exceeds USD3 million, each of the entities must submit audited financial statements with their income tax return. Special additional rules may apply to a group of related entities.

If foreign corporations do not keep available books of account and supporting documents in Puerto Rico, all of their tax deductions may be denied. A foreign corporation is deemed to be in compliance with this requirement if it can physically produce its books and records in Puerto Rico within 30 days. An extension of 15 days may be granted.

**Foreign-exchange controls.** Puerto Rico does not impose foreign-exchange controls, but large currency transfers must be reported to the US Treasury Department.

**Debt-to-equity rules.** Puerto Rico law does not include any specific thin-capitalization provisions, but US provisions in this area may be persuasive.

**Transfer pricing.** Under the income tax law, the tax authorities may redistribute or reallocate income, deductions, credits and other items between related taxpayers to prevent tax evasion. The law does not prescribe transfer-pricing methods. However, regulations identify methods that may be used by the Secretary of Treasury to determine the actual net income derived from sales of tangible property between related taxpayers. In addition, these regulations provide guidance on other types of transactions between related taxpayers, such as intercompany loans, rendering of services and transfers of intangible property.

## **F. Tax treaties**

Puerto Rico does not participate in US income tax treaties and has not entered into any treaties with other jurisdictions.

# Qatar

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*Qatar has two tax regimes, which are the state regime administered by the Qatar Tax Department (QTD) and the Qatar Financial Centre (QFC) regime administered by the QFC Tax Department. Unless specifically stated otherwise, the information in this chapter relates to the state tax regime.*

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**A. At a glance**

Corporate Income Tax Rate (%)	10
Capital Gains Tax Rate (%)	0/10
Branch Tax Rate (%)	10
Withholding Tax (%)	5/7
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

**B. Taxes on corporate income and gains**

**Corporate income tax.** The basis of taxation in Qatar is territorial. Persons carrying on business activities in Qatar are subject to tax on profits arising from sources in Qatar. Income from outside Qatar is generally not subject to tax.

Companies are exempt from tax if they are wholly owned by citizens of the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). Other companies are exempt to the extent that their profits are attributable to GCC national shareholders who are tax resident in Qatar.

**Rates of corporate income tax.** The standard corporate tax rate is 10%.

Companies engaged in 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. Taxable income is determined in accordance with the provisions of the underlying production-sharing contract or development and fiscal agreement. Petroleum operations are defined by law as the exploration for petroleum, improving oil fields, drilling, well repair and completion, the production, processing and refining of petroleum, and the storage, transport loading and shipping of crude oil and natural gas.



Oilfield service companies contracting with petroleum companies are subject to the standard 10% tax rate.

Foreign international shipping and aviation companies are exempt from tax in Qatar if Qatari shipping and aviation companies enjoy similar reciprocal treatment in the respective foreign countries.

Not-for-profit entities that are registered in Qatar or in another country are not covered by the provisions of the Qatar Income Tax Law and are accordingly exempt from tax. However, they must withhold tax if applicable.

The income of businesses registered and operating in the Qatar Financial Centre (QFC) is subject to a standard rate of tax of 10%. Regulated and non-regulated activities may be carried on from the QFC. Regulated activities include the following:

- International banking
- Insurance and reinsurance
- Fund management
- Brokerage and dealer operations
- Treasury management
- Funds administration and pension funds
- Financial advice and back-office operations

Non-regulated activities include the following:

- Professional and business services (including, but not limited to audit, legal, consultancy, tax advisory, media and public relations, project management, architecture and engineering)
- Holding company and headquarter hosting
- Special-purpose company
- Single-family office
- Ship brokering and agency services
- Trust and trust services

**Tax incentives.** Tax exemptions may be granted for periods of three to six years for certain companies, regardless of the nationality of the owners. A committee evaluates applications for tax exemptions. It considers factors such as the following in reviewing the applications:

- Whether the company provides social or economic benefits to Qatar
- Whether the company falls within the planned development and economic objectives of the government and has the approval of the appropriate government department
- The extent to which the company contributes to the national economy
- Whether the company uses modern technology
- Whether the company creates employment opportunities for citizens

The income of businesses operating at the Qatar Science and Technology Park (QSTP) is exempt from tax. However, such businesses must file annual tax returns, together with audited financial statements, with the QTD. QSTP-registered entities must also withhold tax if applicable.

Activities that may be carried out at the QSTP include the following:

- Research and development of new products
- Technology development and development of new processes

- Low-volume, high-value-added specialist manufacturing
- Technology-related consulting services, technology training and promotion of academic developments in the technology fields
- Incubating new businesses with advanced learning

To support financing and investment activities carried on by QFC entities, the QFC tax regulations provide for the establishment of tax-exempt vehicles. A QFC entity that is one of the following exempt vehicles may elect for special tax-exempt status:

- Registered Fund (QFC Scheme or a Private Placement Scheme)
- Special Investment Fund (permitted activities are private equity investments, venture capital investments, investments in property and investments on behalf of a single family)
- Special Funding Company (includes holding company and special-purpose company)
- Alternative Risk Vehicle
- Charity

QFC companies engaged in captive insurance or reinsurance business and companies of which at least 90% of the ordinary capital, profit and asset entitlement are beneficially, directly or indirectly owned by Qatari nationals and are licensed to engage in non-regulated activities may elect a 0% concessionary tax rate to apply to their chargeable profits.

In addition, a newly registered and incorporated QFC company may be able to claim reimbursement in the form of a tax credit with respect to tax losses incurred in the first two accounting periods, subject to meeting all criteria. If a QFC company receives a reimbursement of tax losses, it is automatically precluded for the following three accounting periods from electing special exemption status or the concessionary 0% tax rate.

Law No. 17 of 2014 provides a tax exemption for non-Qatari investors holding shares of companies or units in investment funds listed on the Qatar Stock Exchange (non-QFC entities). This exemption also extends to profits realized on the sale, transfer or exchange of listed shares or investment fund units.

**Capital gains.** Capital gains are aggregated with other income and are subject to tax at the regular corporate income tax rate. The sale by nonresidents of shares in Qatar tax resident companies is taxable at a rate of 10%. However, the sale of shares in listed companies is exempt from tax.

Capital gains derived by a QFC taxpayer may be exempt from tax in the QFC if they are considered a non-local source or meet the conditions of the QFC participation exemption.

**Administration.** Within 30 days after beginning a taxable activity in Qatar or registering with the Ministry of Economy and Commerce, a taxpayer must register with the QTD and obtain a tax card.

The tax year runs from 1 January to 31 December, and a taxpayer must use this accounting period unless approval is obtained for a different year-end. Approval to use an alternative accounting period is granted in exceptional cases only.

In general, all companies, including tax-exempt companies (see *Tax incentives*), must file tax declarations within four months

after the end of the accounting period. The due date may be extended at the discretion of the QTD, but the length of the extension may not exceed four months.

Audited financial statements must be submitted together with the tax declaration if any of the following circumstances exist:

- The capital of the taxpayer exceeds QAR100,000.
- The taxpayer's total taxable income exceeds QAR100,000.
- The head office of the taxpayer is located outside Qatar.

The tax declaration must be certified by an accountant in practice in Qatar who is registered with the Ministry of Finance. If this requirement is not satisfied, the QTD rejects the tax declaration. The tax declaration and supporting audited financial statements must be denominated in Qatari rials.

Tax is payable on the due date for filing the tax declaration. The due date for payment of taxes may be extended if the filing date is extended and if the taxpayer provides reasons acceptable to the QTD. Alternatively, the QTD may allow taxes to be paid in installments during the extension period. Tax is payable in Qatari rials.

Penalties for late filing are levied at a rate of QAR100 per day, subject to a maximum of QAR36,000. The penalty for late payment equals 1.5% of the tax due for each month or part of a month for which the payment is late, up to the amount of the tax due.

The QTD may issue tax assessments based on a presumptive basis or reassess by applying market prices to certain related-party transactions in certain circumstances. The tax law provides for a structured appeals process with respect to such tax assessments. Correspondence for all appeals must be in Arabic. The appeals procedure consists of the following three stages:

- Correspondence and negotiations with the QTD
- Formal appeal to an Appeal Committee
- The commencement of a case in the judicial courts

The QTD may inspect a taxpayer's books and records, which should be maintained in Qatar. The books and records are not required to be maintained in Arabic. The accounting books and records must be maintained for 10 years following the year to which the books, registers and documents are related.

The QTD has introduced a new tax administration system through which correspondence with the tax authority primarily flows. This includes the filing of tax registration forms, tax return submissions and communications from the QTD to the taxpayer with respect to inquiries, assessments and appeals.

For QFC entities, including tax-exempt entities, the annual income tax declaration must be submitted and the corresponding tax due must be paid within six months after the end of the accounting period.

Financial sanctions for the late submission of the annual QFC tax declaration are levied based on when the delayed filing is submitted. In addition, the delay payment charge on unpaid tax, which is currently 5% per year, is imposed.

**Withholding taxes.** Qatar Tax Law No. 21 of 2009, which is effective from 1 January 2010, introduced withholding taxes on pay-

ments to nonresident entities for activities not connected with a PE (essentially, those without a Commercial Registration and Tax Card issued by the QTD), and to entities registered in the Commercial Register with the registration linked to a specific project for a period of less than one year. The following are the payments subject to withholding tax and the applicable rates:

- Royalties and technical fees: 5%
- Interest payments (subject to specified exceptions), directors' fees, attendance fees, brokerage, commissions and other payments with respect to contracts for services conducted wholly or partially in Qatar: 7%

Companies or PEs in Qatar that make the above payments must deduct tax at source and remit it to the QTD by the 15th day of the month following the month in which the payment is made.

QFC taxpayers are not required to withhold tax.

**Dividends.** Dividends paid by a Qatar tax resident company are not subject to withholding tax. Income distributed from profits that have already been subject to Qatar taxation are not subject to further taxation in the hands of the recipient. Dividends paid by an entity that has a tax exemption are exempt from tax.

Dividends paid to a QFC taxpayer are not subject to tax in the QFC.

**Foreign tax relief.** A deduction is allowed for income taxes incurred by the taxpayer abroad if the revenues related to the foreign taxes are taxable in Qatar, subject to other deductibility requirements. In addition, foreign tax relief is available under the tax treaties with the countries listed in Section E.

In the QFC, taxpayers may credit foreign taxes paid on income that is also taxed in the QFC, or they may elect to treat such taxes as deductible expenses. Foreign tax relief is also available under tax treaties entered into by Qatar.

### C. Determination of trading income

**General.** The following are some of the items that are included in taxable income:

- Interest and returns realized outside Qatar from amounts generated by taxable activity carried on in Qatar
- Revenues earned from an activity performed in Qatar including trading, contracting and the provision of services
- Revenues earned from the partial or total performance of a contract in Qatar
- Service fee income received by head offices, branches or related companies
- Certain dividend income and capital gains on real estate located in Qatar
- Interest on loans obtained in Qatar

Normal business expenses are allowable and must be determined under the accrual method of accounting. Branches are limited in the deduction of head office expenses (see *Head office overhead*). Self-employed individuals engaged in a professional activity may choose to deduct a notional expense equal to 30% of their total income instead of all of the expenses and costs that are allowed to be deducted. Expenses for entertainment, hospitality, meals,

holidays, club subscriptions and client gifts are subject to restrictions. Guidance contained in supporting executive regulations specifies that these expenses are subject to an allowable ceiling of 2% of net income, up to a maximum of QAR200,000.

**Inventories.** Inventories must be valued using international accounting standards.

**Provisions.** General provisions, such as bad debts and stock obsolescence, are generally not allowed. Specific bad debts that are written off are deductible to the extent that they satisfy conditions set by the QTD. Deductions by banks for loan-loss provisions are the subject of periodic instructions from the Qatar Central Bank and, in general, provisions are allowable up to a ceiling of 10% of net profits.

**Head office overhead.** In general, charges of a general or administrative nature imposed by a head office on its Qatar branch are allowed as deductions, provided that they do not exceed 3% of turnover less subcontract costs. However, for banks, the limit is 1%. If a project derives income from both Qatari and foreign sources, the limit is 3% of the total revenues of the project, less subcontract costs, revenues from the supply of machinery and equipment overseas, revenues derived from services performed overseas, value of paid reinsurance premiums and other income not related to activities in Qatar.

No such restriction applies in the QFC.

**Tax depreciation.** Under the executive regulations relating to the Qatar Income Tax Law, assets must be classified into two groups for tax depreciation purposes. The first group is for high-value assets and consists primarily of buildings, ships, airplanes, drilling instruments and intangible assets. These assets should be depreciated on a straight-line basis using the following annual depreciation rates:

<b>Asset</b>	<b>Rate (%)</b>
Buildings and constructions, including roads, bridges, pipelines, storage tanks and port ducts inside the establishment, excluding ready-made light constructions	5
Ships and boats	10
Airplanes and helicopters	20
Drilling instruments	15
Intangible assets	
Pre-establishment expenses	50
Trademarks, patents and similar items	Amortized over the expected life of the asset, with a maximum annual amortization allowance of 15%

For the second group, which relates to low-value assets, tax depreciation is calculated using the reducing-balance method. The following are the annual depreciation rates for these assets.

Subgroup	Assets	Rate (%)
First	Computer hardware and software and annexes thereof	33.33
Second	Machinery, plant, equipment, electrical devices and means of transportation of goods and persons, including cars, vehicles, trucks and cranes	20
Third	Office furniture, fixtures and fittings and other assets	15

The above depreciation rates must be applied to the written-down tax value of the assets, increased by the cost of current-year additions and decreased by the sales proceeds from current-year disposals. Under the Qatar Income Tax Law, the gain or loss resulting from disposal of low-value fixed assets is no longer considered for income tax purposes. Instead, the sales proceeds are deducted from the tax value of the assets as mentioned above.

Approval of the Minister of Finance is required for departure from the tax depreciation rates noted above. Departures from these rates are normally allowed only for new start-up projects if the project owner requests permission to adopt different depreciation rates based on the presentation of appropriate justifications to the Minister.

The Executive Regulations limit the deductibility of depreciation to the amount reflected in the financial statements.

In the QFC, tax depreciation should be in line with the depreciation in the financial accounts, subject to additional requirements of the QFC tax law.

**Relief for losses.** Losses may be carried forward for up to three years. The carryback of losses is not allowed.

In the QFC, losses may be carried forward indefinitely, and the carryback of losses is not allowed.

**Groups of companies.** No tax regulations cover groups of companies in the Qatar Income Tax Law.

In the QFC, companies that are members of the same group may apply for a group relief (offset of taxable profits and losses).

#### D. Other significant taxes

Qatar has signed and ratified the GCC Value-Added Tax (VAT) Framework Agreement, and it is anticipated that Qatar will introduce a VAT in 2018. Because the GCC operates as a single customs territory, the GCC VAT Framework Agreement follows many of the principles in the EU VAT system.

The standard rate of VAT in Qatar and the GCC will be 5%.

Qatar has also signed and ratified the GCC Common Excise Tax Agreement and is expected to introduce excise tax on goods that are harmful to human health and to the environment, as well as on luxury goods, in 2018.

## E. Miscellaneous matters

**Foreign-exchange controls.** Qatar does not impose foreign-exchange controls. Equity capital, loan capital, interest, dividends, branch profits, royalties and management fees are freely remittable.

**Transfer pricing and anti-avoidance legislation.** The Qatar Income Tax Law contains anti-avoidance provisions. The QTD may nullify or alter the tax consequences of any transaction that it has reasonable cause to believe was entered into to avoid or reduce a tax liability.

If a company carries out a transaction with a related party that was intended to reduce the company's taxable income, the income arising from the transaction is deemed to be the income that would have arisen had the parties been dealing at arm's length.

In determining the arm's-length value, the QTD requires the use of the comparable uncontrolled price (CUP) method. Under this method, the price of the service or goods is deemed to be the price that would have been applied if the transaction had been between unrelated parties. If the information required to apply the CUP method is not available, an application to apply a different transfer-pricing method approved by the Organisation for Economic Co-operation and Development (OECD) must be submitted to the QTD.

Under the QFC tax regime, transfer pricing may be determined based on any of the accepted OECD transfer-pricing methods.

A taxpayer's presentation to the QFC Tax Department of a transfer-pricing study with pricing for related-party transactions, properly benchmarked against valid comparables, is a significant factor in deciding whether an inquiry into a return is necessary.

**Thin-capitalization rules.** The Qatar Income Tax Law does not provide for a safe harbor debt-to-equity ratio.

However, under the QFC tax regime, the following are safe harbor debt-to-equity ratios:

- 2:1 for non-financial institutions
- 4:1 for financial institutions

Although the above ratios are non-statutory and are non-binding on taxpayers and the QFC Tax Department, they are expected to be accepted as default thresholds by the QFC Tax Department. The safe-harbor guidance applies for accounting periods beginning on or after 1 January 2012.

**Supply and installation contracts.** Profits from "supply only" operations in Qatar are exempt from tax because the supplier trades "with" but not "in" Qatar. If a contract includes work elements that are performed partially outside Qatar and partially in Qatar, and if these activities are clearly separated in the contract, only the revenues from the activity performed in Qatar are taxable in Qatar.

Similarly, with respect to an engineering, procurement and construction contract for a project in Qatar, the obligation to perform construction work in Qatar may bring the revenues arising outside Qatar into the Qatar tax net unless the contract clearly includes a

split of revenue between work done in Qatar and work done outside Qatar.

**Contract retention.** All ministries, government departments, public and semipublic establishments and other payers must retain the final contact payment or 3% of the contract value (after deducting the value of supplies and work done abroad), whichever is greater, due to foreign branches that have a commercial registration linked to a specific project with a duration of at least one year. The contract retention payable to the contractor or subcontractor must be retained until the contractor or subcontractor presents a tax clearance from the QTD confirming that all tax liabilities have been settled.

Contract retention does not apply to QFC taxpayers.

**Contract reporting.** Ministries and other government bodies, public corporations and establishments, and companies are required to report to the QTD on contracts concluded with nonresidents without a PE in Qatar, regardless of their value. In addition, contracts concluded with residents or with nonresidents that have a PE in Qatar must also be reported to the QTD if the contract value amounts to QAR200,000 for service contracts, or to QAR500,000 for contracting, supply, and supply and service contracts. Copies of the contracts must also be submitted together with the statement, except for contracts concluded with nonresidents with no PE in Qatar that have a contract value not exceeding QAR100,000.

## F. Tax treaty withholding tax rates

The table provided below is intended purely for orientation purposes. It does not reflect the various special provisions of individual treaties or the withholding tax regulations in domestic law. The following is a table of treaty withholding tax rates.

	Dividends		Interest (a) %	Royalties %
	A %	B %		
Algeria	— (b)	—	— (c)	5
Armenia	10	5 (d)	5	5
Austria	— (c)	— (c)	— (f)	5
Azerbaijan	7	7	7	5
Barbados	— (c)	— (c)	— (c)	5
Belarus	5	5	5	5
Bulgaria	— (c)	—	3	5
China (mainland)	10	10	10	10
Croatia	— (c)	—	— (c)	10
Cuba	10	5 (e)	10	5
Cyprus	— (c)	—	— (c)	5
France	— (f)	—	— (f)	— (f)
Georgia	— (c)	—	— (c)	— (g)
Greece	5	5	5	5
Guernsey	—	—	—	5
Hong Kong SAR	—	—	—	5
Hungary	0/5 (bb)	0 (bb)	— (c)	5
India	10	5 (h)	10	10
Indonesia	10	10	10	5
Iran	7.5	5 (ff)	10	5



	Dividends		Interest (a)	Royalties
	A	B		
	%	%	%	%
Ireland	—	—	—	5
Isle of Man	— (c)	— (c)	— (c)	5
Italy	15	5 (i)	5	5
Japan	10	5 (hh)	0/10 (ii)	5
Jersey	— (c)	— (c)	— (c)	5
Jordan	10	10	5	10
Kenya	10 (l)	5 (l)	10	10
Korea (South)	10	10	10	5
Kyrgyzstan	—	—	—	5
Latvia	5 (gg)	0 (gg)	0/5 (gg)	5
Lebanon	— (j)	—	— (j)	— (j)
Luxembourg	5/10 (k)	0 (h)	— (c)	5
Macedonia	— (c)	—	— (c)	5
Malaysia	5/10 (l)	5 (l)	5	8
Malta	— (c)	—	— (c)	5
Mauritius	— (c)	—	— (c)	5
Mexico	—	—	5/10 (ee)	10
Monaco	— (c)	—	— (c)	5
Morocco	10	5 (m)	10	10
Nepal	10	10	10	15
Netherlands	10	0 (n)	— (c)	5
Norway	15	5 (aa)	— (c)	5
Pakistan	10	5 (h)	10	10
Panama	6	6	6	6
Philippines	15	10 (aa)	10	15
Poland	5	5	5	5
Portugal	10	5 (dd)	10 (a)	10
Romania	3	3	3	5
Russian Federation	5	5	5	— (c)
Senegal	— (j)	—	— (j)	— (j)
Serbia	10	5 (e)	10	10
Seychelles	— (c)	—	— (c)	5
Singapore	— (c)	—	5	10
Slovenia	5	5	5	5
South Africa	10	0/5 (jj)	0/10 (kk)	5
Sri Lanka	10	10	10	10
Sudan	— (b)	—	— (c)	— (z)
Switzerland	10/15 (o)	5 (p)	— (c)	— (c)
Syria	5	5	10	18
Tunisia	0 (q)	0	— (r)	5
Turkey	15	10 (s)	10 (t)	10
United Kingdom	0 (u)	0	0 (v)	5
Venezuela	10	5 (h)	5	5
Vietnam	12.5	5 (w)	10	5/10 (x)
Yemen	— (c)	—	— (c)	— (y)
Non-treaty jurisdictions	0	0	7 (cc)	5 (cc)

A Individuals and companies

B Qualifying companies

(a) Some treaties provide for an exemption for certain types of interest, such as interest paid to public bodies and institutions. Such exemptions are not considered in this column.

(b) Income may be taxed in the residence state at the rate provided under its domestic law.

- (c) Income is taxable only in the residence state at the rate provided under its domestic law.
- (d) The 5% rate applies if the beneficial owner has invested capital of more than USD100,000.
- (e) The 5% rate applies if the beneficial owner holds at least 25% of the capital of the company paying the dividends.
- (f) Dividends, interest and royalties are taxable only in the residence state at the rates provided under its domestic law if the recipient is the beneficial owner of the income.
- (g) Royalties are taxable only in the residence state at the rates provided under its domestic law if the recipient is the beneficial owner of the income.
- (h) This rate applies if the beneficial owner holds at least 10% of the capital of the company paying the dividends.
- (i) The 5% rate applies if the beneficial owner has owned directly or indirectly at least 25% of the capital of the company paying the dividends for a period of at least 12 months preceding the date on which the dividends are declared.
- (j) Dividends, interest and royalties are taxable in the residence state at the rates provided under its domestic law.
- (k) The 5% rate applies if the beneficial owner is an individual who holds directly at least 10% of the capital of the company paying the dividends and who has been a resident of the other contracting state for a period of 48 months immediately preceding the year in which the dividends are paid.
- (l) The 5% rate applies if the beneficial owner is an individual or a company that holds directly at least 10% of the capital of the company paying the dividends. Otherwise, a 10% rate applies.
- (m) The 5% rate applies if the beneficial owner holds directly at least 10% of the capital of the company paying the dividends.
- (n) The 0% rate applies if the beneficial owner is a company that has its capital wholly or partly divided into shares and that holds directly at least 7.5% of the capital of the company paying the dividends.
- (o) The 10% rate applies if the individual holds at least 10% of the capital of the distributing company. Otherwise, the 15% rate applies.
- (p) The 5% rate applies if the beneficial owner is a company that holds directly at least 10% of the capital of the company paying the dividends.
- (q) The income is not taxable in either state.
- (r) The income may be taxed in the source state at the rate provided under its domestic law.
- (s) The 10% rate applies if the beneficial owner is a company that holds directly at least 25% of the capital of the company paying the dividends. Otherwise, the 15% rate applies.
- (t) The income is exempt from tax if it is beneficially owned by the government of the contracting state or a political subdivision or a local authority thereof or by the central bank of the other contracting state.
- (u) Dividends distributed by real estate investment trusts are subject to a 15% withholding tax, unless the beneficial owner is a pension scheme, in which case an exemption applies.
- (v) The treaty provides for several alternative conditions relating to the beneficial owner or the payer of the interest for the application of the 0% rate. This rate applies if one of these conditions is met. Otherwise, the domestic rate in the source state applies.
- (w) The 5% rate applies if the beneficial owner is a company that holds directly or indirectly at least 50% of the capital of the company paying the dividends or that has invested more than USD10 million or the equivalent in Qatari or Vietnamese currency in the capital of the company paying the dividends.
- (x) The 5% rate applies to royalties paid for the following:
- The use of, or the right to use, patents, designs or models, plans, or secret formulas or processes
  - The use of, or the right to use, industrial, commercial or scientific equipment
  - Information concerning industrial, commercial or scientific experience
- The 10% rate applies in other cases.
- (y) The income is taxable only in the source state at the rate provided under its domestic law.
- (z) The income may be taxed in the source state at the rate provided for under its domestic law.
- (aa) This rate applies if the beneficial owner is a company (other than a partnership) that holds at least 10% of the capital of the company paying the dividends.
- (bb) The 0% rate applies if the beneficial owner of the dividends is a company resident in the other contracting state. The 5% rate applies to all other beneficial owners of dividends resident in the other contracting state.

- (cc) See Section B.
- (dd) This rate applies if the beneficial owner of the dividends holds at least 10% of the capital of the company paying the dividends or if the beneficial owner is the state of Portugal, a political or administrative subdivision or a local authority thereof, or the central bank of Portugal.
- (ee) The 5% rate applies if the beneficial owner of the interest is a bank. A 10% rate applies in all other cases.
- (ff) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 20% of the capital of the company paying the dividends.
- (gg) The rate is 0% if the beneficial owner is a company (other than a partnership). The rate is 5% of the gross amount of the dividends or interest in all other cases.
- (hh) The 5% rate applies if, for the six-month period ending on the date on which entitlement to the dividends is determined, the beneficial owner of the dividends owned at least 10% of the voting power or the total issued shares of the company paying the dividends, and if the company paying the dividends is not allowed a tax deduction for the dividends.
- (ii) The 0% rate applies if the interest is derived from government debt or if the beneficial owner is one of the following:
- A government entity
  - A bank
  - An insurance company
  - A securities dealer
  - A pension fund (conditions apply)
  - Any other enterprise, provided that in the three tax years preceding the tax year in which the interest is paid, the enterprise derives more than 50% of its liabilities from the issuance of bonds in the financial markets or from taking deposits for interest and more than 50% of the assets of the enterprise consist of debt-claims against persons not associated with the enterprise
- (jj) The 5% rate applies if the beneficial owner holds at least 10% of the capital of the company paying the dividends. The 0% rate applies to dividends paid to the other state (for example, a local authority).
- (kk) The 0% rate applies if the interest arises with respect to a government debt or debt listed on a recognized stock exchange.

Qatar is in the process of ratifying treaties with Bermuda, Bosnia and Herzegovina, Ecuador, Eritrea, Ethiopia, Fiji, Gambia, Kazakhstan, Mauritania, Nigeria, San Marino and Spain.

Qatar is in the process of negotiating, signing and ratifying treaties with Albania, Argentina, Bangladesh, Belgium, Brunei Darussalam, Czech Republic, Egypt, Estonia, Gabon, Germany, Ghana, Iceland, Libya, Lithuania, Montenegro, Paraguay, Peru, Swaziland, Tajikistan, Thailand, Turkmenistan, Ukraine, Uruguay and Uzbekistan.

Qatar is renegotiating its tax treaties with Morocco, Pakistan and Turkey.

# Romania

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**A. At a glance**

Corporate Income Tax Rate (%)	16 (a)
Capital Gains Tax Rate (%)	16 (a)
Branch Tax Rate (%)	16 (a)
Withholding Tax (%) (b)	
Dividends	5 (c)
Interest	16 (d)(e)(f)
Royalties	16 (d)(f)
Commissions	16 (d)
Certain Services Rendered Abroad	16 (g)
Services Rendered in Romania	16 (d)
Gambling	1
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	7 (h)

- (a) See Section B.
- (b) These withholding tax rates are standard and final. They can be reduced under double tax treaties or European Union (EU) directives.
- (c) This tax may be reduced to nil for dividends paid to a legal entity residing in another EU member state or to a permanent establishment of an entity residing in an EU member state, if certain conditions relating to the dividend recipient and dividend payer are satisfied. These conditions are described in *Dividends* in Section B. Dividends paid by Romanian legal entities to pension funds resident in an EU member state, as defined by the law of such state, are exempt from withholding tax in Romania.
- (d) This withholding tax applies only if the income is not attributable to a permanent establishment in Romania.
- (e) The following types of interest derived by nonresidents are not subject to withholding tax:
- Interest from public debt instruments in national and foreign currency
  - Interest related to instruments issued by the National Bank of Romania to carry out monetary policy
  - Interest paid by Romanian legal entities to pension funds resident in an EU member state, as defined by the law of such state
- (f) The withholding tax rate is 0% for interest and royalties if certain conditions are satisfied, including the following principal conditions:
- The beneficial owner of the interest or royalties is a legal person resident in an EU member state or a permanent establishment of an entity resident in such a state.

- The beneficial owner of the interest or royalties holds at least 25% of the value or number of participation titles in the Romanian entity for an uninterrupted period of at least two years that ends on the date of payment of the interest or royalties.
- (g) This withholding tax applies only to management and consultancy services rendered abroad. International transport and supplies of services ancillary to such transport are not subject to withholding tax.
- (h) Annual tax losses may be carried forward for seven years and are not adjusted for inflation.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident entities are subject to tax on their worldwide income. An entity is resident in Romania if it satisfies any of the following conditions:

- It is incorporated in Romania.
- Its place of effective management and control is located in Romania.
- It is a legal entity that has its headquarters in Romania and that is incorporated in accordance with the European legislation.

Associations or consortia, which are not considered separate legal persons in Romania, are tax transparent. Different tax rules apply depending on the members of the associations or consortia (for example, whether the members are Romanian, nonresident, individuals or companies).

Nonresident companies that do not have an effective place of management in Romania are subject to tax on their Romanian-source income only, including capital gains derived from specified transactions (see *Capital gains*).

**Rates of corporate income tax.** The standard rate of income tax for Romanian companies is 16%, regardless of whether the companies have foreign participation. Income derived by companies from night bars, nightclubs, discos and casinos directly or in association is also normally taxable at a rate of 16%, but the amount of the tax payable may not be less than 5% of the gross income derived from such activities.

Nonresident companies that do not have their place of effective management in Romania are taxed in Romania at the standard rate of 16% on earnings derived from their operations in Romania through branches, permanent establishments or certain consortia. A permanent establishment of a foreign company in Romania may be constituted in certain forms, including the following:

- An office
- A branch
- An agency
- A factory
- A mine
- A place of extraction for gas or oil
- A building site that exists for a period exceeding six months
- The place in which an activity continues to be carried out with the assets and liabilities of a Romanian legal person subject to a cross-border reorganization

Foreign companies are also normally taxable in Romania at the standard corporate income tax rate on profits derived in Romania from real estate located in Romania and the exploitation of natural resources, as well as on certain capital gains (see *Capital gains*).

Representative offices are subject to an annual tax equal to RON18,000 (approximately EUR4,000).

**Law on specific tax for some activities.** Effective from 1 January 2017, instead of the corporate tax, a specific tax applies to Romanian legal persons that perform certain activities in the hotels and accommodation, restaurant and other food services, bars and beverage-serving sectors.

The specific tax applies only to Romanian legal persons that on 31 December of the preceding year performed one of the activities mentioned above, according to their Articles of Incorporations, and that are not in liquidation.

Formulas determine the specific tax. If the taxpayer performs more than one of the activities listed above (except for hotel complexes), the specific tax equals the tax determined by applying the specific formulas to each of the activities performed.

In the event that the taxpayer derives income from other activities that are not subject to this specific tax, the taxpayer must apply the corporate income tax system to such income.

Taxpayers that applied the specific tax for some activities and previously incurred tax losses have the right to recover those losses in the seven consecutive years from the date on which they returned to the corporate income tax system. The period runs from the date on which the tax loss was incurred.

**Microenterprises.** Romanian legal persons fulfilling certain conditions must pay microenterprise tax, which is calculated by applying the following rates to the taxable revenues with exemptions for certain revenues:

- 3% if the legal person has no employees
- 1% if the legal person has one or more employees

The reduced microenterprise tax rate of 1% applies also to newly established Romanian legal persons that meet all of the following conditions:

- They have at least one employee.
- They are established for a period of more than 48 months.
- Their shareholders or associates do not hold participation titles in other legal persons.

This reduced tax rate applies for the first 24 months since the registration date of the Romanian legal persons.

The microenterprise regime applies to companies that derived income of less than EUR1 million in the preceding year.

If during a tax year, a taxpayer assessed as microenterprise fulfills the conditions to become a corporate income taxpayer (for example, it has income exceeding EUR1 million), it pays corporate income tax based on revenues and expenses recorded from the beginning of the quarter in which it no longer meets the conditions to qualify as a microenterprise.

A tax loss incurred by the taxpayer in the period in which the microenterprise income tax is applied is not taken into account (the taxpayer's tax result is not calculated).

Tax losses incurred by legal persons before applying the micro-enterprise tax regime can be carried forward until the legal entity fulfills the conditions to become a corporate income taxpayer, but only within the seven-year period stated by the law.

**Tax incentives.** Romania offers certain tax incentives, which are summarized below.

*Corporate income tax.* The Tax Code contains measures allowing companies to claim accelerated depreciation in certain circumstances.

The Tax Code allows “sponsorship” expenses to be claimed as a credit against corporate income tax due, subject to certain limitations. Under the Sponsorship Law, “sponsorship” is defined as “the juridical deed by which two persons agree upon the transfer of the ownership right upon certain material goods or financial means, in order to support the activity without lucrative scope, carried out by one of them.” The tax credit for sponsorship expenses is limited to the lower of the following:

- 0.5% of the company’s turnover
- 20% of the corporate income tax due

Sponsorship expenses that were not used for obtaining a tax credit can be carried forward for seven consecutive years.

*Reinvested profit.* The profit invested in the production and/or acquisition of certain technological equipment, computers and peripherals, tax registers, control and billing machines, as well as software and the right to use software, is exempt from tax. The reinvested profit represents the balance in the profit-and-loss account, which is the difference between the total income and total expenses booked in the trial balance of the company beginning with 1 January of the year in which such assets are commissioned. The assets must be retained for at least half of their useful economic life, but no longer than five years, with certain exceptions (for example, cases in which the assets are destroyed, lost or stolen). In addition, the accelerated depreciated method cannot be used for the respective assets.

*Innovation and research and development, as well as ancillary activities.* Effective from 1 January 2017, a new exemption from corporate income tax is introduced. It applies for the first 10 years of activities to taxpayers that exclusively undertake innovation and research and development, as well as ancillary activities.

*Research and development costs.* An additional allowance granted for research and development activities equals 50% of eligible costs under certain conditions.

*Industrial parks.* Companies administering industrial parks (administrator companies) may benefit from the following incentives by observing the state-aid legislation:

- Exemption from taxes due on conversion of agricultural land to be used for industrial parks
- Buildings, constructions and land located inside industrial parks are exempt from building tax and land tax
- Other incentives, which may be granted by the local authorities

*Petroleum companies.* Incentives are available to titleholders of oil and gas concessions. Titleholders are granted the concessions



by the government in exchange for the payment of a royalty. The following are the incentives:

- For rehabilitation projects, a deductible provision equal to 10% of the annual offshore exploitation profits derived by titleholders of oil and gas licenses that relate to offshore areas with water deeper than 100 meters (328 feet).
- Provisions set up for equipment decommissioning and environmental rehabilitation are deductible up to a limit of 1%, which is applied to the accounting result of the exploitation and production of natural resources, except for the result related to the offshore activities and other activities of the legal entity.
- Reserves for the development and modernization of oil and gas production and for oil refining and infrastructure are deductible. These are included in taxable income on the depreciation of the assets and their write-off, respectively, over the period in which the expenses financed from these reserves are incurred.

*Free-trade zones.* The following tax benefits are available to companies performing activities in free-trade zones:

- Value-added tax (VAT) exemption applies to supplies of non-Community goods to be placed in a free-trade zone and to supplies of the respective goods performed in a free-trade zone.
- Non-Community goods introduced into free-trade zones for storage purposes are not subject to customs duties.
- State aid is available for investments performed in free-trade zones.

*Property taxes.* Local councils may grant building and land tax exemptions to legal entities, subject to the state-aid regulations.

**Capital gains.** Capital gains are included in taxable income and taxed at the normal corporate income tax rate. Capital gains derived by nonresident companies are also subject to the standard 16% tax rate if they are derived from the disposal of the following:

- Immovable property located in Romania
- Participation titles (shares) in a Romanian company

Income derived by nonresident collective placement bodies without corporate status from the transfer of value titles (securities participation titles in open funds, and other financial instruments, such as derivatives) and participation titles held directly or indirectly in Romanian companies, as well as to income derived by nonresidents from the transfer on a foreign capital market of participation titles held in a Romanian company and of value titles.

Income derived from the sale or assignment of shares held in Romanian legal entities or in legal entities from countries with which Romania has entered into a double tax treaty is not included in taxable income if the taxpayer holds for an uninterrupted period of one year at least 10% of the share capital of the legal entity that issued the shares.

**Administration.** In general, the tax year is the calendar year. However, certain companies may opt for a tax year other than the calendar year.

Under the corporate income tax law, payers of corporate income tax (for example, companies, branches and permanent establishments) must file tax returns and pay corporate income

tax quarterly (computed based on actual numbers) by the 25th day of the first month following the first, second and third quarters.

As an exception to the general rule, payments made by banks are advance payments based on the corporate income tax for the preceding year, adjusted by the inflation rate. These payments must be made quarterly by the 25th day of the first month following the first, second and third quarters, as well on 25 December, of the respective year. This rule does not apply to newly established banks and banks that recorded a tax loss in the preceding year. These banks apply the 16% rate to the accounting profit of the current quarter.

All other payers of corporate income tax may opt for reporting and paying the annual corporate income tax through advance payments made on a quarterly basis.

The annual corporate income tax return must be filed and any balance of annual corporate income tax must be paid by 25 March of the following year. For the taxpayers using a non-calendar tax year, the annual corporate income tax return must be filed and any balance of annual corporate income tax must be paid by the 25th day of the third month following the tax year-end. Certain taxpayers, such as nonprofit organizations or taxpayers deriving most of their revenues from cereals and technical plants, must submit the annual corporate income tax return and pay the related tax by 25 February of the following year.

Payers of corporate income tax that cease to exist must submit a final tax return and pay the corporate income tax based on special rules.

The annual financial statements must be submitted within specified time periods after the year-end. The following are the time periods:

- Companies (in general), national companies and research and development institutes: 150 days
- Certain specified legal persons, individuals and bodies: 120 days
- Companies not performing any activities after their formation: 60 days

The failure of a company to file tax returns by the deadline may result in a fine ranging usually from RON500 to RON5,000. Companies are liable for the payment of the fines for late filing of returns even if they pay the tax due. For the late payment of tax liabilities, the following late payment interest and late payment penalties are due (except as otherwise provided):

- Late payment interest, computed at 0.02% per day of delay
- Late payment penalties, computed at 0.01% per day of delay
- Penalties for unreported or inaccurately reported obligations, computed at 0.08% per day of delay
- Late payment penalties for local tax liabilities, computed at 1% per month or part of a month of delay

**Dividends.** Dividends paid by Romanian companies to resident companies are subject to a 5% withholding tax. The 5% tax is considered a final tax and, accordingly, the dividends are not included in the taxable income of the recipient. However, as a result of Romania's accession to the EU, no tax is imposed on dividends

paid by a Romanian resident company to resident companies that held at least 10% of the shares of the payer for an uninterrupted period of at least one year that ended on the date of payment of the dividend.

Dividends paid by Romanian companies and legal entities having their social headquarters in Romania (that is, *societas europea* registered with the Romanian Trade Registry and set up according to European law) to resident individuals and nonresident companies and individuals are generally subject to a 5% withholding tax. However, dividends paid by a Romanian legal entity to a legal entity resident in another EU member state or to a permanent establishment of an entity residing in an EU member state are not subject to withholding tax if certain conditions relating to the legal entity receiving the dividends and to the Romanian income payer are satisfied. These conditions are described below.

The following conditions must be satisfied with respect to the legal entity receiving the dividends:

- The legal entity or permanent establishment receiving the dividends must be established in one of the legal forms provided by the law and must be resident in the respective EU member state and, according to the double tax treaties entered into with third countries, may not be resident outside the EU from a tax perspective.
- The legal entity or permanent establishment receiving the dividends must be liable to pay corporate income tax or other similar tax under the tax law in its state of residence without the possibility of exemption or choice of the tax treatment.
- The beneficiary of the dividends must own at least 10% of the participation titles in the Romanian legal entity for an uninterrupted period of at least one year ending on the date of the payment of the dividends.

The Romanian entity paying the dividends must satisfy the following conditions:

- It must be a joint stock company, limited stock partnership (*societate in comandita pe actiuni*), limited liability company, general partnership (*societate in nume colectiv*) or limited partnership (*societate in comandita simpla*).
- It must be liable to pay corporate income tax without the possibility of exemption or choice of the tax treatment.

Dividends paid by Romanian legal entities to pension funds, as defined by the law of the respective EU member state, are exempt from withholding tax in Romania if a legal instrument for information exchange exists.

The deadline for payment of dividend withholding tax is the 25th day of the month following the month in which the dividends are paid. However, if the dividends are distributed but not paid to shareholders by the end of the year in which the annual financial statements are approved, the tax is due on 25 January of the following year.

**Foreign tax relief.** Foreign taxes may be credited against Romanian taxes based on the provisions of a double tax treaty between Romania and the foreign state.

*Permanent establishments.* Romanian permanent establishments of foreign legal entities resident in an EU or European Economic Area (EEA) member state that derive income from another EU or EEA state benefit under certain conditions from a tax credit for the tax paid in the state from which the permanent establishment from Romania derived the income.

### C. Determination of trading income

**General.** In general, all income that is booked as revenue is included in taxable income for corporate income tax purposes. However, the following items, among others, are not included in taxable income:

- Dividends received by a Romanian company from another Romanian company
- Dividends received by a Romanian company from a foreign legal entity subject to corporate income tax or a similar tax located in a state with which Romania entered into a double tax treaty, dividends received from an EU resident subsidiary and dividends received by a Romanian permanent establishment of an EU company, if certain conditions are satisfied
- The value of new shares or increases in the value of existing shares held in other companies, resulting from the incorporation of reserves, premiums, profits and similar items
- Revenues from the reversal, recovery and recharge of expenses and provisions that were previously considered to be non-deductible
- Income derived from the liquidation of other Romanian legal entities or foreign legal entities located in countries with which Romania has entered into a double tax treaty, if certain conditions are met
- Income from the revaluation of fixed assets, land and intangibles, which offsets the previous decreases incurred with respect to the same assets
- Income derived from a permanent establishment in a country with which Romania has entered into a double tax treaty that provides the exemption method for the elimination of double taxation

The first and fourth items above apply if the taxpayer holds for an uninterrupted period of one year at least 10% of the share capital of the legal entity distributing the dividends or the legal entity subject to liquidation. This condition does not apply to dividends received by a Romanian company from another Romanian company.

In general, expenses are deductible for tax purposes if they are incurred for the purpose of carrying out business activities. However, the following items are deductible within specified limits:

- Protocol and entertainment expenses (for example, gifts to clients and business lunches), up to 2% of the sum of the accounting profit, corporate income tax, and protocol and entertainment expenses
- Employee-related expenses (social expenses), up to 5% of the total salary cost
- Contributions to the legal reserve fund, generally up to 5% of the accounting profit before tax, until the reserve fund reaches 20% of share capital

- Expenses with respect to shrinkage of goods and to perishable goods (goods on which a company might incur losses for various reasons, such as from damage suffered during the transport of the goods), which are deductible within the limits set by a government decision
- Provisions (see *Provisions*)
- Borrowing costs (see Section E)
- Depreciation expenses (see *Tax depreciation*)

The following expenses are not deductible for tax purposes:

- Service expenses, including management, assistance and consultancy expenses, if they are provided by a person located in a state with which Romania does not have a legal instrument for information exchange and if such transactions are considered to be artificial.
- Expenses relating to insurance, other than insurance relating to assets owned by the company and risks related to the company's activity.
- Penalties and fines paid to Romanian or foreign authorities.
- Losses from the reduction in the value of inventory that cannot be recovered and uninsured assets, as well as the related VAT. However, these losses are deductible under certain conditions, such as losses regarding goods that exceeded their validity term or passed their expiration date according to the law or that were qualitatively degraded, if their destruction can be proved accordingly.
- Romanian and foreign corporate income tax (however, a tax credit is allowed for taxes paid in other countries based on the provisions of a double tax treaty between Romania and the foreign state).
- Expenses incurred for the benefit of shareholders or associates, other than payments for goods and services at market value.
- Expenses related to non-taxable income.

The deductibility of car expenses not falling under the full deductibility criteria provided under the Romanian tax law is limited to 50% for certain cars not exclusively used for business purposes.

Sponsorship expenses are also nondeductible, but they may be claimed as a credit against corporate income tax due, subject to certain limitations (see Section B).

#### **Taxpayers applying International Financial Reporting Standards.**

Taxpayers applying International Financial Reporting Standards (IFRS), such as banks and listed companies, must take specific tax rules into consideration in determining the corporate income tax.

**Inventories.** Under Romanian law, inventories of raw materials and merchandise are valued at purchase cost, while inventories of finished goods and work-in-progress are valued at production cost. On the write-off of the inventories, the valuation is calculated using the first-in, first-out (FIFO), weighted average or last-in, first-out (LIFO) methods.

**Provisions.** Under Romanian law, the following provisions are deductible for corporate income tax purposes:

- Bad debt provisions under specified conditions
- Provisions for performance guarantees granted to clients

- Mandatory credit risk provisions, if established by banks, credit institutions or nonbanking financial institutions (leasing companies)
- Special provisions for titleholders of oil and gas concessions

**Tax depreciation.** The following are the permissible depreciation methods:

- Buildings: straight-line depreciation
- Equipment: straight-line, degressive or accelerated depreciation
- Other depreciable assets: straight-line or degressive depreciation

The depreciation method must be applied consistently. Land may not be depreciated.

Under the accelerated depreciation method, the assets are depreciated at a maximum rate of 50% in the first year of use, and the balance of the value is deducted using the straight-line method during the remaining useful life of the asset. Assets financed from reinvested profit cannot be depreciated using the accelerated depreciation method (see Section B).

Patents, licenses, know-how, manufacturers' brands, trademarks and service marks, as well as other similar industrial and commercial property rights, are depreciated during the contract period or during the period in which the purchaser intends to use the rights.

Expenses for the production or purchase of software programs are deductible on a straight-line or degressive basis over three years. The degressive and accelerated depreciation methods may be used for patents.

Goodwill, as well as intangibles with an undetermined operational life according to the accounting regulations, cannot be depreciated for tax purposes.

The deductibility of the tax depreciation of certain vehicles is limited to RON1,500 per month per vehicle.

For tax depreciation purposes, useful lives are prescribed by law. The following are the useful lives that are generally applicable to major categories of assets.

<b>Asset</b>	<b>Years</b>
Buildings and constructions (for example, roads and fences)	8 to 60
Machinery and equipment	2 to 24
Furniture and fittings	2 to 15
Motor vehicles	3 to 9

Reserves from the revaluation of fixed assets, carried out after 1 January 2004, which are deducted as tax depreciation or expenses when assets are sold or written off are taxed simultaneously with the deduction of the tax depreciation or expenses (that is, when the assets are sold or written off).

**Relief for losses.** Annual tax losses may be carried forward for seven years and are not adjusted for inflation. Losses of entities ceasing to exist as a result of a spin-off or merger are recovered by the taxpayers taking over the patrimony of the absorbed or spun-off company, proportionally to the value of the assets transferred to the beneficial legal entity. The same rules apply to entities that do not cease to exist.

Losses may not be carried back.

**Groups of companies.** Although the Romanian law provides financial accounting rules for the consolidation of companies, the tax law treats each group company individually for tax purposes. Under certain circumstances, a group of taxable persons established in Romania may be treated as a single taxable person for VAT reporting purposes.

Tax consolidation is available for foreign legal entities that have several permanent establishments in Romania. As a result, the taxable profits of one permanent establishment may be offset against the tax losses of another permanent establishment.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; certain enterprises, products and services are exempt, including banks, financial intermediaries and insurance companies	
Standard rate	19
Special rates for certain goods and services	5/9
Special consumption (excise) taxes; imposed, for example, on energy products, beverages, cigarettes and coffee; taxes are imposed at specified amounts per unit on certain products (for example, alcohol) and at percentage rates for other products	Various
Local taxes on land, buildings, cars, certain authorizations and other items	Various

#### E. Miscellaneous matters

**Foreign-exchange controls.** The Romanian currency is the leu (RON). Regulation 4/2005, as amended, governs the foreign-exchange regime in Romania.

In Romania, transactions between resident companies or between resident companies and resident individuals must be made in local currency, with certain exceptions. Transactions between residents and nonresidents can be made in domestic as well as in foreign currency. In the free-trade zones (see Section B), transactions between residents can also be performed in foreign currency.

Residents and nonresidents may open foreign-currency accounts in Romanian banks or foreign banks authorized to operate in Romania. Residents are allowed to open accounts in banks located abroad. Romanian legal entities may hold and use hard currency deposited with authorized banks.

Romanian legal entities may make payments in foreign currency to nonresidents without prior approval. Current-account transactions include, among others, imports of goods and services, payments of dividends and repatriation of profits.

Romanian and foreign entities may freely buy and sell hard currency on the interbank foreign-exchange market, but specified documentation is usually required.

**Transfer pricing.** Under the provisions of the Romanian Tax Code, for transactions between related parties, the tax authorities may adjust the amount of income or expenses of either party to reflect the market value of the goods or services provided in the transaction. Such reassessment affects only the tax position of the Romanian entity. It does not affect the entity's financial statements.

The law indicates that in applying the domestic transfer-pricing measures, the Romanian tax authorities must also take into account the Organisation for Economic Co-operation and Development (OECD) Transfer-Pricing Guidelines.

On request, Romanian entities performing transactions with related parties must make available to the tax authorities a file containing specified transfer-pricing documentation.

Country-by-Country Reporting (CbCR) notification requirements were introduced, starting with transactions performed during 2016. They apply to all Romanian entities that are part of multinational enterprise groups that have a total consolidated turnover of at least EUR750 million.

**Anti Tax Avoidance Directive.** The provisions of the EU Anti Tax Avoidance Directive (ATAD; EU Council Directive 2016/1164 of 12 July 2016), which provides rules against tax avoidance practices that directly affect the functioning of the internal market were transposed into the Romanian Tax Code, applying from 1 January 2018.

The following provisions were introduced:

- Limitation on the deductibility of interest and of other costs economically equivalent to interest (see *Borrowing costs*)
- Exit taxation rules
- Controlled foreign company rules

**Borrowing costs.** As a result of the transposition of ATAD, the limitation on the deductibility of interest and other costs economically equivalent to interest were introduced, replacing the previous limitations applicable to interest and foreign-exchange differences.

The new provisions apply also to banks and nonbanking financial entities, as well to borrowing costs owed to them.

Borrowing costs also include, for example, interest capitalized in the accounting value of an asset and arrangement fees.

Taxpayers can deduct during a tax period, the exceeding borrowing costs (the amount by which the borrowing costs exceed the interest revenues) up to the deductible limit of the Romanian lei equivalent of EUR 200,000.

The exceeding borrowing costs exceeding the above-mentioned limit have limited deductibility in the tax period in which they are incurred, up to 10% from the basis of calculation.

The basis of calculation of the deductible exceeding borrowing costs is calculated as follows:

Total revenues – total expenses – nontaxable revenues + corporate income tax expense + exceeding borrowing costs + deductible



tax depreciation (adjusted earnings before interest, taxes, depreciation and amortization [EBITDA])

If the basis of calculation is negative or is equal to zero, the exceeding borrowing costs are nondeductible in the tax period in which they are incurred, and they are carried forward for an unlimited period of time under the same deduction conditions.

As an exception, taxpayers that are independent entities, are not part of a consolidated group from a financial accounting perspective and have no affiliated entities or permanent establishments can fully deduct the exceeding borrowing costs in the tax period in which the costs are incurred.

The new provisions apply also to interest expenses and net foreign-exchange losses carried forward according to the previously applicable legislation. For independent entities, these carried forward costs are fully deductible.

## F. Treaty withholding tax rates

The following table shows the applicable withholding rates under Romania's bilateral tax treaties.

	Dividends (gg)	Interest (hh)	Royalties (hh)
	%	%	%
Albania	10/15 (a)	10	15
Algeria	15	15	15
Armenia	5/10 (a)	10	10
Australia	5/15 (b)	10	10
Austria	0/5 (a)	0/3 (n)	3
Azerbaijan	5/10 (a)	8	10
Bangladesh	10/15 (b)	10	10
Belarus	10	10	15
Belgium	5/15 (a)	10	5
Bulgaria	5	0/5 (aa)	5
Canada	5/15 (b)	10	5/10 (r)
China (mainland)	0/3 (yy)	0/3 (zz)	3
Costa Rica (dd)	5/15 (a)	10	10
Croatia	5	10	10
Cyprus	10	10	0/5 (e)
Czech Republic	10	7	10
Denmark	10/15 (a)	10	10
Ecuador	15	10	10
Egypt	10	15	15
Estonia	10	0/10	10
Ethiopia	10	15	15
Finland	5	0/5	2.5/5 (f)
France	10	10	10
Georgia	8	10	5
Germany	5/15 (b)	0/3 (g)	3
Greece	25/45 (h)	10	5/7 (i)
Hong Kong SAR	0/3/5 (rr)	0/3 (ss)	3
Hungary	5/15 (j)	15	10
Iceland	5/10 (a)	3	5
India	10	0/10 (pp)	10
Indonesia	12.5/15 (a)	12.5	12.5/15 (k)
Iran	10	8	10
Ireland	3	0/3 (l)	0/3 (i)
Israel	15	0/5/10 (m)	10

	<b>Dividends (gg)</b>	<b>Interest (hh)</b>	<b>Royalties (hh)</b>
	%	%	%
Italy	0/5 (ww)	0/5 (xx)	5
Japan	10	10	10/15 (i)
Jordan	15	12.5	15
Kazakhstan	10	10	10
Korea (North)	10	10	10
Korea (South)	7/10 (a)	0/10 (x)	7/10 (k)
Kuwait	0/1 (ii)	1	20
Latvia	10	10	10
Lebanon	5	5	5
Lithuania	10	10	10
Luxembourg	5/15 (a)	0/10 (c)	10
Macedonia	5	10	10
Malaysia	0/10 (o)	0/15 (p)	0/12 (q)
Malta	5/30 (h)	5	5
Mexico	10	15	15
Moldova	10	10	10/15 (k)
Morocco	10	10	10
Namibia	15	15	15
Netherlands	0/5/15 (s)	0/3 (t)	0/3 (t)
Nigeria	12.5	12.5	12.5
Norway	0/5/10 (tt)	0/5 (uu)	5
Pakistan	10	10	12.5
Philippines	10/15 (a)	10/15 (u)	10/15/25 (v)
Poland	5/15 (a)	10	10
Portugal	10/15 (w)	10	10
Qatar	3	3	5
Russian Federation	15	15	10
San Marino	0/5/10 (ee)	3	3
Saudi Arabia	0/5 (jj)	0/5 (kk)	10
Singapore	0/5 (ff)	5	5
Slovak Republic	10	10	10/15 (k)
Slovenia	5	5	5
South Africa	15	15	15
Spain	10/15 (a)	10	10
Sri Lanka	12.5	10	10
Sudan	5/10 (a)	0/5	5
Sweden	10	10	10
Switzerland	0/15 (ll)	0/5 (mm)	0/10 (y)
Syria	5/15 (a)	10	12
Tajikistan	5/10 (a)	10	10
Thailand	15/20 (a)	10/20/25 (z)	15
Tunisia	12	10	12
Turkey	15	10	10
Turkmenistan	10	10	15
Ukraine	10/15 (a)	10	10/15 (k)
United Arab Emirates	0/3 (vv)	0/3 (qq)	3
United Kingdom	10/15 (a)	10	10/15 (i)
United States	10	10	10/15 (i)
Uruguay	5/10 (a)	0/10 (nn)	10
Uzbekistan	10	0/10 (aaa)	10
Vietnam	15	10	15

	<b>Dividends (gg)</b>	<b>Interest (hh)</b>	<b>Royalties (hh)</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Yugoslavia (Federal Republic of) (oo)	10	10	10
Yugoslavia (former) (bb)	5	7.5	10
Zambia	10	10	15
Non-treaty jurisdictions	5	0/16 (cc)	16

- (a) The lower rate applies if the beneficiary of dividends is a company owning at least 25% of the capital of the payer.
- (b) The lower rate applies if the beneficiary of dividends is a company owning at least 10% of the capital of the payer.
- (c) The rate is 0% if the indebtedness on which the interest is paid is guaranteed, insured, or financed by the other state or by a financial institution that is a resident of the other state.
- (d) The 0% rate applies if the beneficial owner of the dividends is one of the following:
- The government of a contracting state
  - The governmental institution or entity of a contracting state
  - A company that is resident in a contracting state and that has at least 25% of its capital owned directly or indirectly by the government or governmental institutions of either contracting state
- (e) The 5% rate applies to royalties paid for patents, brands, designs and models and know-how.
- (f) The 2.5% rate applies to royalties relating to computer software or industrial equipment.
- (g) The 0% applies to interest paid to the German government, Deutsche Bundesbank Kreditanstalt für Wiederaufbau or Deutsche Investitions und Entwicklungsgesellschaft (DEG) and to interest paid on a loan guaranteed by Hermes-Deckung. The 0% rate also applies to interest paid to the Romanian government if it is derived and beneficially owned by certain types of institutions (for example, the Romanian government, an administrative-territorial unit, a local authority, or an agency, bank unit or institution of the Romanian government) or if the debt claims of Romanian residents are warranted, insured or financed by a financial institution wholly owned by the Romanian government. In addition, as long as Germany does not impose taxes on interest, Romania may not tax interest. The protocol to the treaty provides that the following types of interest are taxed only in the state where the interest arises and according to the law of that state, provided that they are deductible in the determination of profits of the interest payer:
- Interest derived from rights or debt claims carrying a right to participate in profits
  - Interest linked to the borrower's profits
  - Interest derived from profit-sharing bonds
- (h) The lower rate applies to dividends paid by companies resident in Romania.
- (i) The lower rate applies to cultural royalties.
- (j) The lower rate applies if the beneficiary of dividends is a company owning at least 40% of the capital of the payer.
- (k) The lower rate applies to payments received for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas and processes, or industrial, commercial or scientific equipment, and for information concerning industrial, commercial or scientific experience.
- (l) The 0% rate applies to the following types of interest:
- Interest paid in connection with sales on credit of industrial, commercial or scientific equipment
  - Interest on loans granted by banks or other financial institutions (including insurance companies)
  - Interest on loans with a term greater than two years
  - Interest on debt-claims guaranteed, insured or directly or indirectly financed by or on behalf of the government of either contracting state
- (m) The 0% rate applies to interest arising in one contracting state with respect to debentures, public funds or similar instruments of the government that is paid to residents of the other contracting state and to interest on loans granted or guaranteed by the National Bank of Romania or by the Bank of Israel. The 5% rate applies to interest paid with respect to sales on credit of merchandise or industrial, commercial or scientific equipment and to interest on loans granted by banks. The 10% rate applies to other interest.

- (n) As long as Austria, under its national law, does not levy withholding tax on interest paid to Romanian residents, the withholding tax rate is 0%. An exemption also applies if any of the following circumstances exist:
- The payer or the recipient of the interest is the government of a contracting state, a local authority or an administrative or territorial unit thereof or the central bank of a contracting state.
  - The interest is paid with respect to a loan granted, approved, guaranteed or insured by the government of a contracting state, the central bank of a contracting state or a financial institution owned or controlled by the government of a contracting state.
  - The interest is paid with respect to a loan granted by a bank or other financial institution (including an insurance company).
  - The interest is paid on a loan made for a period of more than two years.
  - The interest is paid in connection with the sale on credit of industrial, commercial or scientific equipment.
- (o) The 0% rate applies to dividends paid by a company resident in Malaysia to a Romanian resident; the 10% rate applies to dividends paid by a company resident in Romania to a Malaysian resident.
- (p) The 0% rate applies to interest paid to Romanian residents on long-term loans.
- (q) The 0% rate applies to industrial royalties received from Malaysia by Romanian residents.
- (r) The 5% rate applies to the following:
- Copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or other artistic works (but not including royalties with respect to motion picture films or works on film or videotape or other means of reproduction for use in connection with television broadcasting)
  - Royalties for the use of, or the right to use, computer software, patents or information concerning industrial, commercial or scientific experience (but not including royalties paid with respect to a rental or franchise agreement)
- (s) The 0% rate applies if the beneficiary of the dividends is a company owning at least 25% of the capital of the payer. The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer. The 15% rate applies to other dividends.
- (t) Romania will not impose withholding tax on interest and royalties paid to Dutch residents as long as Dutch domestic law does not impose withholding tax on these types of payments. An exemption also applies if any of the following circumstances exist:
- The payer or the recipient of the interest is the government of a contracting state, a public body, a political subdivision, an administrative-territorial unit or a local authority thereof or the central bank of a contracting state.
  - The interest is paid with respect to a loan granted, approved, guaranteed or insured by the government of a contracting state, the central bank of a contracting state or any agency or instrumentality (including a financial institution) owned or controlled by the government of a contracting state.
  - The interest is paid with respect to a loan granted, approved, guaranteed or insured by the government of a contracting state, the central bank of a contracting state or any agency or instrumentality (including a financial institution) owned or controlled by the government of a contracting state.
  - The interest is paid on a loan made for a period of more than two years.
  - The interest is paid in connection with the sale on credit of industrial, commercial or scientific equipment.
- (u) The lower rate applies to interest related to sales on credit of equipment, loans granted by a bank or to public issues of bonds and debentures.
- (v) The 10% rate applies to royalties paid by a company that is registered as a foreign investor and is engaged in an activity in a priority economic field. The 15% rate applies to royalties related to film or television production. The 25% rate applies to other royalties.
- (w) The 10% rate applies if the beneficiary of dividends is a company owning at least 25% of the capital of the payer for an uninterrupted period of two years.
- (x) The 0% rate applies to interest related to sales on credit of industrial and scientific equipment.
- (y) Romania will not impose withholding tax on royalties paid to Swiss residents as long as Swiss domestic law does not impose withholding tax on royalties.
- (z) The 10% rate applies if the beneficiary of the interest is a financial company, including an insurance company. The 20% rate applies to interest with respect to sales on credit. The 25% rate applies to other interest payments.

- (aa) The 0% rate applies if the interest is beneficially owned by the other contracting state or an administrative-territorial unit or a local authority thereof, the central bank of that other state, or an agency, bank or institution of that other state or administrative-territorial unit or local authority thereof or if the debt-claims of a resident of the other contracting state are warranted, insured or financed by a financial institution wholly owned by that other state.
- (bb) This treaty is currently applied only to Bosnia and Herzegovina.
- (cc) The 0% rate applies to the following types of interest:
- Interest related to public debt instruments or to instruments issued by the National Bank of Romania with the purposes of reaching monetary policy objectives
  - Interest paid to EU pension funds
- The 16% rate applies to other interest payments.
- (dd) This treaty is not yet in force.
- (ee) The 0% rate applies if the beneficiary of the dividends is a company owning at least 50% of the capital of the payer. The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer. The 10% rate applies to all other dividends.
- (ff) The 0% rate applies to dividends paid to the government of the other contracting state.
- (gg) In accordance with an EU directive, the following rules apply to dividends paid to companies residing in the EU:
- The withholding tax rate in Romania is 0% if certain conditions are met, such as the beneficiary of the dividends owns at least 10% of the capital of the payer for an uninterrupted period of one year before the payment of the dividends.
  - The withholding tax rate in Romania is 5% if the conditions mentioned in the preceding bullet are not satisfied.
- (hh) The withholding tax rate is 0% for interest and royalties if both of the following conditions are satisfied:
- The beneficial owner of the interest or royalties is a legal person resident in an EU member state or a permanent establishment of an entity resident in such a state.
  - The beneficial owner of the interest or royalties holds at least 25% of the value or number of participation titles in the Romanian entity for an uninterrupted period of at least two years that ends on the date of payment of the interest or royalties.
- (ii) The 0% rate applies to dividends paid to the government or political subdivisions, local authorities or administrative territorial units. The 0% rate also applies to majority state-owned companies (at least 51%) if the minority shareholders are residents of that state.
- (jj) The 0% rate applies if the beneficial owner of the dividends is one of the following:
- The government of a contracting state
  - A governmental institution or entity of a contracting state
- (kk) The 0% rate applies if any of the following circumstances exists:
- The payer of the income from debt-claims is the government of a contracting state or an administrative-territorial unit or an administrative subdivision or a local authority thereof.
  - The income from debt-claims is paid to the government of the other contracting state or administrative-territorial unit, or an administrative subdivision or local authority thereof, or an agency or instrumentality (including a financial institution) wholly owned by the other contracting state or administrative-territorial unit, or an administrative subdivision or local authority thereof.
  - The income from debt-claims is paid to any other agency or instrumentality (including a financial institution) with respect to loans made in application of an agreement between the governments of the contracting states.
  - The income from debt-claims is paid on loans granted, insured or guaranteed by a public institution for purposes of promoting exports.
- (ll) A withholding tax exemption for dividends applies if either of the following circumstances exists:
- The dividends are paid to a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends.
  - The beneficial owner of the dividends is the government of the contracting state or a governmental institution or entity of a contracting state.
- (mm) The withholding tax exemption for interest applies if either of the following circumstances exists:
- The interest is paid to related parties (that is, direct parent or sister companies) that have a shareholding of 25% or more.
  - The loan is secured by a governmental institution.

- (nn) The 0% rate applies if any of the following circumstances exist:
- The beneficial owner is the government, an administrative subdivision, a local authority or an administrative-territorial unit.
  - The beneficial owner is a bank owned by the government, an administrative subdivision, a local authority or an administrative-territorial unit.
  - The loan is guaranteed, assured or financed by a bank entirely owned by the government.
- (oo) This treaty currently applies to Montenegro and Serbia.
- (pp) The 0% rate applies if the interest is derived and beneficially owned by the following:
- The government, an administrative territorial unit, a political subdivision, a local authority or an administrative-territorial unit
  - In the case of Romania, by the National Bank of Romania or the Export-Import Bank of Romania
  - In the case of India, by the Reserve Bank of India, the Export-Import Bank of India or the National Housing Bank
  - Any other institution that may be agreed to through an exchange of letters between the competent authorities
- (qq) The treaty provides for an exemption for interest in the following circumstances:
- Interest arising in the United Arab Emirates and paid to the Government of Romania or to any of its financial institutions is exempt from United Arab Emirates tax.
  - Interest arising in Romania and paid to the government of the United Arab Emirates or its financial institutions is exempt from Romanian tax.
  - Interest arising from institutions the capital of which is wholly or partially owned by the Government of Romania or the Government of the United Arab Emirates exempt from tax in the respective contracting states.
- (rr) In the case of the Hong Kong Special Administrative Region (SAR), the 0% rate applies if the beneficiary is one of the following:
- The Government of the Hong Kong SAR
  - The Hong Kong Monetary Authority
  - The Exchange Fund
  - A financial institution wholly or mainly owned by the Government of the Hong Kong SAR and mutually agreed on by the competent authorities of the contracting parties
- In the case of Romania, the 0% rate applies if the beneficiary is one of the following:
- Romania or an administrative-territorial unit thereof
  - The National Bank of Romania
  - The Export-Import Bank of Romania (EXIMBANK)
  - A financial institution wholly or mainly owned by Romania and mutually agreed on by the competent authorities of the contracting parties
- Otherwise, the following are the rates:
- 3% if the beneficial owner is a company (other than a partnership) that holds directly at least 15% of the capital of the company paying the dividends
  - 5% in all other cases
- (ss) The 0% rate applies if and as long as the Hong Kong SAR, under its internal legislation, levies no withholding tax on interest. In the case of the Hong Kong SAR, an exemption is also available if the interest is beneficially owned by one of the following:
- The Government of the Hong Kong SAR
  - The Hong Kong Monetary Authority
  - The Exchange Fund
  - A financial institution wholly or mainly owned by the Government of the Hong Kong SAR and mutually agreed on by the competent authorities of the contracting parties
- In the case of Romania, an exemption is also available if the interest is beneficially owned by one of the following:
- Romania or an administrative-territorial unit thereof
  - The National Bank of Romania
  - The EXIMBANK
  - A financial institution wholly or mainly owned by Romania and mutually agreed upon by the competent authorities of the contracting states
- (tt) In the case of Norway, the 0% rate applies to dividends paid to the following:
- The Central Bank of Norway
  - The Government Pension Fund Global

- A statutory body or any entity wholly or mainly owned by Norway as may be agreed from time to time between the competent authorities of the contracting states

In the case of Romania, the 0% rate applies to dividends paid to the following:

- The National Bank of Romania
- The EXIMBANK
- A statutory body or any entity wholly or mainly owned by Romania as may be agreed from time to time between the competent authorities of the contracting states

The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer. The 10% rate applies to all other dividends.

- (uu) The 5% rate applies if the interest is derived and beneficially owned by the government of the other contracting state or a political subdivision, local authority or administrative-territorial unit thereof or an agency, bank unit or institution of that government or political subdivision, local authority or administrative-territorial unit or if the debt-claims of a resident of the other contracting state are warranted, insured or financed by a financial institution wholly owned by the government of the other contracting state.
- (vv) The 0% rate applies to dividends paid to the government of a contracting state or a governmental institution or entity thereof and to companies that are resident of either contracting state and that have at least 25% of their capital owned directly or indirectly by the government or a governmental institution of a contracting state.
- (ww) The 5% rate applies if the beneficiary of the dividends is a company owning at least 10% of the capital of the payer for an uninterrupted period of two years.
- (xx) The 0% rate applies if any of the following circumstances exists:
- The payer of the interest is the government of a contracting state or a local organization thereof.
  - The interest is paid to the government of the other contracting state or local organization thereof or to a body or an agency (including a financial institution) wholly owned by that contracting state or local authority thereof.
  - The interest is paid to other bodies or agencies (including a financial institution) dependent for their funds on the entities mentioned above under agreements concluded between the governments of the contracting states.
- (yy) The 0% rate applies to dividends paid to the government or political subdivisions, local authorities or administrative territorial units. The 0% rate also applies to dividends paid to majority state-owned companies (at least 51%) if the minority shareholders are residents of that state.
- (zz) The 0% rate applies to the following types of interest:
- Interest paid in connection with sale on credit of equipment, merchandise or services
  - Interest on loans granted by financial institutions of the other state
  - Interest paid to the other state or a political subdivision, local authority or administrative-territorial unit thereof, or any entity wholly or mainly owned by the other state (more than 50%)
- (aaa) The 0% rate applies if either of the following circumstances exist:
- The interest is derived and beneficially owned by the government of the other state, a local authority or an administrative-territorial unit thereof or an agency or bank unit or institution of that government, local authority or administrative-territorial unit.
  - The debt-claims of a resident of the other state are warranted, insured or directly or indirectly financed by a financial institution wholly owned by the government of the other state.

# Russian Federation

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**A. At a glance**

Corporate Profits Tax Rate (%)	0/15.5/20 (a)(b)
Capital Gains Tax Rate (%)	0/15.5/20 (a)(c)
Branch Tax Rate (%)	15.5/20 (a)
Withholding Tax (%)	
Dividends	0/13/15 (d)
Interest on Certain Types of State and Municipal Securities	15 (e)
Other Interest	20 (e)
Royalties from Patents, Know-how, etc.	20 (e)
Income from the Operation, Maintenance or Rental of Vessels or Airplanes in International Traffic	10 (e)
Payments of Other Russian-Source Income to Foreign Companies	20 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (f)

- (a) The basic corporate profits tax rate consists of a 3% rate payable to the federal government and rates ranging from 12.5% to 17% payable to the regional governments. The regional governments set the rates applicable to their respective regions. The rates are effective until 1 January 2021.
- (b) The 0% rate applies to profits of companies performing educational and medical activities. Also, see Section B.
- (c) The 0% rate applies to capital gains realized by Russian tax residents on the disposal of certain shares or participation interests acquired after 1 January 2011 and held for at least five years. Also, see Section B.
- (d) The 13% rate applies to dividends received by Russian tax residents (companies or individuals). The 15% rate applies if the recipient of the dividends is a foreign legal entity. The 0% rate applies to dividends received by Russian tax residents if the recipient has held at least 50% of the payer's capital for more than 365 days, subject to certain limitations.
- (e) This tax applies if the payments are made to foreign legal entities that are not Russian tax residents and if they are not attributable to a permanent establishment in the Russian Federation. The tax is considered final.
- (f) No time limit is set for the loss carryforward, but the annual carryforward is limited to 50% of the tax base (before carryforward).

**B. Taxes on corporate income and gains**

**Corporate profits tax.** Russian enterprises, foreign legal entities that are Russian tax residents and foreign legal entities operating through a permanent establishment are subject to tax. The defini-

tion of “permanent establishment” is similar to the definition of the same term in the model treaty of the Organisation for Economic Co-operation and Development (OECD). Russian legal entities and foreign legal entities that are Russian tax residents are subject to tax on their worldwide income. Russian legal entities are those registered in the Russian Federation. Foreign legal entities are deemed to be Russian tax residents if their place of management is the Russian Federation, except as otherwise provided by a double tax treaty.

Foreign investment is permitted in various forms, including investment through 100% subsidiaries, share participation in joint stock companies and other types of Russian legal entities, branches and representative offices.

**Tax rates.** For both Russian legal entities and foreign legal entities, the basic corporate profits tax rate consists of a 3% rate payable to the federal government and rates ranging from 12.5% to 17% payable to the regional governments. The rates are effective until 1 January 2021. The regional governments set the rates applicable to their respective regions. As a result, the basic corporate profits tax rate varies from 15.5% to 20%, depending on the rate set by the regional government. A 0% tax rate applies to profits of Russian companies performing educational activities and medical activities if they satisfy certain criteria. These criteria include the holding of a license for carrying out the corresponding activities and the receipt of not less than 90% of taxable income from educational, medical or research and development (R&D) activities. The 0% tax rate applies from 1 January 2011 to 1 January 2020. Reduced and 0% profits tax rates may also apply to residents of regions that provide special economic regimes.

**Capital gains.** Capital gains are generally included in taxable income and taxed at the regular rates, except for capital gains realized by Russian tax residents on the disposal of certain shares or participation interests in Russian tax residents acquired after 1 January 2011 and held for at least five years. The disposal of such shares or participation interests is subject to a 0% rate if shares or participation interests satisfy either of the following conditions:

- They are not circulated on the organized securities market.
- They are shares in a Russian tax resident in which the value of immovable property located in the Russian Federation does not exceed 50% of the tax resident’s total assets.

Capital gains derived by a foreign company without a tax presence in the Russian Federation from the sale of shares in a Russian tax resident company in which more than 50% of the value of its assets directly or indirectly consists of immovable property located in the Russian Federation are subject to tax in the Russian Federation at the regular 20% rate.

Capital gains on the disposal of securities are subject to profits tax at the standard tax rate. Specific rules regulate the computation of capital gains on quoted and unquoted securities. Such specific rules apply only to transactions considered to be controlled transactions under transfer-pricing rules; otherwise, the actual transaction price applies.

Specific rules exist for the recognition of tax losses from sales of quoted and unquoted securities. Losses on the disposal of quoted securities may be deducted from the general profits tax base. Tax bases relating to unquoted securities and unquoted derivatives are merged into a single tax base.

Losses on sales of fixed assets and other property are generally deductible, subject to certain restrictions.

**Administration.** The tax year is the calendar year. Taxpayers, with certain exceptions, are required to make advance tax payments monthly. Each payment must equal one-third of the total advance payments for the preceding quarter. Alternatively, taxpayers may choose to pay tax by the 28th day of each month based on profits actually earned in the preceding month. Foreign legal entities acting through a permanent establishment in the Russian Federation, as well as some other entities, must make quarterly tax payments. The final return for the year and the tax liability are based on actual results. Taxpayers' final returns are due on 28 March following the end of the tax year. Significant penalties are imposed for failure to file returns by this deadline, which cannot be extended.

Taxpayers must register with the tax authorities at the following locations:

- The location where they were organized
- The location of any economically autonomous subdivisions
- The location of any immovable property or means of transport owned by them

**Dividends.** Dividends received by Russian tax resident entities or by individuals who are residents of the Russian Federation are subject to withholding tax at a rate of 13%. Dividends received by a foreign entity that is not a Russian tax resident from a Russian tax resident are taxable at a rate of 15%. Tax withheld from dividends received by a Russian tax resident from another Russian tax resident may be offset against the tax that would normally be withheld from dividends paid to Russian tax residents by the recipient.

Dividends received by Russian legal entities on strategic shareholdings are exempt from tax. Under this regime, dividends are considered to be received from strategic shareholdings if the recipient has held at least 50% of the payer's capital for more than 365 days as of the date of the decision to pay the dividends. If dividends are received from strategic shareholdings in a foreign legal entity, additional criteria must be met.

**Foreign tax relief.** Foreign withholding taxes may be credited against Russian tax imposed on the same income, up to the amount of Russian tax on the income.

### C. Determination of trading income

**General.** Taxable profit is determined by computing the profit or loss from business activities and non-selling operations, such as leasing income and capital gains. Income received in foreign currency is translated into rubles according to the relevant daily exchange rate determined by the Central Bank of the Russian Federation.

The Tax Code provides an open list of expenses that are deductible for tax purposes.

The rules discussed below apply to the recognition of interest as income or an expense.

For transactions recognized as controlled under the transfer-pricing rules, these rules should be taken into account in determining the interest recognized for profits tax purposes. The lender has the right to recognize the actual interest on the debt as income if the rate exceeds the lowest value of the range of threshold values that is established by the Tax Code (see table below), while the borrower has the right to recognize the actual interest on the debt obligation as an expense if the rate is lower than the highest value of this same range of threshold values. The following table contains the ranges of threshold values.

<b>Currency of indebtedness</b>	<b>Lower threshold</b>	<b>Upper threshold</b>
Rubles (RUB)	75% of the key rate of the CBR (a)	125% of the key rate of the CBR
Euro (EUR)	EURIBOR (b) + 4 percentage points	EURIBOR + 7 percentage points
Chinese yuan (CNY)	SHIBOR (c) + 4 percentage points	SHIBOR + 7 percentage points
Pounds sterling (GBP)	LIBOR (d) in GBP + 4 percentage points	LIBOR in GBP + 7 percentage points
Swiss francs (CHF)	LIBOR in CHF + 2 percentage points	LIBOR in CHF + 5 percentage points
Japanese yen (JPY)	LIBOR in JPY + 2 percentage points	LIBOR JPY + 5 percentage points
Other (including US dollar [USD])	LIBOR in USD + 4 percentage points	LIBOR in USD + 7 percentage points

(a) Central Bank of the Russian Federation

(b) Euro Interbank Offered Rate

(c) Shanghai Interbank Offered Rate

(d) London Interbank Offered Rate

Thin-capitalization rules limit the deductibility of interest if the debt-to-equity ratio exceeds 3:1. They apply to certain types of intragroup loans as well as to external loans secured by interdependent parties.

For details on tax depreciation, see *Tax depreciation*.

Certain costs related to research and development (R&D) are deductible in the amount of actual documented costs multiplied by a factor of 1.5.

Foreign legal entities doing business in the Russian Federation through a permanent establishment are taxed on actual profits. The taxable profit equals income received as a result of carrying out activities in the territory of the Russian Federation through a

permanent establishment, minus the amount of expenses incurred by the permanent establishment. General and administration expenses allocated by a foreign legal entity's head office to a Russian permanent establishment are deductible only if this is specifically allowed by an applicable double tax treaty. If a permanent establishment of a foreign entity provides services of a preparatory or auxiliary nature to third parties for no charge, the taxable profit derived from such activities is deemed to be 20% of the amount of the expenses incurred by the permanent establishment in such activities.

**Tax depreciation.** Depreciable assets are assets with a useful life of more than 12 months and an initial cost of more than RUB40,000 (approximately USD694) for assets put in use before 1 January 2016 and RUB100,000 (approximately USD1,736) for assets put into use on or after 1 January 2016.

All depreciable assets must be allocated to their relevant depreciation group and depreciated over their useful lives. The taxpayer determines the relevant depreciation group by using the "Classifier of Fixed Assets" issued by the Russian government. The "Classifier of Fixed Assets" provides for 10 depreciation groups and useful lives of 1 to more than 30 years for the depreciable assets in the groups. Based on the useful lives, the taxpayer calculates the depreciation deductible for profits tax purposes. Depreciation may be calculated using either the reducing-balance or straight-line methods. The straight-line method is required for assets with a designated useful life of over 20 years.

Otherwise, the reducing-balance method may be applied. Under this method, depreciation must be determined for each depreciation group as a whole. Depreciation must be calculated based on the total balance of each depreciation group. This balance equals the total book value brought forward for all depreciable assets included in the group to which the reducing-balance method applies.

The depreciation method can be changed once in a five-year period.

Enterprises may deduct 10% (30% with respect to fixed assets with a designated useful life of over 3 years and up to 20 years) of the initial book value of newly purchased fixed assets and capital investments in existing fixed assets as current-year expenses (a capital investment allowance). If fixed assets are transferred between interdependent parties within five years after the date of the purchase, the deducted capital investment allowance is recaptured.

**Relief for losses.** Enterprises may carry forward unrelieved operating tax losses to offset up to 50% of the annual tax base (before loss carryforward). The period of the loss carryforward is now unlimited.

**Groups of enterprises.** Related enterprises may not offset profits and losses among members of a group unless they are members of a consolidated group of taxpayers (CGT). A CGT may be formed for a period of not less than five years, and a company may become a member of a CGT also for a period of not less than five years. Existing CGTs may carry forward unrelieved operat-

ing tax losses to offset up to 50% of the annual tax base (before loss carryforward). The period of the loss carryforward is now unlimited.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on goods sold and services rendered, excluding exports and charter capital contributions	
Standard rate	18
Certain food products and children's goods	10
Many exports of goods and certain services	0
Assets tax; rate varies by type of tax base	
Net book value; maximum rate	2.2
Cadastral value; maximum rate	2
Tariffs	
Export, rate varies by type of good	Various
Import	Various
Contributions for social insurance in case of temporary incapacity for work and maternity; on annual payments to employee	
On payments up to RUB815,000 (approximately USD14,149)	2.9
On payments in excess of RUB815,000	0
Contributions for pension insurance; on annual payments to employee	
On payments up to RUB1,021,000 (approximately USD17,726)	22
On payments in excess of RUB1,021,000	10
Contributions for medical insurance; on annual payments to employee	5.1
Supplementary contributions for workplace accidents; rate varies by industry	0.2 to 8.5
Income tax withholding by employers	
Residents	13
Nonresidents	30
Mineral extraction tax; imposed on the value or volume of extracted commercial minerals	Various
Transport tax	Various

#### E. Miscellaneous matters

**Foreign-exchange controls.** Most foreign-exchange restrictions were abolished in 2006. Russian enterprises' foreign-currency receipts must be deposited in bank accounts in the Russian Federation.

**General anti-avoidance rule.** In August 2017, a new general anti-avoidance rule was introduced.

Under this rule, a taxpayer is not permitted to reduce the tax base and/or the amount of tax payable as a result of misrepresenting information on economic events (or a group of such events) and objects of taxation that are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements.

A taxpayer has the right to reduce the tax base and/or the amount of tax payable if both of the following conditions are simultaneously met:

- It is not the principal objective of the transaction (operation) to cause an amount of tax not to be paid (or not to be paid in full) and/or to be credited (or refunded).
- The obligation arising from the transaction (operation) is fulfilled by a person who is a party to the contract concluded with the taxpayer and/or a person to whom the obligation to perform the transaction (operation) was transferred by contract or law.

**Transfer pricing.** The transfer-pricing rules, which are largely based on the arm's-length principle stipulated by the transfer-pricing guidelines of the OECD, apply to controlled transactions. Controlled transactions include the following:

- Cross-border transactions with related parties
- Domestic transactions with related parties if the annual total turnover from the transactions exceeds RUB1 billion (approximately USD17,361,111)
- Cross-border transactions involving certain types of commodities (for example, crude oil, oil products, fertilizers and metals)
- Transactions with independent companies located in certain jurisdictions providing beneficial tax regimes if the annual total turnover from the transactions exceeds RUB60 million (approximately USD1,041,667)
- Transactions with residents of special-economic zones or participants in free-economic zones
- Transactions with participants in regional investment programs

The providing of loans and guarantees is excluded from transfer-pricing control if the agreement entered into force before 1 January 2012 and if no material changes have occurred with respect to the terms and conditions.

The Tax Code contains a specific definition of related parties and transfer-pricing documentation requirements. Interest penalties and fines of 40% of underpaid tax apply if the price in the controlled transaction is proved to be outside a range of market prices. No fines apply if the taxpayer submits transfer-pricing documentation to the tax authorities within 30 days after the date on which the tax authorities request such documentation. Corresponding transfer-pricing adjustments are available for a Russian party to a transaction if the other party paid additional tax to the tax authorities based on the results of a transfer-pricing audit. Major Russian taxpayers can enter into advance pricing agreements. A Russian party to a controlled transaction also has the right to make a corresponding adjustment of the transfer price if the other party voluntarily made an adjustment.

To guarantee the automatic exchange of financial account information between the Russian Federation and its foreign counterparts, effective from 1 January 2018, requirements for Country-by-Country Reporting (CbCR) apply to multinational groups of companies and requirements apply to financial market companies for the supply information on their clients in a Common Reporting Standard (CRS) format. Tax periods for which these two kinds of exchanges will be possible can be determined from



the lists of “relationships” between the Russian Federation and its foreign partners published by the Organisation for Economic Co-operation and Development (OECD) on its website.

**Controlled foreign companies.** Controlled foreign company (CFC) rules apply to situations in which a Russian tax resident (company or individual) controls a company resident in a foreign jurisdiction and that foreign subsidiary has not distributed its profits.

*Definition of CFC.* CFCs are companies that are tax resident in foreign jurisdictions and that are controlled by Russian tax-resident individuals and companies.

The definition of CFCs also covers structures that are not legal entities and that are controlled by Russian tax residents.

Under the CFC rules, the tax base of Russian taxpayers includes certain profits of CFCs if the CFCs do not distribute their profits to Russian tax resident shareholders.

*Definition of control.* Control is defined as the following:

- The ability of a Russian tax resident entity or individual to exert a decisive influence on decisions affecting a controlled company’s distribution of profit
- The ability to influence the entity or individual that manages such structure’s assets with respect to decisions on profit distribution (in the case of structures that are not legal entities)

*Controlling persons.* Controlling persons are defined as the following persons:

- A person whose direct and/or indirect participating interest in the organization (for individuals, in conjunction with a spouse and children) is more than 25%
- A person who directly and/or indirectly owns more than 10% of a company (for individuals, in conjunction with a spouse and children) if all Russian tax residents have a direct and/or indirect participation interest of over 50%

Russian individuals and companies are not treated as controlling persons if their participation in a foreign company is exercised exclusively through direct and/or indirect participation in one or more public Russian tax resident companies.

*Profits of CFCs not subject to Russian profits tax.* The profits of the following CFCs are not subject to Russian profits tax:

- Non-commercial organizations that do not distribute profits.
- Companies in the Eurasian Economic Union.
- Companies registered in jurisdictions that exchange information with the Russian Federation for tax purposes and impose an effective tax rate of over 75% of the weighted average tax rate for tax on profit of organizations that is calculated based on standard Russian corporate tax rates applicable to dividends and other income of CFCs.
- Foreign companies involved in mineral extraction projects under production-sharing, concession and similar agreements if these companies’ profits from such projects exceed 90% of total income or if no income is derived for the period.
- Foreign structures without a legal entity (for example, trusts). Such structures are excluded only if they are unable to distribute profits to participants or beneficiaries under the law or

constitutional documents (bylaws or founding documents for the structures).

- Banks or insurance companies.
- Eurobond issuers or companies holding rights under Eurobonds.
- “Active” companies (if no more than 20% of their income is passive income; the percentage is reduced to 5% for holding and subholding companies, excluding dividends from active companies). The list of passive income includes, but is not limited to, dividends, royalties, interest, lease or rental income, capital gains and income from the provision of consulting, marketing, legal and other services. The list of passive income is open-ended.
- Operators of a new offshore hydrocarbon deposit or a direct shareholder (participant) of such operators.

*Notification obligations.* The two types of notification obligations are notification of participation in foreign organizations and notification of CFCs.

Taxpayers must notify the tax authorities about the following:

- Participation in foreign organizations in which they have an interest of over 10%
- Formation of foreign unincorporated structures

*Profits of CFCs taken into account.* Profits of CFCs are taken into account in determining the tax base of a shareholder if such profits exceed RUB10 million (approximately USD173,611). A methodology of profit calculation is based on dividing the types of income into “active” and “passive.”

Profits of CFCs in a foreign currencies must be translated into rubles using the average exchange rate value for the calendar year. The fine for non-payment or underpayment of taxes is 20% of the unpaid tax on the profit of each CFC, but not less than RUB100,000 (approximately USD1,736).

## F. Treaty withholding tax rates

Russian legislation currently states that the double tax treaties of the former USSR are still valid. The withholding rates under the USSR’s treaties and the Russian Federation’s treaties are listed in the following table. Like most double tax treaties, the treaty rates do not apply if domestic withholding tax rates (see Section A) are lower.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Albania	10	10	10
Algeria	5/15 (tt)	0/15 (k)	15
Argentina	10/15 (bbb)	0/15 (ccc)	15
Armenia	5/10 (a)	0	0
Australia	5/15 (nn)	10	10
Austria	5/15 (b)	0	0
Azerbaijan	10	10	10
Belarus	15	10	10
Belgium	10	0/10 (ggg)	0
Botswana	5/10 (ll)	10	10
Brazil	10/15 (uuu)	15	15
Bulgaria	15	15	15
Canada	10/15 (c)	10	0/10 (d)
Chile	5/10 (ddd)	15	5/10 (eee)
China (mainland)	5/10 (sss)	0	6

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Croatia	5/10 (e)	10	10
Cuba	5/15 (aaa)	10	5
Cyprus	5/10 (f)	0	0
Czech Republic	10	0	10
Denmark	10	0	0
Egypt	10	0/15 (g)	15
Finland	5/12 (h)	0	0
France	5/10/15 (i)	0	0
Germany	5/15 (j)	0	0
Greece	5/10 (rr)	7	7
Hong Kong SAR	0/5/10 (ttt)	0	3
Hungary	10	0	0
Iceland	5/15 (jj)	0	0
India	10	10	10
Indonesia	15	0/15 (k)	15
Iran	5/10 (ll)	7.5	5
Ireland	10	0	0
Israel	10	10	10
Italy	5/10 (ss)	10	0
Japan	15	10	0/10 (m)
Kazakhstan	10	10	10
Korea (North)	10	0	0
Korea (South)	5/10 (x)	0	5
Kuwait	0/5 (hhh)	0	10
Kyrgyzstan	10	10	10
Latvia	5/10 (fff)	5/10 (dd)	5
Lebanon	10	5	5
Lithuania	5/10 (l)	10	5/10 (pp)
Luxembourg	5/15 (n)	0	0
Macedonia	10	10	10
Malaysia	0/15 (jjj)	15	10/15 (o)
Mali	10/15 (p)	0/15 (iii)	0
Malta	0/5/10 (mmm)	5	5
Mexico	10	0/10 (uu)	10
Moldova	10	0	10
Mongolia	10	0/10 (nnn)	20 (q)
Montenegro	5/15 (hh)	10	10
Morocco	5/10 (r)	0/10 (ooo)	10
Namibia	5/10 (e)	10	5
Netherlands	5/15 (s)	0	0
New Zealand	15	10	10
Norway	10	0/10 (t)	0
Philippines	15	0/15 (kkk)	15
Poland	10	10	10
Portugal	10/15 (u)	0/10 (v)	10
Qatar	5	0/5 (mm)	0
Romania	15	15	10
Saudi Arabia	0/5 (lll)	5	10
Serbia	5/15 (hh)	10	10
Singapore	0/5/10 (vv)	0	5
Slovak Republic	10	0	10
Slovenia	10	10	10
South Africa	10/15 (w)	10	0
Spain	5/10/15 (y)(z)	0/5 (z)(qq)	5 (z)
Sri Lanka	10/15 (aa)	10	10
Sweden	5/15 (bb)	0	0

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Switzerland	0/5/15 (cc)	0	0
Syria	15	10	4.5/13.5/18 (kk)
Tajikistan	5/10 (ll)	0/10 (oo)	0
Thailand	15	0/10 (ww)	15
Turkey	10	10	10
Turkmenistan	10	5	5
Ukraine	5/15 (ee)	10	10
United Arab Emirates	0 (ppp)	0 (qqq)	20 (rrr)
United Kingdom	10	0	0
United States	5/10 (ff)	0	0
Uzbekistan	10	10	0
Venezuela	10/15 (xx)	0/5/10 (yy)	10/15 (zz)
Vietnam	10/15 (gg)	10	15
Non-treaty jurisdictions	15	15/20 (ii)	20

- (a) The 5% rate applies if the recipient of the dividends has invested at least USD40,000 or the equivalent in local currency in the payer's charter capital. The 10% rate applies to other dividends.
- (b) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) holds directly at least 10% of the capital of the payer of the dividends and if the participation exceeds USD100,000. The 15% rate applies to other dividends.
- (c) The 10% rate applies if the beneficial owner of the dividends owns at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 15% rate applies to other dividends.
- (d) The 0% rate applies to royalties for the following:
- Copyrights of cultural works (excluding films and television rights)
  - The use of computer software
  - The use of patents or information concerning industrial, commercial or scientific experience, if the payer and the beneficiary are not related persons
- The 10% rate applies to other royalties.
- (e) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer more than USD100,000 or the equivalent amount in local currency. The 10% rate applies to other dividends.
- (f) The 5% rate applies to dividends paid to shareholders that have invested in the payer at least EUR100,000 or the equivalent amount in local currency. The 10% rate applies to other dividends.
- (g) The 0% rate applies if the recipient of the interest is the other contracting state or a bank that is more than 51%-owned by the other contracting state. The 15% rate applies to other interest payments.
- (h) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 30% of the capital of the payer of the dividends and if the foreign capital invested exceeds USD100,000 or its equivalent in the national currencies of the contracting states when the dividends become due and payable. The 12% rate applies to other dividends.
- (i) The 5% rate applies if the recipient of the dividends has invested in the payer at least FF500,000 (EUR76,225) or the equivalent amount in other currency and if the beneficiary of the dividends is a company that is exempt from tax on dividends in its state of residence. The 10% rate applies if only one of these conditions is met. The 15% rate applies to other dividends.
- (j) The 5% rate applies to dividends paid to corporations that hold a 10% or greater interest in the capital of the payer and have invested in the payer at least EUR80,000 or the equivalent amount in rubles. The 15% rate applies to other dividends.
- (k) The 0% rate applies if the recipient of the interest is the government of the other contracting state, including local authorities thereof, a political subdivision or the central bank. The 15% rate applies to other interest payments.
- (l) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least USD100,000 or the equivalent amount in other currency. The 10% rate applies to other dividends.

- (m) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films and films or tapes for radio or television broadcasting. The 10% rate applies to royalties paid for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- (n) The 5% rate applies if the recipient of the dividends directly holds at least 10% of the capital of the payer and has invested in the payer more than EUR80,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
- (o) The 15% rate applies to royalties for copyrights, including film and radio broadcasts. The 10% rate applies to other royalties.
- (p) The 10% rate applies if the recipient of the dividends has invested more than FF1 million (EUR152,449) in the payer. The 15% rate applies to other dividends.
- (q) Royalties are subject to tax in the country of the payer in accordance with that country's law.
- (r) The 5% rate applies if the beneficial owner of the dividends owns at least USD500,000 of the shares of the payer. The 10% rate applies to other dividends.
- (s) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested at least ECU75,000 or an equivalent amount in local currency. The 15% rate applies to other dividends.
- (t) The 0% rate applies if the recipient of the interest is the government of the other contracting state including local authorities thereof, an instrumentality of that state that is not subject to tax in that state or the central bank. The 10% rate applies to other interest payments.
- (u) The 10% rate applies if the beneficial owner is a company that, for an uninterrupted period of two years before the payment of the dividends, owned directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
- (v) The 0% rate applies if the interest is derived and beneficially owned by the other contracting state, a political or administrative subdivision or a local authority thereof or any institution specified and agreed to in an exchange of notes between the competent authorities of the contracting states in connection with any credit granted or guaranteed by them under an agreement between the governments of the contracting states. The 10% rate applies to other interest payments.
- (w) The 10% rate applies if the beneficial owner of the dividends owns at least 30% of the charter capital of the payer and has directly invested at least USD100,000 in the charter capital of the payer. The 15% rate applies to other dividends.
- (x) The 5% rate applies to dividends paid to corporations that hold at least 30% of the capital of the payer and have invested in the payer at least USD100,000 or the equivalent amount in local currency. The 10% rate applies to other dividends.
- (y) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) has invested at least ECU100,000 in the charter capital of the payer and if the country of residence of the beneficial owner of the dividends does not impose taxes on the dividends. The 10% rate applies if one of these conditions is met. The 15% rate applies to other dividends.
- (z) The treaty does not provide relief for Spanish companies receiving dividends, interest or royalties from Russian sources if more than 50% of the Spanish company is owned (directly or indirectly) by non-Spanish residents.
- (aa) The 10% rate applies if the beneficial owner of the dividends owns at least 25% of the charter capital of the payer. The 15% rate applies to other dividends.
- (bb) The 5% rate applies to corporations that hold 100% (at least 30% if the recipient corporation is a part of a joint venture) of the payer and that have invested in the payer at least USD100,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
- (cc) If the competent authorities agree, the 0% rate applies to dividends paid to the following:
- A pension fund
  - The government of a contracting state, political subdivision or local authority
  - The central (national) bank
- The 5% rate applies if the recipient of the dividends is a corporation that holds at least 20% of the capital of the payer and if, at the time the dividends become due, the amount of the recipient's investment exceeds CHF200,000. The 15% rate applies to other dividends.

- (dd) The 5% rate applies to loan interest paid by one bank to another bank. The 10% rate applies to other interest.
- (ee) The 5% rate applies to dividends paid to corporations that have invested in the payer at least USD50,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
- (ff) The 5% rate applies to dividends paid to corporations holding at least 10% of the voting shares of the payer or, in the case of a Russian payer that has not issued voting shares, at least 10% of the statutory capital. The 10% rate applies to other dividends.
- (gg) The 10% rate applies to dividends paid to shareholders that have invested at least the equivalent of USD10 million in the payer. The 15% rate applies to other dividends.
- (hh) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least USD100,000 or the equivalent amount in local currency. The 15% rate applies to other dividends.
- (ii) The 15% rate applies to interest on certain types of state and municipal securities; the 20% rate applies to other interest.
- (jj) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer and have invested in the payer at least USD100,000 or an equivalent amount in local currency. The 15% rate applies to other dividends.
- (kk) The 4.5% rate applies to royalties paid to entities for copyrights of cinematographic films, programs and recordings for radio and television broadcasting. The 13.5% rate applies to royalties paid to entities for copyrights of works of literature, art or science. The 18% rate applies to royalties paid to entities for patents, trademarks, designs or models, plans, secret formulas or processes and computer software, as well as for information relating to industrial, commercial or scientific experience.
- (ll) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer. The 10% rate applies to other dividends.
- (mm) The 0% rate applies if the recipient of the interest is the other contracting state or local authorities and governmental agencies of that state. The 5% rate applies to other interest payments.
- (nn) The 5% rate applies to dividends paid to corporations that hold at least 10% of the capital of the payer and have invested in the payer at least AUD700,000 or an equivalent amount in local currency and if dividends paid by a Russian company are exempt from tax in Australia. The 15% rate applies to other dividends.
- (oo) The 0% rate applies if the following circumstances exist:
- The interest is derived and beneficially owned by the other contracting state, a political or administrative subdivision or a local authority thereof.
  - The interest is derived and beneficially owned by the central bank or a similar institution specified and agreed to in an exchange of notes between the competent authorities of the contracting states.
  - The interest is derived with respect to the deferral of payment under commercial credits.
- The 10% rate applies to other interest payments.
- (pp) The 5% rate applies to royalties paid for the right to use industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (qq) The 0% rate applies if the interest is paid on a long-term loan (seven or more years) issued by a bank or other credit institution or if the recipient of the interest is the government of the other contracting state, a political subdivision or a local authority.
- (rr) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 10% rate applies in all other cases.
- (ss) The 5% rate applies to dividends paid to corporations that hold at least 10% of the capital of the payer and that have invested in the payer at least USD100,000 or the equivalent amount in other currency. The 10% rate applies to other dividends.
- (tt) The 5% rate applies to dividends paid to corporations that hold at least 25% of the capital of the payer.
- (uu) The 0% rate applies if any of the following circumstances exist:
- The beneficial owner is a contracting state, a political subdivision or the central bank of a contracting state.
  - The interest is paid by any of the entities mentioned in the preceding bullet.
  - The interest arises in the Russian Federation and is paid with respect to a loan for a period of not less than three years that is granted, guaranteed or insured, or a credit for such period that is granted, guaranteed or

insured, by Banco de México, S.N.C., Banco Nacional de Comercio Exterior, S.N.C., Nacional Financiera, S.N.C. or Banco Nacional de Obras y Servicios Públicos, S.N.C., or interest is derived by any other institution, as may be agreed from time to time between the competent authorities of the contracting states.

- The interest arises in Mexico and is paid with respect to a loan for a period of not less than three years that is granted, guaranteed or insured, or a credit for such period that is granted, guaranteed or insured, by The Bank for Foreign Trade (Vneshtorgbank) or The Bank for Foreign Economic Relations of the USSR (Vnesheconombank), or the interest is derived by any other institution, as may be agreed from time to time between the competent authorities of the contracting states.
- (vv) The 0% rate applies to dividends paid to the Monetary Authority of Singapore, GIC Private Limited, the Central Bank of the Russian Federation and institutions wholly or mainly owned by the Central Bank of the Russian Federation and any statutory bodies or institutions wholly or mainly owned by the governments of a contracting state as may be agreed from time to time between the competent authorities of the contracting states. The 5% rate applies if the recipient of the dividends is a company that holds directly at least 15% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (ww) The 0% rate applies if the beneficial owner of the interest is the government of a contracting state, a government body of a contracting state, the central bank or the Export-Import bank of Thailand. The 10% rate applies if interest is received by an institution that has a license to carry on banking operations (Russian Federation) or a financial institution including an insurance company (Thailand).
- (xx) The 10% rate applies if the beneficial owner of the dividends (except for a partnership) holds directly at least 10% of the capital of the payer of the dividends and if the participation exceeds USD100,000. The 15% rate applies to other dividends.
- (yy) The 0% rate applies if any of the following conditions is met:
- The beneficial owner is a government of a contracting state, the central bank of a contracting state, a political subdivision of a contracting state or a local authority.
  - The interest is paid by the government of a contracting state, the central bank of a contracting state, a political subdivision of a contracting state or a local authority.
  - The interest is paid with respect to a loan granted or guaranteed by a public financial institution with the objective to promote exports and development.
- The 5% rate applies to interest on bank loans. The 10% rate applies to other interest.
- (zz) The 10% rate applies to fees for technical assistance. The 15% rate applies to royalties.
- (aaa) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) holds directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
- (bbb) The 10% rate applies if the beneficial owner of the dividends holds directly at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
- (ccc) The 0% rate applies if the recipient of the interest is the government of the other contracting state or the central bank. The 15% rate applies to other interest.
- (ddd) The 5% rate applies if the beneficial owner of the dividends holds directly at least 25% of the capital of the payer of the dividends. The 10% rate applies to other dividends.
- (eee) The 5% rate applies to royalties paid for the right to use industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (fff) The 5% rate applies if the beneficial owner of the dividends (except for a partnership) directly owns at least 25% of the capital of the payer and has invested more than USD75,000 in the capital of the payer. The 10% rate applies to other dividends.
- (ggg) The 0% rate applies if any of the following conditions is met:
- The recipient of the interest is the government of a contracting state, or a political subdivision or local authority of a contracting state.
  - The relevant loan is secured by a contracting state, or a political subdivision or local authority of a contracting state.
  - The loan is issued by a bank or other credit institution of a contracting state.

- (hhh) The 0% rate applies if the dividends are paid to the government of a contracting state, a local authority or political subdivision of a contracting state, the central bank or other state institutions, as agreed by the competent authorities. The 5% rate applies to other dividends.
- (iii) The 0% rate applies if any of the following conditions is met:
- Interest is paid by the government or local authorities of a contracting state.
  - Interest is paid to the government or local authorities of a contracting state or to the central bank.
  - Interest is paid on loans issued under agreements between the governments.
- (jjj) The 0% rate applies to dividends paid to Russian tax residents. The 15% rate applies to dividends paid to Malaysian tax residents.
- (kkk) The 0% rate applies to interest paid to the government of a contracting state, or a political subdivision or local authority of a contracting state.
- (lll) The 0% rate applies to dividends paid to any of the following:
- The government, a political subdivision or a local authority of a contracting state
  - The central bank
  - Other government agencies or financial institutions, as agreed by the competent authorities
- The 5% rate applies to other dividends.
- (mmm) The 0% rate applies to dividends paid to a pension fund if such dividends are derived from investments made out of assets of the pension fund. The 5% rate applies to dividends paid to companies that hold at least 25% of the capital of the payer, and this holding amounts to at least EUR100,000. The 10% rate applies to other dividends.
- (nnn) The 0% rate applies if the recipient of the interest is the government of a contracting state, or the central or foreign trade bank. The 10% rate applies to other interest payments.
- (ooo) The 0% rate applies to interest on foreign-currency deposits and interest on loans granted to a contracting state or guaranteed by a contracting state. The 10% rate applies to other interest payments.
- (ppp) The 0% rate applies to dividends paid to a contracting state or its financial or investment institutions.
- (qqq) The 0% rate applies to interest paid to a contracting state or its financial or investment institutions.
- (rrr) The treaty does not cover royalties.
- (sss) The 5% rate applies if the recipient is a company (other than a partnership) that holds at least 25% of the capital of the payer, and this holding amounts to at least EUR80,000 or its equivalent in any other currency. The 10% rate applies to other dividends.
- (ttt) The 0% rate applies to dividends paid to the following:
- The government of Russia, a political subdivision or local authority thereof, or the government of the Hong Kong Special Administrative Region (SAR)
  - The Central Bank of the Russian Federation or the Hong Kong Monetary Authority
  - Any entity that is wholly or mainly owned by the government of Russia or by the government of the Hong Kong SAR and that is mutually agreed on by the competent authorities of the two contracting parties
- The 5% rate applies if the recipient of the dividends is a company (other than a partnership) that holds directly at least 15% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (uuu) The 10% rate applies if the beneficial owner of the dividends holds directly at least 20% of the capital of the payer of the dividends.

The Russian Federation has signed tax treaties with Estonia, Ethiopia, Georgia, Japan, Laos, Mauritius and Oman, as well as a new treaty with Belgium, but these treaties are not yet in force.

The Russian Federation is negotiating tax treaties with Bosnia and Herzegovina and Ecuador.

The Russian Federation is renegotiating its tax treaties with Austria, Malaysia, the Netherlands and the United Kingdom.



# Rwanda

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*At the time of writing, a completely new income tax law was expected to be enacted, which would include full-fledged transfer-pricing regulations and documentation guidelines. Because of the expected enactment of this new law, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	30
Capital Gains Tax Rate (%)	30
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	5/15 (a)(b)
Interest	15 (a)
Royalties	15
Management Fees	15
Technical Fees	15
Service Fees	15
Sports and Entertainment Fees	15
Lottery and Gambling Proceeds	15
Imports	5 (c)
Public Procurement	3 (d)
Net Operating Losses (Years)	
Carryback	5 (e)
Carryforward	5

- (a) This tax is a final tax.  
 (b) A reduced 5% rate applies to dividends received by Rwandan and East African Community citizens from entities listed on the Rwanda Stock Exchange.  
 (c) This is a recoverable advance tax that applies to taxpayers without a tax clearance certificate issued by the Rwanda Revenue Authority.  
 (d) This is a recoverable advance tax that applies to suppliers of goods and services to public institutions.  
 (e) This applies only to construction projects.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax is payable by companies, cooperative societies, foreign companies or their branches, autonomous public enterprises, associations and any other business entities that engage in for-profit business activities. Resident entities are subject to corporate income tax on worldwide income. Nonresident entities are subject to corporate income tax on income derived through a permanent establishment. Nonresident entities without a permanent establishment in Rwanda are not subject to corporate income tax, but they may be subject to other taxes in Rwanda.

An entity is considered to be resident in Rwanda during a tax year if it satisfies any of the following conditions:

- It is a company or an association established according to Rwandan laws.
- It has its place of effective management in Rwanda at any time during the tax year.
- It is a Rwandan government company.

**Rates of corporate tax.** The corporate tax rate is 30%.

**Capital gains.** Rwanda imposes a separate tax on capital gains arising from the disposal of immovable commercial property. Gains derived from disposals of other business assets are aggregated with other income and are taxed at the normal corporate income tax rate. Gains from disposal of shares listed on the Rwanda Stock Exchange are exempt from tax.

**Administration.** A company's year of assessment (tax year) is the calendar year. A company wishing to maintain a tax year other than the calendar year must obtain prior approval from the Minister of Finance.

Companies must make installment payments, which are each equal to 25% of the tax due for the preceding tax year. The payment dates are 30 June, 30 September and 31 December. The installment payments are subtracted from tax due at the end of the financial year. Any overpayment is generally treated as a prepayment of future income tax liabilities or other tax liabilities. However, a company may seek a refund of the overpayment by a written request to the Commissioner General of Rwanda Revenue Authority.

Companies must file a final tax return accompanied by proof of payment of tax provided by the tax administration within three months after the end of the tax year (31 March for calendar-year taxpayers). The company calculates the tax payable on the tax return form. The tax due equals the tax payable minus installments and recoverable withholding tax paid. Any tax due must be paid with the return.

**Dividends.** Dividends are subject to a final withholding tax at a rate of 15%. However, a reduced 5% rate applies to dividends received by Rwandan and East African Community citizens from entities listed on the Rwanda Stock Exchange.

**Foreign tax relief.** Relief for foreign taxes paid is granted in accordance with tax treaties with other countries. If foreign tax is paid to a country that does not have a tax treaty with Rwanda, the tax

paid may be subtracted from tax payable in Rwanda, subject to a maximum cap of the Rwandan income tax payable on that foreign-source income.

### C. Determination of trading income

**General.** Taxable income is accounting income adjusted for non-taxable income and for nondeductible expenses. Expenses are deductible if they are incurred wholly and exclusively in the production of income.

**Provisions.** General and specific provisions, which are reflected in the computation of financial accounting income, are generally not deductible for tax purposes. However, banks and financial institutions may deduct specific provisions for bad and doubtful debts in accordance with the prudential guidelines issued by the National Bank of Rwanda.

**Tax depreciation.** Depreciation charged in the financial statements is deductible for tax purposes, subject to limits that are set forth in the tax law or are determined by the Minister of Finance from time to time. The following are the current allowable depreciation rates:

Asset class	Rate (%)
Buildings (excluding land) including built-in equipment and plant	5
Intangible assets	10
Computer equipment and accessories	50
All other business assets	25

**Groups of companies.** The income tax law does not allow the filing of consolidated returns, the combining of profits and losses of affiliated companies or the transfer of losses from loss companies to profitable members of the same group of companies.

### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax, on the supply of goods and services in Rwanda and on imports of goods and services	
Standard rate	18%
Other rate	0%
Social security contributions; paid by	
Employer	5%
Employee	3%
Maternity Leave Benefits Scheme contributions	
Employer	0.3%
Employee	0.3%
Trade licenses; varies by nature and location of business; maximum amount	RWF240,000

### E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Rwanda is the Rwandan franc (RWF). Rwanda does not impose foreign-exchange controls.

**Debt-to-equity rules.** Interest paid on related-party loans exceeding four times equity does not qualify as a deductible expense for companies other than commercial banks and insurance companies.

#### **F. Tax treaties**

Rwanda has entered into double tax treaties with Barbados, Belgium, Jersey, Mauritius, South Africa and Singapore.

# St. Lucia

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## A. At a glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	0
Branch of Nonresident Corporation Tax Rate (%)	30 (a)
Withholding Tax (%)	
Payments to Nonresidents	
Dividends	0
Interest	15 (b)
Royalties	25 (b)
Rents	0
Management and Technical Services Fees	25 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	6

(a) This rate applies only to companies that are in good standing with the Inland Revenue Department. Otherwise, the rate is 33.3%.

(b) This is a final tax.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Companies that are resident in St. Lucia are subject to corporation tax on their worldwide income, regardless of whether the income is remitted to St. Lucia. Nonresident companies carrying on business through a branch pay tax on St. Lucia-source income only.

A company is considered to be resident in St. Lucia if it is incorporated in St. Lucia. A company incorporated outside of St. Lucia is also considered resident in St. Lucia if its management and control are located in St. Lucia.

Income is considered to be St. Lucia-source if the property that constitutes the source is physically located in St. Lucia. Nonresident companies that derive income from St. Lucia (other than through a branch) are not subject to tax in St. Lucia. However, the income is subject to withholding tax when it is paid.

**Rates of corporate tax.** All domestic companies that are in good standing with the Inland Revenue Department, including branches of nonresident companies, are subject to tax at a basic rate of 30%. Companies that are not in good standing are subject to tax at a rate of 33.3%.

International Business Companies and International Banks established in the International Business and Financial Services Sector may elect to be exempted from income tax or be liable to tax on their gains and profits at a rate of 1%.

No tax is required to be withheld from dividends, interest, royalties, management fees and rents paid to nonresidents by companies operating in the International Business and Financial Services Sector.

**Capital gains.** Capital gains are not taxed in St. Lucia.

**Administration.** The fiscal (income) year is the period for which the accounts of the business are normally prepared.

A corporation is required to determine its own tax liability and to prepare and file a corporation tax return within three months after the end of its fiscal year. If a return is not filed on time, the Comptroller of Inland Revenue may levy a penalty of 5% of the tax charged for that income year.

Corporations must prepay tax in three installments. These installments must be paid by 25 March, 25 June and 25 September in each year, and each tax prepayment must equal one-third of the preceding year's tax. Any balance of tax due is paid when the return is filed. Failure to pay an installment of tax is subject to a penalty of 10% of the amount of unpaid tax as well as interest at a rate of 1.04% per month. Any balance of tax not paid by the due date incurs interest at a rate of 1.04% per year for the period during which it remains unpaid.

**Dividends.** Dividends paid by companies resident in St. Lucia to nonresidents are not subject to withholding tax in St. Lucia. Dividends received by companies resident in St. Lucia from domestic and foreign companies are not included in the companies' taxable income.

**Foreign tax relief.** A tax credit is allowed for taxes paid to foreign jurisdictions by St. Lucia resident companies on profits, income or gains earned from such foreign jurisdictions, regardless of whether St. Lucia has entered into a double tax treaty with the foreign jurisdiction. This credit is allowed up to the amount of the St. Lucia taxes payable on the income.

### C. Determination of trading income

**General.** Taxable income is determined on the basis of accounts prepared in accordance with International Financial Reporting Standards, subject to specific adjustments identified in the Income Tax Act.

**Inventories.** The authorities generally accept a method of valuation of inventory that conforms to standard accounting practice in the trade or business, provided it is applied consistently. Average cost or first-in, first-out (FIFO) are the generally accepted methods.

**Provisions.** Reserves or provisions of a general nature for doubtful accounts receivable, inventory shrinkage, inventory obsolescence and other items are not allowable. However, write-offs of specific amounts or balances are generally allowed if these amounts are calculated in accordance with the guidelines issued by the Inland Revenue Department.

**Tax depreciation.** Depreciation and amortization reported in the financial statements are not allowed as deductions in calculating taxable income. However, a company may claim capital allowances. Annual allowances of between 2.5% and 33.3% are granted on the original cost of fixed assets, calculated on a declining balance. An initial allowance of 20% is also granted with respect to capital expenditure.

**Relief for losses.** Losses may be carried forward six years to offset income derived in those years. However, for any year, the deduction with respect to the prior year losses may not exceed one-half of the taxable income for that year. Losses may not be carried back.

**Groups of companies.** A member of a group of companies (the surrendering company) may surrender current trading losses to another member of the group (the claimant company). The claimant company may then claim a deduction for the losses in calculating its taxable income. This deduction may not exceed half of the taxable income of the claimant company.

To qualify for group relief, the surrendering company and the claimant company must be resident in St. Lucia and must be members of the same group throughout the fiscal year for which group relief is claimed. Two companies are members of the same group if one is a 51% subsidiary of the other or both are 51% subsidiaries of a third company. In determining whether a company is a 51% subsidiary of another company, share capital is excluded if profits from sales of such shares would be trading receipts of the direct owner of the shares. Share capital is also excluded if it is owned directly or indirectly in a company not resident in St. Lucia. In addition, the parent company must be beneficially entitled to at least 51% of the profits available for distribution to shareholders of the subsidiary and to at least 51%

of the subsidiary's assets available for distribution to shareholders of the subsidiary on a winding up.

Trading losses may not be surrendered to the extent that they include the following:

- The surrendering company's capital allowances
- Expenses payable to a group member that are claimed as deductions but are not included in the income of that group member for the same fiscal year

Group relief is available only if the claimant company has used its capital allowances and offset its loss carryforwards against its current profits. A claim for group relief must be made within two years after the end of the surrendering company's fiscal year, and the surrendering company must consent to the relief. Group relief is not available to International Business Companies, International Banks and other companies granted special tax concessions.

Consolidated group returns may not be filed with the tax authorities.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on the supply of goods and services in St. Lucia and on goods imported into St. Lucia	
Standard rate	12.5
Hotel accommodation and specified goods and services supplied by providers in the tourism sector	10
Basic food items	0
Excise tax, on imports of vehicles; this tax is imposed in addition to the VAT	15 to 85
Import duty	5 to 45
National insurance contributions, on monthly insurable earnings up to XCD5,000; paid by	
Employer	5
Employee	5
Self-employed individual	10

#### E. Miscellaneous matters

**Foreign-exchange controls.** St. Lucia does not impose foreign-exchange controls.

**Debt-to-equity rules.** St. Lucia does not impose thin-capitalization rules.

**Anti-avoidance legislation.** Anti-avoidance provisions may be applied to transactions effected for the main purpose of avoidance or reduction of tax liability.

#### F. Treaty withholding tax rates

The following treaty withholding tax rates apply to income received in St. Lucia.



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Caribbean Community and Common Market (a)	0	15	15
Switzerland (b)	– (c)	– (d)	0

- (a) This is the Caribbean Community and Common Market (CARICOM) double tax treaty. Income is taxed in the country of source only.
- (b) This is the 1954 treaty between the United Kingdom and Switzerland, which was extended by exchange of notes to St. Lucia under Article XXI.
- (c) The treaty does not contain a dividend article. Consequently, the normal Swiss withholding tax rate applies.
- (d) The treaty does not contain an interest article. Consequently, the normal Swiss withholding tax rate applies.

For payments from St. Lucia, the following treaty withholding tax rates apply (however, see the paragraph after the footnotes).

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Caribbean Community and Common Market (a)	0	15	15
Switzerland (b)	0 (c)	15 (d)	0
Non-treaty jurisdictions	0	15	25

- (a) This is the CARICOM double tax treaty. Income is taxed in the country of source only.
- (b) This is the 1954 treaty between the United Kingdom and Switzerland, which was extended by exchange of notes to St. Lucia under Article XXI.
- (c) The treaty does not contain a dividend article. Consequently, the normal withholding tax rate applies.
- (d) The treaty does not contain an interest article. Consequently, the normal withholding tax rate applies.

No tax is withheld from dividends, interest, management fees and royalties paid to nonresidents by International Business Companies or International Banks.

## Saint-Martin

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### A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	20
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	3
Carryforward	Unlimited

### B. Taxes on corporate income and gains

**Corporate income tax.** The taxation of Saint-Martin companies is based on a territorial principle. As a result, Saint-Martin companies carrying on a trade or business outside Saint-Martin are generally not taxed in Saint-Martin on the related profits and cannot take into account the related losses. However, under the Saint-Martin controlled foreign company (CFC) rules contained in Article 209 B of the Saint-Martin Tax Code, income earned by a Saint-Martin enterprise through a foreign enterprise may be taxed in Saint-Martin if such income is subject to an effective tax rate that is 50% lower than Saint-Martin's effective tax rate on similar income (for further details, see Section E).

**Tax rates.** The net profits earned by resident and nonresident entities, including branches of foreign entities, are taxed at a standard rate of 20%.

A reduced tax rate of 10% applies to the first EUR40,000 of the profits of small and medium-sized enterprises if certain conditions are met, including the following:

- The turnover of the company is less than EUR7,630,000.
- At least 75% of the shares is directly or indirectly held by private persons or by entities that meet the above condition.

- The capital is fully paid.

In addition, a 10% rate applies to the following:

- Royalties from the lease of property rights, such as patents, patentable inventions, brands and copyrights on artistic, intellectual or cinematographic works.
- Long-term capital gains on the transfer or assignment of patents, patentable inventions or improvement of patents and the granting of licenses to use the rights described in the above bullet.
- Interest derived from securities giving access to the company's capital. These securities include share purchase warrants (*obligations à bons de souscription d'actions*, or OBSAs), Oceane Bonds convertible into new or existing shares, bonds with redeemable share subscription warrants (*obligations à bons de souscription en actions remboursables*, or OBSARs) and certain other securities.

**Tax incentives.** Business enterprises engaged in, among other activities, hotel industry, transport industry, tourism and information technology services industries may apply for a tax holiday regime.

The mechanism of the tax assistance for these activities is a deduction for direct investments from taxable income. The mechanism allows a 50% tax allowance (that is, 50% of the investment is deductible). As a result, the company may not be taxable on its taxable income if the amount of total income is below 50% of the invested amount.

In addition, companies that subscribe to the capital of a company registered in Saint-Martin that invests in the industries listed above may benefit from this deduction.

In several cases, an approval procedure must be performed to benefit from the deduction.

The tax assistance for investment regime applies to investments realized before 31 December 2020.

**Administration.** In general, companies must file a tax return within three months following the end of their financial year.

Corporate income tax is prepaid in four installments. Companies with a financial year ending on 31 December must pay the installments on 15 March, 15 June, 15 September and 15 December. The balance of corporate tax is due by 15 May of the following year. Other companies must pay the balance of corporate tax due within four months following the end of their financial year.

In general, late payment and late filing are subject to a 10% penalty. If additional tax is payable as a result of a reassessment of tax, interest is charged at 0.4% per month (4.8% per year). Many exceptions and specific rules apply to interest and penalties.

**Capital gains.** Under the corporate income tax rules, in general, no distinction is made between the taxation of capital gains and the taxation of other income. In general, all income is taxed at the standard income tax rate of 20%.

Capital gains derived from the sale of qualifying participations are exempt from tax. Qualifying participations must satisfy both of the following conditions:

- They must be considered to be *titres de participation* (specific class of shares for accounting purposes that enables the shareholder to have a controlling interest) or be eligible for the dividend participation exemption regime (see *Dividends received* in Section C).
- They must have been held for at least two years before their sale.

However, corporate income tax applies to 5% of the gross capital gains (that is, not reduced by any related costs) realized on qualifying participations. As a result, the effective tax rate on such gains is 1%.

Corporate income tax applies to 10% of the gross capital gains derived from the sale of industrial property rights if they have been held for at least two years before their sale.

**Dividends paid.** Saint-Martin does not levy withholding tax on dividend distributions.

**Foreign tax relief.** Saint-Martin domestic law grants a tax credit with respect to tax on foreign-source income that has already been taxed in its source country, even in the absence of a double tax treaty. The tax credit equals the amount of tax paid in the source country, up to the corresponding amount of tax due in Saint-Martin for this income.

### C. Determination of trading income

**General.** The assessment is based on financial statements prepared according to French generally accepted accounting principles, subject to certain adjustments.

All expenses incurred with respect to conducting a business are, in principle, deductible.

**Dividends received.** To compute taxable profit, favorable tax treatment may apply to dividends received by companies established in Saint-Martin that qualify as parent companies and receive dividends from companies established in Saint-Martin or abroad.

To qualify for this favorable treatment, the following conditions must be met:

- The parent company must be liable for corporate income tax.
- The parent company must hold a minimum of 5% of the distributing company's capital (financial rights and voting rights) or the amount paid for the shareholding is at least EUR1 million.
- The shares are held by the parent company for at least one year.

If the above conditions are met, 95% of the dividends received from the subsidiary are exempt from corporate income tax for the parent company. The remaining 5% that is still taxable may not exceed expenses and costs that the parent company incurred during the tax year.

**Inventories.** Inventory is normally valued at the lower of cost or market value. Cost must be determined under a weighted average cost price method. A first-in, first-out (FIFO) basis is also generally acceptable, but a last-in, first-out (LIFO) basis is not permitted.

**Reserves.** In determining accounting profit, companies must book certain reserves, such as reserves for a decrease in the value of assets, risk of loss or expenses. These reserves are normally deductible for tax purposes. In addition, the law provides for the deduction of special reserves, including reserves for foreign investments and price increases.

**Capital allowances.** In general, assets are depreciated using the straight-line method. However, specific assets are generally depreciated using the declining-balance method.

Depreciable assets composed of various parts with different characteristics must be depreciated on a separate basis. These assets must be split into the following:

- A principal component or structure
- Additional components

The depreciable amount of each asset must be spread out over its likely useful life for the company, which corresponds to the time period during which the company may expect to derive a profit from it. The depreciation method applied to each asset (straight-line method or accelerated method) must also be consistent with the pace at which the company expects to derive a profit from the asset.

Periodic assessment of the residual value of each component must be conducted to establish a (non-tax deductible) provision for impairment if needed.

For tax purposes, the depreciation of assets that have not been split into components and the depreciation of the asset's principal component that has been split into components can be spread out over the useful life commonly accepted in business practices. This rule does not apply to buildings acquired by real estate investment companies. The following are some of the acceptable straight-line rates.

<b>Asset</b>	<b>Rate (%)</b>
Commercial buildings	2 to 5
Office buildings	4
Furniture	10

Certain specified assets may be depreciated using accelerated depreciation methods. For example, hotel investments (movable or immovable) may be fully depreciated over a 12-month period.

**Relief for tax losses.** Tax operating losses can be carried forward for an unlimited number of years. They may also be carried back to offset profits in the preceding three years. If losses are carried back, a credit is granted rather than a refund. The credit may be used in the following five years and is refundable in the sixth year if it is not used.

**Groups of companies.** Related companies subject to corporate tax may elect to form a tax-consolidated group. Under the tax-consolidation regime, the parent company files a consolidated return, thereby allowing the offset of losses of one group entity against the profits of related companies. The parent company then pays tax based on the net taxable income of companies in-

cluded in the consolidated group, after certain adjustments for intra-group provisions are made, such as the following:

- Intra-group asset or share transfers, as well as any subsequent depreciation related to these transfers, are neutralized.
- Waivers of debts and subsidies between members of the group are neutralized.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Business activity tax ( <i>taxe générale sur le chiffre d'affaire</i> , or TGCA); levied in principle on all sales of goods and services provided in exchange for payment within the territory of Saint-Martin by persons acting independently as producers, traders or persons supplying services	4
<i>Contribution des patentes</i> ; subject to certain exemptions that have a limited scope, the tax is payable each year by individuals and legal entities that regularly carry on a non-salaried business activity in Saint-Martin; a company may request a cap set at 3% of the value-added generated in the preceding year	
Companies in general; tax base is the cost of equipment and movable assets (such as furniture, vehicles and computers)	13
Companies exercising a non-commercial activity (such as persons in the medical sector, lawyers, accountants, auditors, architects, consulting engineers, software designers and surveyors); tax base is revenue	5

#### E. Miscellaneous matters

**Foreign-exchange controls.** Saint-Martin does not impose any specific foreign-exchange controls. The euro (EUR) is the official currency. The US dollar (USD) is used on a daily basis.

**Payments to residents of tax havens or to uncooperative states or territories.** Under Article 238 A of the Saint-Martin Tax Code, interest, royalties and other remuneration paid to a recipient established in a tax haven or on a bank account located in a tax haven are deemed to be fictitious and not at arm's length. As a result, to deduct the amount paid, the Saint-Martin entity must prove that the operation is effective (that it effectively compensates executed services) and is at arm's length.

For purposes of the above rules, a privileged tax regime is a regime under which the effective tax paid is 50% lower than the tax that would be paid in Saint-Martin in similar situations.

**Controlled foreign companies.** Under Section 209 B of the Saint-Martin Tax Code, if Saint-Martin companies subject to corporate income tax in Saint-Martin have a foreign branch or if they hold, directly or indirectly, an interest (shareholding, voting rights or share in the profits) of at least 50% in any type of structure benefiting from a privileged tax regime in its home country (the

shareholding threshold is reduced to 5% if more than 50% of the foreign entity is held by Saint-Martin companies acting in concert or by entities controlled by the Saint-Martin company), the profits of this foreign entity or enterprise are subject to corporate income tax in Saint-Martin. Such foreign entity is known as a CFC. If the foreign profits have been realized by a legal entity, these profits are taxed as a deemed distribution in the hands of the Saint-Martin company. If the profits have been realized by an enterprise (an establishment or a branch), these profits are taxed as profits of the Saint-Martin company.

For purposes of the above rules, a privileged tax regime is a regime under which the effective tax paid is 50% lower than the tax that would be paid in Saint-Martin in similar situations.

Tax paid by a CFC in its home country may be credited against Saint-Martin corporate income tax.

The CFC rules do not apply if the profits of the foreign entity are derived from an activity effectively performed in the country of establishment. However, this exception does not apply if either of the two following circumstances exists:

- More than 20% of the profits are derived from portfolio management activities (involving securities, shares and outstanding debts) and intangible rights management.
- The total profits derived from the items mentioned in the first bullet and from intercompany services represent more than 50% of the profits of the foreign entity.

In such circumstances, the Saint-Martin company may nevertheless try to establish that the principal effect from the use of the foreign entity is not the obtaining of an advantage from a privileged tax regime.

## **F. Tax treaties**

A tax treaty between France and Saint-Martin entered into force in 2010. Saint-Martin has not signed any other tax treaty, and tax treaties signed by France do not apply in Saint-Martin.

Saint-Martin grants a tax credit with respect to tax on foreign-source income that has already been taxed in its source country, even in the absence of a double tax treaty. For details, see *Foreign tax relief* in Section B.

## São Tomé and Príncipe

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### A. At a glance

Corporate Income Tax Rate (%)	25 (a)(b)
Capital Gains Tax Rate (%)	25 (a)(c)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	
Paid to Residents	20
Paid to Nonresidents	20 (b)
Interest	
Shareholders' Loans	
Resident Shareholders	20
Nonresident Shareholders	20 (b)
Royalties	
Paid to Residents	20
Paid to Nonresidents	20 (b)
Payments for Services and Commissions	
Paid to Residents	20
Paid to Nonresidents	20 (b)
Rental Income	
Paid to Residents	20
Paid to Nonresidents	20 (b)
Branch Remittance Tax	20 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) The general tax rate of 25% applies to resident companies and nonresident companies with a permanent establishment (PE) in São Tomé and Príncipe. Income derived from oil activities is subject to a specific regime, which includes a tax rate of 30%. Companies exclusively engaged in the agricultural sector benefit from a 50% exemption regarding the respective taxable income.
- (b) Nonresident companies without a PE in São Tomé and Príncipe are subject to a final withholding tax at a rate of 20% on certain types of income.
- (c) Capital gains are taxed as business income.

### B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax (*Imposto sobre o Rendimento das Pessoas Colectivas*, or IRC) is levied on resident and nonresident entities.

Under São Tomé and Príncipe's General Tax Code, legal entities with a registered office and place of effective management in São Tomé and Príncipe are deemed to be resident for tax purposes.

*Resident entities.* Resident companies and other entities, including non-legal entities, whose principal activity is commercial,



industrial or agricultural, are subject to IRC on worldwide profits, but a foreign tax credit may reduce the amount of IRC payable (see *Foreign tax relief*).

A 50% IRC exemption applies to entities exclusively engaged in agricultural activities.

*Nonresident entities.* Companies or other entities that operate in São Tomé and Príncipe through a PE are subject to IRC on their profits attributable to the PE. General administrative costs attributable to the PE may be deductible under certain conditions.

Income earned by companies or other entities without a PE in São Tomé and Príncipe are subject to IRC through a withholding tax mechanism.

A nonresident entity is deemed to have a PE in São Tomé and Príncipe if it has one of the following fixed places of business to carry out commercial, industrial, agricultural, forestry, livestock or fishing activities:

- A place of management
- A branch
- An office
- A factory
- A workshop
- A natural resources' extraction site

In addition, a building, installation or assembly yard qualifies for PE purposes if the activity is carried on for more than six months.

Installations, platforms and vessels rendering prospecting and exploration services with respect to natural resources may also attract a PE in São Tomé and Príncipe if the activity is carried out for more than six months.

*Free-Zone Regime.* São Tomé and Príncipe has implemented a Free-Zone Regime, which grants several tax incentives. Among other incentives, entities included in this regime are entitled to benefit from a tax exemption (covering all taxes for a period of 10 years), as well as exemptions on income of any kind paid to nonresidents. In addition, these entities are not subject to any foreign-exchange controls on their funds held in foreign currency.

*Taxation groups.* The following taxation groups are established in the IRC Code:

- Group 1, which includes resident entities with an annual turnover (expected for the current year or based on the previous year), equal to or greater than STD500 million (approximately USD23,000), as well as public undertakings, public companies, partnerships limited by shares and PEs of nonresident entities, regardless of whether their annual turnover exceeds the threshold
- Group 2, which, as a secondary legal regime, includes all companies not included in Group 1 (Group 1 is mandatory for companies that have annual turnover equal to or greater to STD500 million), as well as other taxable persons that carry out commercial, industrial or agricultural activities or that provide services, even if on an occasional or temporary basis

**Tax rates.** For 2016, IRC is levied at the following rates:

Type of enterprise	Rate (%)
Companies or other entities with a head office or effective management control in São Tomé and Príncipe, whose principal activity is commercial, industrial or agricultural PEs	25*
Nonresident companies or other entities without a head office, effective management control or a PE in São Tomé and Príncipe; income is subject to withholding tax	20

\* Companies exclusively engaged in the agricultural sector benefit from a 50% exemption regarding the respective taxable income.

Certain types of income are subject to withholding tax at a rate of 20% if it is obtained in São Tomé and Príncipe and if the beneficiary is subject to IRC.

A participation exemption mechanism (full or partial) applies to domestic dividends (see *Dividends*). Dividends received from abroad are subject to IRC, but a foreign tax relief mechanism can be applied (see *Foreign tax relief*).

**Simplified regime of taxation.** Micro and small-sized resident companies that have annual turnover of less than STD500 million (approximately USD23,000) and meet certain other conditions may opt to be taxed under the simplified regime of taxation established for companies included in Group 2.

Companies in Group 2 may choose one of the following regimes:

- Simplified accounting records for computing taxable profit.
- Simplified taxation regime, based on presumed margins over the turnover (ranging from 20% to 30%), with a minimum amount of taxable income equal to 18 minimum monthly salaries, as per Article 58 (9) of the São Tomé Corporate Income Tax Code. Ministry of Finance Order No. 5/2010 of 13 April 2010 set the national minimum monthly salary at STD715,000.

**Capital gains.** Capital gains are taxed in São Tomé and Príncipe as business income and subject to the general rate of IRC. Capital gains correspond to the positive difference between the sales proceeds, net of expenses incurred on the sale, and the acquisition value, as adjusted by depreciation, impairment relevant for tax purposes and an official index.

Fifty percent of the capital gains derived from disposals of certain qualifying assets held for more than one year may be exempt if the corresponding sales proceeds are reinvested in tangible fixed assets during a four-year period, consisting of the year before the disposal, the year of the disposal and the two subsequent years after the disposal, and to the extent that such tangible fixed assets are not acquired from a related entity in secondhand condition. A statement of the intention to reinvest the sales proceeds must be included in the annual corporate income tax return in the year of disposal. The remaining 50% of the net gain derived from the disposal is subject to tax in the year of the disposal.

If only a portion of the proceeds is reinvested, the exemption is reduced proportionally. If no reinvestment is made by the end of the second year following the disposal, the net capital gain that

remains untaxed (50%) is added to taxable profit for that year and compensatory interest is payable.

**Administration.** In general, the tax year is the calendar year. However, through a request to the tax authorities, nonresident entities with a PE may adopt a different tax year.

All companies engaged in activities in São Tomé and Príncipe must register with the tax department to obtain a taxpayer number.

Entities included in Group 1 and Group 2 (with the exception of those subject to the simplified taxation regime) must file an annual corporate income tax return, together with their financial statements and other documentation. For entities in Group 1, the deadline is 30 April of the year following the tax year. For entities included in Group 2, the deadline is 20 February of such year.

Entities subject to the simplified taxation regime are not required to submit an annual tax return.

All companies must make three advance payments of IRC in June, September and December of the tax year, each equal to 25% of the IRC paid in the preceding year. These payments may be credited against the final tax assessment for the tax year and any remaining amount due must be paid with the submission of the year-end tax return. Excessive advance payments are refunded to taxpayers.

Penalties are imposed for the failure to file tax returns and satisfy other compliance obligations. If, on the final assessment, the tax authorities determine that a further payment is required and that the taxpayer is at fault, interest is imposed on the amount of the additional payment. Fines, which are generally based on the amount of tax due, are also imposed. If the tax due is not paid, interest is imposed from the date of the tax authorities' notice that an additional payment is due.

*Binding rulings.* The General Tax Code grants the taxpayer the possibility of obtaining a binding ruling. The binding ruling is limited to a certain time period, which is determined on a case-by-case basis by the tax authorities.

**Dividends.** Dividends paid by companies to residents and non-residents are generally subject to withholding tax at a rate of 20%.

On distributions to resident parent companies, the 20% withholding tax is treated as a payment on account of the final IRC due.

Under a participation exemption mechanism, a resident company may deduct 100% of dividends received from another resident company if both of the following conditions are met:

- The recipient owns directly at least 20% of the capital.
- The recipient held the interest for an uninterrupted period of at least one year before the date of distribution of the dividends or will subsequently complete this holding period.

If the holding period or the minimum participation conditions are not met, the recipient may deduct 50% of the dividends received for purposes of computing taxable income.

**Foreign tax relief.** Foreign-source income is taxable in São Tomé and Príncipe. However, direct foreign tax may be credited

against the local tax liability, limited to the lower of the following amounts:

- The amount of tax incurred in the foreign jurisdiction
- The amount of IRC attributable to the foreign-source income

### C. Determination of trading income

**General.** Taxable profit is determined according to the following rules:

- For companies included in Group 1, the taxable profit is the net accounting profit computed in accordance with the generally accepted accounting principles, adjusted for positive and negative equity variations and adjusted or corrected by the provisions in the IRC Code. Positive or negative equity variations are considered capital gains or losses for tax purposes.
- For companies included in Group 2 subject to the regime of the simplified accounting records, the taxable profit is based on the specific accounting records required for this regime and equals the difference between the profits and costs (deemed necessary), pertaining to the tax year.
- For companies included in Group 2 subject to the simplified taxation regime, the taxable profit is computed by the application of different coefficients (depending on the activity of the company) to the turnover.

Expenses that are considered essential for the generation or maintenance of profits are deductible. However, certain expenses are not deductible for IRC purposes. These include, but are not limited to, the following:

- Illicit expenses, which are expenses not in compliance with local law
- Depreciation and amortization claimed that exceed the rates fixed in the tax law
- Provisions and impairments (except for those provided in the tax law)
- IRC and other income taxes, including payments on account and withholding tax
- Taxes and other costs of third parties that the company is not legally authorized to bear
- Penalties of any kind, including compensatory interest
- Confidential or improperly documented expenses
- Entertainment expenses to the extent that they exceed 2% of turnover
- Payments made to entities resident in tax havens, unless the company is able to justify the operation from an economic viewpoint (that is, the need for the costs incurred and the reasonability of the amounts of the costs)
- Compensation or indemnities paid for insurable risk events
- 50% of the expenses incurred by employees when traveling in their own vehicles at the service of the employer if these amounts are not charged to clients, excluding the amounts subject to personal income tax
- 50% of the expenses incurred with respect to a travel allowance (travel bonuses and compensation, which differ from the expenses mentioned in the preceding bullet), excluding amounts subject to personal income tax

**Inventories.** Inventories must be consistently valued by one of the following criteria:

- Effective cost of acquisition or production
- Standard costs in accordance with adequate technical and accounting principles
- Cost of sales less the normal profit margin, under certain conditions
- Other methods of valuation subject to prior authorization from the tax authorities

Changes in the method of valuation must be justifiable and acceptable to the tax authorities.

**Provisions.** The following provisions are deductible:

- Bad and doubtful debts, based on a judicial claim or on an analysis of the accounts receivable
- Inventory losses
- Litigation processes involving items that would represent costs of that year
- Technical provisions imposed on insurance companies and financial institutions by the regulatory authorities of São Tomé and Príncipe

**Depreciation.** In general, depreciation is calculated using the straight-line method.

Maximum depreciation rates are established by law. If rates that are less than 50% of the official rates are used, part of the depreciation costs will not be tax deductible in the future (that is, in the tax periods that go beyond the maximum period of useful life; this is determined by dividing 100 by the minimum official depreciation rate, which corresponds to half of the standard depreciation rate established by law).

The following depreciation or amortization costs are nondeductible:

- Depreciation or amortization of assets not subject to effective depreciation
- Depreciation of immovable property with respect to the component related to the value of the land or any other component not subject to effective depreciation
- Depreciation or amortization costs computed at rates greater than the maximum accepted rates
- Depreciation costs deriving from the use of rates of less than half of the maximum rates
- Depreciation of light passenger vehicles valued at more than STD200 million (approximately USD9,200), leisure boats and airplanes (unless allocated for public transportation or to a leasing business)

**Relief for tax losses.** Tax losses may be carried forward for five years. The amount that may be deducted is not capped. Loss carrybacks are not allowed.

Companies included in Group 2 cannot deduct the tax losses of previous years.

**Groups of companies.** The law of São Tomé and Príncipe does not provide a special tax regime for groups of companies (that is, a tax-consolidation regime).

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Consumption tax; imposed on the import and production of goods, as well as on the rendering of services	
Goods	Up to 149%
Services	5%
Social security contributions; on salaries; paid by	
Employer	8%
Employee	6%
Property transfer tax (SISA); levied on property value (acquisition value of the property declared by the contracting parties or the property tax value registered for tax purposes at the local tax office, whichever is higher)	8%
Urban property tax; imposed annually on the assessed tax value of the property; payable by the owner of the property; several exemptions may apply on request to the tax authorities	0.1%
Stamp duty	
Rentals	0.5%
Bank transfers abroad	2%
Contracts	0.1%
Issuance of receipts	0.3%
Tourism Tax; applicable to hotels and travel agents that operate cruise ships; burden of this tax falls on the hotel guests and the passengers of the cruises; the tax finances the National Tourism Fund	STD75,000 per night

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in São Tomé and Príncipe is the dobra (STD).

São Tomé and Príncipe imposes foreign-exchange controls in certain situations.

**Foreign PE profits.** Transactions between the head office and a foreign PE must respect the arm's-length principle.

**Mergers and reorganizations.** Mergers and other type of corporate reorganizations may be neutral for tax purposes in São Tomé and Príncipe if certain conditions are met.

**Controlled foreign companies.** A resident shareholder in São Tomé and Príncipe is deemed to have a substantial holding in a controlled foreign company (CFC) if either of the following circumstances exist.

- The shareholder owns directly or indirectly, 25% or more in the capital of the foreign company.
- The shareholder owns 10% or more of the foreign company's capital, and more than 50% of the foreign company's capital is owned (directly or indirectly) by entities resident in São Tomé and Príncipe.

In the computation of its taxable profit, a shareholder resident in São Tomé and Príncipe must include the profits after taxes of the CFC in proportion to its total direct or indirect participation.

Under the IRC Code, payments made by a resident entity in São Tomé and Príncipe to nonresidents entities subject to a more favorable tax regime are not deductible for tax purposes, unless the taxpayers can demonstrate that such payments relate to an effective operation and have no abnormal character or are not excessive. However, the deduction of these expenses may be subject to further analysis of the tax authorities, particularly with respect to the level of the payment of the respective taxes due (effective tax burden).

A company is considered an entity subject to a more favorable regime if it is not subject to tax on its income or if the amount of the tax effectively paid is lower than 60% of the tax that would be due if such entity was resident for tax purposes in São Tomé and Príncipe.

**Related-party transactions.** For related-party transactions (transactions between parties with a special relationship), the tax authorities may make adjustments to taxable profit that are necessary to reflect transactions on an arm's-length basis.

A special relationship is deemed to exist if one entity has the capacity, directly or indirectly, to influence in a decisive manner the management decisions of another entity. This capacity is deemed to exist in the following relationships:

- Between one entity, and its shareholders and their spouses, ascendants and descendants, if they possess, directly or indirectly, 20% of the capital or voting rights of the entity
- Between two entities in which the same shareholders and their spouses, ascendants and descendants hold, directly or indirectly, a participation of not less than 20% of the capital or voting rights
- Between two entities in which, as a result of their commercial, financial, professional or juridical relations, directly or indirectly established or practiced, a situation of dependence exists in the fiscal year

**Debt-to-equity rules.** A limitation to the deduction of interest expenses applies if the total amount of total debt of the taxpayer is excessive. The amount of debt includes all loans granted by shareholders, in cash or in kind, regardless of the agreed type of payment, and credits resulting from the commercial operation that are overdue for more than six months.

For purposes of the above rule, a loan is considered an excessive loan if either of the following circumstances exist:

- The total amount of debt of the taxpayer is higher than twice its equity at any time during the fiscal year.
- The total amount of debt of the taxpayer to any shareholder holding a participation of 20% or more is higher than twice the shareholder's equity participation.

## F. Tax treaties

São Tomé and Príncipe signed its first tax treaty with Portugal in March 2015. However, this treaty is not yet in force.

# Saudi Arabia

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**A. At a glance**

Corporate Income Tax Rate (%)	
Companies Engaged in Natural Gas	
Investment Activities	20
Oil and Hydrocarbon	
Production Companies	50 to 85 (a)
Other Companies	20
Capital Gains Tax Rate (%)	20
Withholding Tax (%) (b)	
Dividends	5
Interest	5
Royalties	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (d)

(a) For further details, see Section B.

(b) For further details and a complete listing of withholding taxes, see Section B. The withholding tax rates in Saudi Arabia range from 5% to 20%.

(c) See Section C.

**B. Taxes on corporate income and gains**

**Income tax.** Income tax is assessed on profits of the following:

- A resident capital company with respect to shares owned directly or indirectly by persons operating in oil and hydrocarbon production
- A resident capital company (only on profits attributable to shares owned by non-Saudi or non-Gulf Cooperation Council [GCC] shareholders; see below)
- A resident non-Saudi or non-GCC natural person who carries on a business in Saudi Arabia
- A nonresident company that carries on business in Saudi Arabia through a permanent establishment
- A nonresident without a permanent establishment in Saudi Arabia that has taxable income from sources in Saudi Arabia (tax is assessed through withholding tax)
- A person engaged in the field of natural gas investment
- A person engaged in the production of oil and hydrocarbon materials

Partners in partnerships (that is, general partnerships, unincorporated joint ventures and limited partnerships) are subject to tax rather than the partnerships themselves.

For income tax purposes, non-Saudis do not include citizens (nationals) of countries that are the members of the GCC. Members of the GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The share of profits attributable to interests owned by GCC nationals in a company is subject to *zakat* (see Section D). The share of profits attributable to interests owned by non-GCC nationals in that company is subject to income tax.

**Rates of tax.** All companies, including companies engaged in the business of natural gas investment activity, are taxed at a rate of 20%.

Companies engaged in the production of oil and other hydrocarbons are subject to tax on their net profit at rates ranging from 50% to 85%. The slab rate is determined based on the capital investment of the company. The following are the tax rates.

<b>Total capital investment of company</b>	<b>Rate of income tax (%)</b>
More than SAR375 billion (USD100 billion)	50
SAR300 billion to SAR375 billion (USD80 billion to USD100 billion)	65
SAR225 billion to SAR300 billion (USD60 billion to USD80 billion)	75
Not more than SAR225 billion (USD60 billion)	85

Companies engaged in both the production of oil and hydrocarbons and natural gas are required to compute the tax bases of each of these activities separately and claim the related deductible expenses. Similarly, carried forward net operating losses of an activity can be offset against the same activity's taxable profit.

**Withholding tax.** A Saudi resident entity, including a permanent establishment of a nonresident, is required to withhold tax from payments made to nonresidents that do not have a legal registration or a permanent establishment in Saudi Arabia with respect to income earned from a source in Saudi Arabia. This rule applies

regardless of whether the payer is considered to be a taxpayer under the regulations and whether such payments are treated as a tax-deductible expense in the Saudi resident entity's tax declaration. The following are the withholding tax rates.

Type of payment	Rate (%)
Payments for technical or consultancy services to unrelated parties, payments for services for international telephone calls, rental, airline tickets, air or sea freight charges, dividends distributed, returns on loans (see next paragraph) and insurance or reinsurance premiums	5
Royalties, payments to the head office or any other related companies for services, including technical or consultancy services and services for international telephone calls	15
Management fees	20
All other payments	15

Loan fees (interest expenses and commissions) on interbank deposits paid to nonresident banks are exempt from Saudi withholding tax if such deposits remain with the Saudi resident borrower banks for a maximum period of 90 days. Resident borrower banks are required to submit an annual statement attested by the Saudi Arabian Monetary Authority listing the names of the nonresident lending banks, their addresses, periods of lending and the amount of loan fees paid.

The party withholding the tax must register with the General Authority for Zakat and Tax (GAZT) before the settlement of the first tax payment. The party withholding the tax must deposit the tax withheld with the GAZT within the first 10 days of the month following the month in which the taxable payment is made and issue a certificate to the nonresident party. A delay fine of 1% for each 30 days of delay is computed after the lapse of 30 days from the due date of tax until the date on which the tax is paid. An annual withholding tax return must be filed within 120 days following the end of the tax year.

**Capital gains.** In general, capital gains are treated as ordinary income and taxed at the regular corporate income tax rates. Capital gains realized by nonresident shareholders on the disposal of shares in a Saudi Arabian company are subject to tax at a rate of 20%.

Capital gains arising on the sale by non-Saudi shareholders of shares in a Saudi joint stock company traded on the Saudi stock exchange are exempt from tax if the shares (investments) were acquired after the effective date of the new tax regulations (30 July 2004). Under a recent amendment to the tax law, exemption also applies to capital gains realized from the sale of securities traded on stock markets outside Saudi Arabia or through any other means if such securities are also traded on the Saudi Arabian stock market (Tadawul).

Furthermore, no capital gain or loss is computed on the transfer of assets between wholly owned group companies (directly or indirectly) if the assets transferred are held for at least two years within the group.

Gains on the disposal of property other than assets used in a business activity are also exempt from tax.

**Administration.** All persons subject to tax (excluding nonresidents who derive income from a source in Saudi Arabia and are subject to withholding tax) are required to register with the GAZT before the end of their first fiscal year. Failure to register with the GAZT results in the imposition of a fine ranging from SAR1,000 to SAR10,000.

A taxable entity that has a permanent establishment or commercial registration in Saudi Arabia must file its annual tax declaration with the GAZT based on its accounting books and records within 120 days following the end of the tax year and pay the income tax due with the tax declaration. However, the GAZT may and generally does request audited financial statements before issuing the final tax assessments.

The Saudi Arabian Income Tax Regulations require certification of annual tax declarations reporting taxable revenue in excess of SAR1 million. A locally licensed chartered accountant is required to certify the validity of the information contained in the taxpayer's return and also certify the following:

- The information contained in the declaration is taken from the taxpayer's books and records (maintained in Arabic and in Saudi Arabia) and is in accordance with such records.
- The return is prepared according to the standards, requirements and provisions of the Saudi Arabian Income Tax Regulations.

The nonresident partners of partnerships are subject to tax, rather than the partnerships themselves. However, partnerships must file an information declaration within 60 days after the end of the tax year.

Fines for non-submission of tax declarations by the due date may be imposed at a rate of 1% of the total revenue, with a maximum fine of SAR20,000. A fine is also calculated based on a percentage of the underpaid tax. Such a fine is payable if it exceeds the amount of the fine based on total revenue. The following are the percentages applied to underpaid tax:

- 5% of the underpaid tax if the delay is up to 30 days from the due date
- 10% of the underpaid tax if the delay is more than 30 and not more than 90 days from the due date
- 20% of the underpaid tax if the delay is more than 90 and not more than 365 days from the due date
- 25% of the underpaid tax if the delay is more than 365 days from the due date

An advance payment on account of tax for the year is payable in three installments. The installments are due by the end of the 6th, 9th and 12th months of the tax year. Each installment of advance payment of tax is calculated in accordance with the following formula:

$$25\% \times (A - B)$$

For the purposes of the above calculation, "A" equals the taxpayer's liability as per the tax declaration for the preceding year and "B" equals tax withheld at source for the taxpayer in the preceding year.

A taxpayer is not required to make advance tax payments in a year if the tax liability for the preceding year was less than SAR2 million.

A delay fine of 1% for each 30 days of delay after the lapse of 30 days from the due date of tax until the date the tax is paid.

**Dividends.** Dividends paid to nonresident shareholders are subject to withholding tax at a rate of 5% (see *Withholding tax*).

Dividend income or bonus shares earned by a resident company on its investments in a resident or a nonresident capital company is exempt from tax if the ownership in the investee company is 10% or more and if the investment is held for a period of one year or more.

**Foreign tax relief.** Relief is not provided for foreign taxes paid (unless covered by a double tax treaty).

### C. Determination of tax payable

**Taxable profits.** Tax liabilities are assessed by the GAZT on the basis of the audited financial statements, as adjusted for tax purposes. In certain cases (for example, foreign airlines and foreign freight and land and marine transport companies operating in Saudi Arabia), tax may be assessed under the “presumptive basis.” Under the presumptive basis, no financial statements are presented, and the tax liability is assessed on deemed profit calculated at rates specified in the tax regulations.

**Nondeductible expenses.** Certain expenses are not deductible in calculating taxable profit, including the following:

- Expenses not connected with the earning of income subject to tax
- Payments or benefits to a shareholder, a partner or their relatives if they constitute salaries, wages, bonuses or similar items or if they do not represent an arm’s-length payment for property or services
- Entertainment expenses
- Expenses of a natural person for personal consumption
- Income tax paid in Saudi Arabia or another country
- Financial penalties and fines paid or payable to any party in Saudi Arabia except those paid for breach of contractual terms and obligations
- Payments of bribes and similar payments, which are considered criminal offenses under the laws of Saudi Arabia, even if paid abroad

**Allocation of overhead and indirect expenses.** A branch of a nonresident company cannot claim deductions for head office costs that are allocated to the branch on an estimated or allocation basis. However, certain certifiable direct costs incurred abroad are deductible.

**Technical costs.** For tax purposes, in general, technical costs are expenses that relate to engineering, chemical, geological or industrial work and research even if incurred wholly abroad by the main office or other offices. These costs are generally allowed as deductions if they can be substantiated by certain documents, such as technical services agreements, head office auditors’ certificates and invoices.

Under the tax regulations, payments for technical and consultancy services rendered by third parties (including foreign shareholders) are subject to withholding tax at a rate of 5%. However, such payments to nonresident related parties are subject to a 15% withholding tax (for details regarding withholding taxes, see Section B).

**Contributions to foreign social insurance, pension and savings plans.**

Contributions to a retirement fund, social insurance fund or any other fund established in or outside Saudi Arabia for the purpose of an employee's end-of-service benefits (retirement) or to meet the employee's medical expenses is deductible if all of the following conditions are satisfied:

- The fund has an independent legal status.
- The allowable deduction does not exceed the unfunded liabilities at the beginning of the year.
- The employer submits the fund's information to the GAZT.

Contributions to Saudi social insurance with respect to an employee's share are not deductible from Saudi-source revenue.

**Provisions and reserves.** Provisions for doubtful debts, termination benefits and other similar items are not deductible. Specific write-offs and actual employment termination benefit payments that comply with Saudi Arabian labor laws are deductible. Provisions for doubtful debts are allowed as deductible expenses for banks if they are confirmed by the Saudi Arabian Monetary Agency.

**Interest deductibility.** Deductions may be claimed for loan fees (interest expenses and commissions) incurred with respect to the earning of income subject to tax. However, the maximum deduction for loan fees is restricted to the lower of the following:

- Loan fees paid during the year
- Total of loan income plus 50% of tax-adjusted profits (excluding loan fees and loan income)

Loan fees exceeding this restriction are disallowed as a deduction and may not be carried forward to future years. Banks are excluded from the above limitation.

Saudi Arabian tax law does not contain any specific provisions on thin capitalization other than the limit on the interest deduction described above.

**Depreciation.** Depreciation is calculated for each group of fixed assets by applying the prescribed depreciation rate to the remaining value of each group at the fiscal year-end.

The remaining value for each group at the fiscal year-end is calculated as follows:

The total remaining value of the group at the end of the preceding fiscal year	X
+ 50% of the cost of assets added during the current year and the preceding year	X
- 50% of the proceeds from assets disposed of during the current year and the preceding year, provided that the balance is not negative	(X)
= Remaining value for the group	<u><u>X</u></u>

The tax law provides the following depreciation rates.

<b>Asset</b>	<b>Rate (%)</b>
Land (non-depreciable)	0
Fixed buildings	5
Industrial and agricultural movable buildings	10
Factories, plant, machinery, computer hardware and application programs (computer software) and equipment, including cars and cargo vehicles	25
Expenses for geological surveying, drilling, exploration expenses and other preliminary work to extract natural resources and develop their fields	20
All other tangible and intangible depreciable assets that are not included in the above groups, such as furniture, aircraft, ships, trains and goodwill	10

Assets acquired under build-operate-transfer (BOT) or build-operate-own-transfer (BOOT) contracts must be depreciated over the period of contract or the remaining period of contract.

Cost of repairs or improvements of fixed assets are deductible, but the deductible expense for each year may not exceed 4% of the remaining value of the related asset group at year-end. Excess amounts must be added to the remaining value of the asset group and depreciated.

**Relief for losses.** Losses may be carried forward indefinitely. However, the maximum loss that can be offset against a year's profit is 25% of the tax-adjusted profits for that year. Saudi tax regulations do not provide for the carryback of losses.

If a change of 50% or more occurs in the underlying ownership or control of a capital company, no deduction is allowed for the non-Saudi share of the losses incurred before the change in the tax years following the change. However, under a recent amendment of the tax law, effective from 1 January 2018, companies may deduct the losses if they continue with the same business activities.

#### **D. Other significant taxes**

The following table summarizes other significant taxes.

<b>Other significant taxes</b>	<b>Rate (%)</b>
Zakat; a religious levy imposed on the shareholders in Saudi Arabian companies; Zakat is calculated and paid by a Saudi Arabian resident capital company on behalf of its individual or corporate shareholders; Zakat is levied on the Zakat base of a resident capital company; the Zakat base is broadly calculated as capital employed (for example, share capital and retained earnings) that is not invested in fixed assets, long-term investments and deferred costs, as adjusted by net results of operations for the year that is attributable to Saudi or GCC	



<b>Other significant taxes</b>	<b>Rate (%)</b>
shareholders; complex rules apply to the calculation of Zakat liabilities, and it is therefore suggested that Zakat payers seek specific advice suited to their circumstances	2.5
Value-added tax	Exempt/0/5
Excise tax	50/100
Social security contributions	
Social insurance tax (GOSI)	
Annuity (pension) for Saudi nationals	
Employer share	9
Employee share	9
Occupational hazard; payable by employer; applicable to Saudi nationals and expatriates	2
Unemployment insurance (SANID); applicable to Saudi nationals only	
Employer share	1
Employee share	1

## **E. Miscellaneous matters**

**Foreign-exchange controls.** Saudi Arabia does not impose foreign-exchange controls.

**Supply and erection contracts.** Profits from “supply only” operations to Saudi Arabia are exempt from income tax (whether the contract is made inside or outside Saudi Arabia) because the supplier trades “with” but not “in” Saudi Arabia. The net profits of operations that include supply, erection or maintenance are subject to tax, and the contractors are required to register with the GAZT and submit a tax declaration in accordance with the tax regulations.

The following information must generally be submitted in support of the cost of imported materials and equipment:

- Invoices from the foreign supplier
- Customs clearance document
- If the supplying entity is the head office of the Saudi Arabian branch, a certificate from the external auditor of the head office confirming that the cost claimed is equal to the international market value of the equipment supplied (usually the contracted selling price)

In general, no profit results in the Saudi Arabian books on materials and equipment supplied, because the revenue from the sale of equipment equals the cost based on the sales value declared for customs.

**Subcontractors.** Payments to subcontractors, reported by a taxpayer in its tax return, are subject to close scrutiny by the GAZT. The taxpayer is required to withhold tax due on payments to non-resident subcontractors and to deposit it with the GAZT, unless the taxpayer can provide a tax file number or tax clearance certificate as evidence that such subcontractor is settling its tax liability.

Tax is not required to be withheld from payments to subcontractors resident in Saudi Arabia. However, government procurement regulations provide for the retention of 10% of the contract value

until the completion of the statutory formalities including the submission of the certificate from the GAZT.

**Imports from head office and affiliates.** A Saudi mixed company is expected to deal on an arm's-length basis with its foreign shareholders or any company affiliated with its foreign shareholders. The company may be required to submit to the GAZT a certificate from the seller's auditors confirming that the materials and goods supplied to the Saudi Arabian company were sold at the international market price prevailing at the date of dispatch. This requirement also applies to foreign branches importing materials and goods from the head office for the fulfillment of their Saudi contracts.

## F. Tax treaties

The table below shows the withholding rates for dividends, interest and royalties provided under Saudi Arabia's double tax treaties that are in force and effective as of 1 January 2018.

Certain other tax-exempting provisions (for example, for sovereign wealth funds) are contained in certain protocols to Saudi tax treaties.

To benefit from the advantageous rates under double tax treaties, additional conditions must be fulfilled (for example, the recipient is required to be the beneficial owner of the related gain). Readers should seek professional advice with respect to the application of Saudi tax treaties.

The GAZT announced its prescribed method for the availing of tax treaty benefits, such as reduced withholding tax rates or exemptions with respect to payments to residents in a country with which Saudi Arabia has entered into a double tax treaty. GAZT Circular 3328/19 requires that the tax be withheld on all payments to nonresidents at the rates required under domestic tax law (without recourse to the double tax treaty). To benefit from a reduced withholding tax rate or exemption, the Saudi Arabian resident taxpayer (that is, the withholder) must submit a request for refund of overpaid tax to the GAZT together with supporting documents (for example, the tax residency certificate of the non-resident).

In August 2013, the GAZT issued Circular 5068/16/1434, which allows Saudi resident entities to claim exemption or withhold tax based on the beneficial rates specified in the tax treaties by submitting prescribed documents.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Algeria	0	0	7
Austria	5	5 (a)	10
Azerbaijan	7	7 (a)	10
Bangladesh	10	7.5	10
Belarus	5	5	10
China (mainland)	5	5	10
Czech Republic	5	0	10
Egypt	5/10	10	10
Ethiopia	5	5	7.5
France	0/5 (b)	0/5 (b)	0/15 (b)

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Greece	5	5	10
Hungary	5	0	5/8 (c)
India	5	10	10
Ireland	5	0	5/8 (c)
Italy	5	5	10
Japan	5	10	5/10 (c)
Jordan	5	0/5 (i)	7
Kazakhstan	5	10	10
Korea (South)	5	5	5/10 (c)
Kyrgyzstan	0	0	7.5
Luxembourg	5	0	5/7 (c)
Macedonia	5	0/5 (a)	10
Malaysia	5	5	8
Malta	5	0	5/7 (c)
Netherlands	5	5	7
Pakistan	5	10	10
Poland	5	5	10
Portugal	5/10 (f)	10	8
Romania	5	5	10
Russian Federation	5	5	10
Singapore	5	5	8
South Africa	5	5	10
Spain	0/5 (d)	5	8
Sweden	5/10	0	5
Syria	0	7.5	15
Tajikistan	5/10 (f)	8	8
Tunisia	5	2.5/5 (h)	5
Turkey	5	10	10
Turkmenistan	10	0/10 (a)	10
Ukraine	5	10	10
United Kingdom	5/15 (e)	0	5/8 (c)
Uzbekistan	7	7	10
Venezuela	5	0/5 (i)	8
Vietnam	5/12 (f)	10	7.5/10 (g)
Non-treaty jurisdictions	5	5	15

- (a) A 0% rate generally applies to payments to government bodies.
- (b) These rates do not apply if the income is effectively attached to activities carried on by the recipient in Saudi Arabia.
- (c) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The higher rate applies to other royalties.
- (d) The 0% rate applies if the Spanish company receiving the dividends owns at least 25% of the share interests in the Saudi Arabian company.
- (e) The 5% rate applies to dividends beneficially owned by the central bank or by an entity that is wholly owned by the government of a contracting state.
- (f) The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 50% of the capital of the company paying the dividends or has invested USD20 million or more or any equivalent currency in the capital of the company paying the dividends.
- (g) The 7.5% rate applies to royalties paid for the rendering of services or assistance of a technical or managerial nature. The higher rate applies to other royalties.
- (h) The 2.5% rate applies to interest paid to banks.
- (i) The 0% rate applies to loan fees paid to the government, central bank or any other financial institution wholly owned by the government or performing functions of a governmental nature or to any resident of the other state with respect to debt guaranteed or financed by the government, central bank or any other financial institution wholly owned by the government or performing functions of a governmental nature.

Saudi Arabia has signed tax treaties with Barbados, Botswana, Croatia, Cyprus, Gabon, Gambia, Guernsey, the Hong Kong Special Administrative Region (SAR), Jersey, Mauritius, Mexico, Morocco, New Zealand, Seychelles, Switzerland and Taiwan. As of November 2017, these treaties were not in force.

Saudi Arabia has initialed tax treaties with Belgium, Bosnia and Herzegovina, Croatia, Georgia, Latvia, Sri Lanka and Sudan.

Saudi Arabia has also entered into limited tax treaties with the United Kingdom, the United States and certain other countries for the reciprocal exemption from tax on income derived from the international operation of aircraft and ships.

# Senegal

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## A. At a glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends and Nondeductible Expenses	10 (c)(d)
Directors' Fees	16
Interest	6/8/13/16/20 (d)(e)
Royalties from Patents, Know-how, etc.	20
Payments to Nonresidents for Certain Services and Activities	20 (d)(f)
Branch Remittance Tax	10 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	3

- (a) If the company does not derive a taxable profit for a given year, minimum tax applies. The minimum tax equals 0.5% of the turnover for the preceding tax year. For example, the minimum tax for 2018 is determined based on the annual turnover for 2017. The minimum tax may not be less than XOF500,000 or more than XOF5 million.
- (b) In certain circumstances the tax is deferred or reduced (see Section B).
- (c) See Section B for special rules applicable to certain dividends, and see Section C for a list of nondeductible expenses.
- (d) This rate may be modified by a tax treaty. See Section B.
- (e) The 6% rate applies to interest on long-term (that is, a duration of at least five years) bonds. The 8% rate applies to bank interest. The 13% rate applies to interest on short-term bonds. The 20% rate applies to interest on deposit receipts. The 16% rate applies to other interest payments.
- (f) This tax applies to technical assistance fees and other types of remuneration paid to nonresident companies and nonresident individuals that do not have a permanent establishment in Senegal. The tax is calculated by applying a rate of 25% to a base of 80% of the remuneration that is paid.

## B. Taxes on corporate income and gains

**Corporate income tax.** Senegalese companies are taxed on the basis of the territoriality principle. As a result, companies carrying on a trade or business outside Senegal are not taxed in Senegal on the related profits. Foreign companies developing activities in Senegal are subject to Senegalese corporate tax on Senegalese-source profits only.

**Tax rates.** The corporate income tax rate is 30%. The minimum tax (*impôt minimum forfaitaire*, or IMF) payable equals 0.5% of the turnover for the preceding tax year. The minimum tax cannot be less than XOF500,000, or more than XOF5 million.

**Capital gains.** Capital gains are generally taxed at the regular corporate tax rate. However, the tax can be deferred if the proceeds are used by a taxable company to acquire new fixed assets for its companies based in Senegal within three years or in the event of a merger (or similar corporate restructurings, such as a transfer of a business unit or a demerger).

If the business is partially transferred or discontinued or if the company's fixed assets are sold at the end of its operation, only one-half of the net capital gain is taxed if the event occurs less than five years after the start-up or purchase of the business, and only one-third of the gain is taxed if the event occurs five years or more after the business was begun or purchased. This regime does not apply to a transfer of shares in an unlisted predominant real estate company. A company is considered a predominant real estate company if more than 50% of its assets consist of real estate.

Capital gains on sales or transfers of land and buildings are also subject to land tax (see Section D).

**Administration.** The tax year is the calendar year. Companies must file their tax returns by 30 April of the year following the tax year.

Corporate tax must be paid in two installments (each equal to one-third of the preceding year's tax) by 15 February and 30 April. The 15 February installment may not be less than the amount of the minimum tax. The balance must be paid by 15 June.

Late payments are subject to interest at a rate of 5% of the tax due. Each additional month of delay results in additional interest of 0.5%.

**Dividends paid.** Dividends paid are subject to a 10% withholding tax.

Dividends distributed by a Senegalese parent company that consist of dividends received from a Senegalese subsidiary that is at least 10% owned are not subject to dividend withholding tax on the second distribution.

Unless otherwise stipulated in a double tax treaty, the profits realized in Senegal by branches of foreign companies that have not been reinvested in Senegal are deemed to be distributed and are accordingly subject to a 10% withholding tax.

**Foreign tax relief.** In general, foreign tax credits are not allowed; income subject to foreign tax that is not exempt from Senegalese tax under the territoriality principle is taxable net of the foreign tax. However, the tax treaty with France provides a tax credit for French tax paid on dividends.

### C. Determination of taxable income

**General.** Taxable income is based on financial statements prepared according to generally accepted accounting principles and the rules contained in the Accounting Plan of the Organization for the Harmonisation of Business Law in Africa (*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*, or OHADA).

Business expenses are generally deductible unless specifically excluded by law. The following expenses are partially deductible or nondeductible:

- Foreign head-office expenses, of which the deduction is limited to 20% of Senegalese taxable profits before deduction of foreign head-office expenses (unless otherwise provided for by tax treaties)
- The amount of interest paid to shareholders in excess of three percentage points above a standard annual rate set by the central bank and the amount of interest on loans in excess of the capital stock amount
- Certain specific charges over specified limits
- Certain taxes, penalties and gifts

**Inventories.** Inventory is normally valued at the lower of cost or market value.

**Provisions.** In determining accounting profit, companies must establish certain provisions, such as a provision for a risk of loss or for certain expenses. These provisions are normally deductible for tax purposes if they are related to clearly specified losses or to expenses that are probably going to be incurred and if they appear in the financial statements and in a specific statement in the tax return.

**Participation exemption.** A parent company may exclude from its tax base for corporate income tax purposes 95% of the gross dividends received from a subsidiary if all of the following conditions are met:

- The parent company and the subsidiary are either joint stock companies or limited liability companies.
- The parent company has its registered office in Senegal and is subject to corporate income tax.
- The parent company holds at least 10% of the shares of the subsidiary.
- The shares of the subsidiary are subscribed to or allocated when the subsidiary is created, and they are registered in the name of the parent company or, alternatively, the parent company commits to holding the shares for two consecutive years in registered form. The letter containing such commitment must be annexed to the corporate income tax return.

**Tax depreciation.** Land and intangible assets, such as goodwill, are not depreciable for tax purposes. Other fixed assets may be depreciated. The straight-line method is generally allowed. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Commercial and industrial buildings	3 to 5
Office equipment	10 to 15
Motor vehicles	20 to 25
Plant and machinery	10 to 20

In certain circumstances, plant and machinery as well as other assets may be depreciated using the declining-balance method or an accelerated method.

**Relief for tax losses.** Losses may be carried forward three years; losses attributable to depreciation (deferred deemed amortization, which is amortization of assets reported during a loss year) may be carried forward indefinitely. Losses may not be carried back.

**Groups of companies.** No fiscal integration system equivalent to tax consolidation or fiscal unity exists in Senegal.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; on goods sold and services used or rendered in Senegal	
Standard rate	18
Rate for accommodation services	10
Business license tax ( <i>patente</i> ), based on the business rental value of tangible assets and equipment and the number of employees	Various
Registration duties, on transfers of real property or businesses	1 to 5
Land tax, on capital gains resulting from sales or transfers of land and buildings	5
Payroll tax paid by the employer with respect to both Senegalese and foreign employees	3
Social security contributions	
Paid monthly by the employer on each employee's monthly gross salary, up to XOF63,000	1/3/5
Regular pension, paid monthly on each employee's monthly gross salary, up to XOF360,000; paid by	
Employer	8.4
Employee	5.6
Additional pension, paid monthly on an executive's monthly gross salary, up to XOF1,080,000; paid by	
Employer	3.6
Employee	2.4



## E. Miscellaneous matters

**Foreign-exchange controls.** Exchange-control regulations exist in Senegal for financial transfers outside the West African Economic and Monetary Union (WAEMU). The exchange-control regulations are contained in the WAEMU 09/2010 CM Act, together with its appendices and the Central Bank of West African States (La Banque Centrale des Etats de l'Afrique de l'Ouest, or BCEAO) application decrees.

**Transfer pricing.** The Senegalese tax law contains specific transfer-pricing documentation requirements. Transactions between associated enterprises must be documented. Such documentation must include at a minimum a description of the terms of the transactions, the entities involved, a functional analysis and a detailed description of the chosen methodology to determine the applied transfer prices. The documentation must establish how transfer prices were determined and whether the terms of the intercompany transactions would have been adopted if the parties were unrelated. If such information is not available on request in an audit or a litigation, the tax authorities may assess the taxable income based on information at their disposal.

## F. Treaty withholding tax rates

Senegal has entered into a multilateral tax treaty with the other member states of the WAEMU, which are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. The principal provisions of this tax treaty took effect on 1 January 2010. Senegal has entered into bilateral tax treaties with Belgium, Canada, France, Italy, Mauritania, Mauritius, Morocco, Norway, Qatar, Spain, Tunisia and the United Kingdom.

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends	Interest	Royalties
	%	%	%
Belgium	10	16	10
Benin	10	15	15
Bissau Guinea	10	15	15
Burkina Faso	10	15	15
Canada	10	16/20 (a)	15
Congo	10	16	0
Côte d'Ivoire	10	15	15
France	10	15	15
Gabon	10	16	0
Italy	10	15	15
Mali	10	15	15
Mauritania	10	16	0
Mauritius	0	0	0
Morocco	10	10	10
Niger	10	15	15
Norway	10	16	16
Portugal	5/10 (b)	10	10
Qatar	0	0	0
Spain	10	10	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Togo	10	15	15
Tunisia	10	16	0
United Kingdom	5/8/10 (b)	10	10
Non-treaty jurisdictions	10	6/8/13/16/20 (c)	20

- (a) The 20% rate applies to interest on deposit receipts. The 16% rate applies to other interest payments.
- (b) The 5% rate applies if the real beneficiary of the dividends is a company that holds at least 25% of the share capital of the distributing company. Under the United Kingdom treaty, the 8% rate applies if the beneficiary is a pension fund located in the other state. The 10% rate applies to other dividends.
- (c) For details, see footnote (e) to Section A.

Senegal has signed tax treaties with China, Iran, Kuwait, Lebanon, Malaysia, Taiwan and the United Arab Emirates, but these treaties have not yet been ratified.

# Serbia, Republic of

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*The Union of Serbia and Montenegro ceased to exist on 25 May 2006. The following chapter provides information on taxation in the Republic of Serbia only.*

## A. At a glance

Corporate Income Tax Rate (%)	15
Capital Gains Tax Rate (%)	15
Branch Tax Rate (%)	15
Withholding Tax (%)	
Dividends	20 (a)
Interest	20 (a)
Royalties from Patents, Know-how, etc.	20 (b)
Leasing Fees for Lease and Sublease of Property Located in Serbia	20 (c) (d)
Services Used or Provided in Serbia	20 (c)
Capital Gains	20 (e)
Payments to Listed Countries with Preferable Tax Regimes	
Interest	25
Royalties	25
Leasing Fees	25
Services	25
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) This tax applies to nonresident companies. Under the Personal Income Tax Law, dividends and interest paid to resident and nonresident individuals are taxed at a rate of 15%.
- (b) This tax applies to nonresident companies. Under the Personal Income Tax Law, royalties paid to resident and nonresident individuals are taxed at a rate of 20%.
- (c) This tax applies to nonresident companies. Under the Personal Income Tax Law, individuals are taxed at a rate of 20% on rent and service fees.

- (d) As of 1 April 2018, only fee payments related to market research services, accounting and audit services, and other legal and business advisory services are subject to withholding tax.
- (e) This tax applies to nonresident companies. Under the Personal Income Tax Law, individuals are taxed at a rate of 15% on capital gains.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Companies resident in the Republic of Serbia (RS) are subject to tax on their worldwide income. A company is resident in the RS if it is incorporated in the RS or if its central management and control is actually exercised in the RS. Nonresident companies are subject to tax only on their income derived from the RS. Nonresident companies are companies registered in other countries that have a permanent place of business in the RS. Foreign representative offices may not derive profits from their activities in the RS. However, if they do derive such profits, the profits are subject to tax in the RS.

**Rate of corporate income tax.** The rate of corporate income tax in the RS is 15%.

**Tax incentives.** A company qualifies for a 10-year tax exemption if it invests RSD1 billion (approximately EUR8 million) in its own fixed assets and if it employs at least 100 new workers in the period of investment.

Under the Personal Income Tax Law and the Law on Compulsory Social Security Contributions, companies may be partially exempted from paying salary tax and employer social security contributions for newly employed individuals and disabled persons under the conditions specifically mentioned in the legislation.

**Capital gains.** Capital gains derived from the disposal of the following are included in taxable income and are subject to tax at the regular corporate income tax rate:

- Real estate that the taxpayer uses or used as a fixed asset in its business activities, including real estate under construction
- Industrial property rights
- Capital participations and shares and other securities that are, according to International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), long-term financial investments (except certain bonds issued by government bodies or by the national bank)
- Investment units purchased by investment funds, in accordance with the law regulating investment funds

Capital gains tax is also imposed on income derived by nonresident companies from disposals of the aforementioned assets (except industrial property rights) and real estate in the RS that were not used as fixed assets in conducting business activities. These gains were previously subject to a 20% tax rate.

Capital gains realized by resident companies may be offset against capital losses incurred in the same year, and net capital losses may be carried forward to offset capital gains in the following five years.

**Administration.** The tax year is the calendar year. Exceptionally, at the taxpayer's request, the tax period may be set within any 12 months, subject to the tax authorities' approval.

Companies must file annual tax returns within 180 days after the expiration of the period for which the tax liability is determined (usually by 30 June of the year following the tax year), except in cases of statutory changes (transactions resulting in the cessation of the legal entity), liquidation and bankruptcy. In such circumstances, companies must file returns within the following periods:

- Sixty days from the date on which the liquidation proceedings began or were completed (the companies must file two tax returns; one is related to the period before the beginning of the liquidation proceedings, while the second return covers the period during the liquidation proceedings)
- Sixty days from the date on which the bankruptcy proceedings began
- Sixty days from the date of the beginning of the implementation of the reorganization plan

Companies must make monthly advance payments of tax by the 15th day of the month following the month for which the payment is due. Companies determine advance payments based on their tax return for the preceding year. Under a self-assessment system, companies must correctly assess their tax liabilities to avoid the imposition of significant penalties.

Companies may submit an interim tax return during the tax year to increase or decrease their monthly advance payments of tax if significantly changed circumstances exist, such as changes to the company's activities or to the tax rules.

At the time of submission of the annual tax return, companies must pay any positive difference between the tax liability calculated by the company and the total of the advance payments. They may receive a refund of any overpayment, or the overpayment may be treated as a prepayment of future monthly payments.

**Dividends.** Resident companies include dividends received from its nonresident affiliates in taxable income.

Corporate and dividend taxes paid abroad may be claimed as a tax credit up to the amount of domestic tax payable on the dividends. Any unused amount can be carried forward for offset against corporate profit tax in the following five years. This tax credit applies only to dividends received by companies with a shareholding of 10% or more in the payer for at least one year before the tax return is submitted.

A 20% withholding tax is imposed on dividends paid to non-residents.

An applicable double tax treaty may provide a reduced withholding tax rate for dividends (see Section F). To benefit from a double tax treaty, a nonresident must verify its tax residency status and prove that it is the true beneficiary of the income.

**Foreign tax relief.** Companies resident in the RS that perform business activities through permanent establishments outside the RS may claim a tax credit for corporate income tax paid in other jurisdictions, up to the amount of domestic tax payable on such income. In addition, resident companies are entitled to a tax credit for tax on interest income, income from lease fees, royalty income and dividend income (shareholding less than 10%) that is withheld and paid by nonresident income payers in other jurisdictions.

The tax credit is available up to the amount of domestic tax payable on a tax base equal to 40% of foreign-source income that is included in the total income of the resident company.

### C. Determination of trading income

**General.** The assessment is based on the profit or loss shown in the financial statements prepared in accordance with International Accounting Standards and domestic accounting regulations, subject to certain adjustments for tax purposes.

Taxable income is the positive difference between income and expenses. For tax purposes, income consists of income from the following:

- Sales of products, goods and services
- Financial income
- Capital gains
- Income resulting from transfer-pricing adjustments

Tax-deductible expenses include expenses incurred in performing business activities. Expenses must be documented. Certain expenses, such as depreciation (see *Tax depreciation*) and donations, entertainment and marketing expenses are deductible up to specified limits. Impairment of assets may not be deducted unless the assets were alienated or damaged as a result of force majeure.

**Inventories.** Inventories must be valued using average prices or the first-in, first-out (FIFO) method.

**Bad debt provisions and write-offs.** Legal entities may deduct as expenses write-offs of receivables if such actions are in conformity with the Accounting Law. This conformity exists if the following conditions are satisfied:

- Receivables were included in the taxpayer's revenues.
- Receivables have been written off from the taxpayer's accounting books as uncollectible.
- The taxpayer has sued the debtor or claimed the debt in a liquidation or bankruptcy procedure, or the execution procedure has been initiated.

Write-offs of receivables that were not recorded as revenues in the taxpayer's accounting records are also tax-deductible expenses if the second and third conditions above are met.

Bad debt provisions are tax-deductible expenses in the period in which at least 60 days have elapsed since the due date for the payment of receivables.

**Tax depreciation.** Fixed assets are divided into five groups, with depreciation and amortization rates prescribed for each group. The straight-line method must be used for the first group, while the declining-balance method must be used for the assets in the other groups.

The following are the depreciation and amortization rates.

Group of assets	Rate (%)
I	2.5
II	10
III	15
IV	20
V	30

Group I includes immovable assets.

Intangible assets are depreciated using the straight-line method at the rate that reflects the utilization period of the respective intangible asset.

In addition, if the assets are acquired from a related party, the depreciation base is the lower of the following two amounts:

- Purchase price for the transfer of the fixed assets
- Acquisition price of fixed assets determined by applying the arm's-length principle

**Relief for losses.** Tax losses incurred in business operations may be carried forward for five years. Loss carrybacks are not allowed.

**Groups of companies.** Under group relief provisions, a group of companies consisting only of resident companies may offset profits and losses for tax purposes. The group relief provisions are available if a parent company holds directly or indirectly at least 75% of the shares in subsidiaries. To obtain group relief, a group must file a request with the tax authorities. If tax consolidation is allowed, the group companies must apply tax-consolidation rules for five years. Each group company files its own annual income tax return, and the parent company files a consolidated tax return based on the subsidiaries' tax returns. Any tax liability after consolidation is paid by the group companies with taxable profits on a proportional basis.

#### D. Other significant taxes

The following table summarizes other significant taxes.

<b>Nature of tax</b>	<b>Rate (%)</b>
Value-added tax (VAT), on supplies of goods and services in the RS and on imports of goods; certain tax exemptions with or without the right to deduct input VAT are granted; VAT taxpayers are legal entities and entrepreneurs who had turnover of goods and services in excess of RSD8 million (approximately EUR65,000) in the preceding 12 months or who expect to have annual turnover greater than the threshold	
Standard rate	20
Lower rate	10
Property tax, paid on ownership rights over immovable property in the RS (including residential and business buildings, apartments, garages and other underground and surface buildings) and on usage rights over city construction land; certain tax exemptions are prescribed; tax base equals the market value of the property; taxpayers that maintain accounting records self-assess and pay the tax quarterly; taxpayers that do not maintain accounting records pay tax quarterly based on a ruling issued by the local authority	
Tax rates applicable to taxpayers that are required to maintain accounting records	0.4
Tax rates applicable to taxpayers that are not required to maintain accounting records	0.4 to 2

Nature of tax	Rate (%)
Transfer tax; paid on transfers of ownership rights over immovable property, intellectual property rights, ownership rights over motor vehicles (with certain exemptions) and usage rights over city construction land; certain transfers are exempt; tax base is the contract price, unless the market value is higher	2.5
Payroll taxes, on monthly gross salaries	
Tax on salary; paid by employee	10
Social security contributions (for health, pension and unemployment funds); paid by	
Employer	17.9
Employee	19.9

## E. Miscellaneous matters

**Foreign-exchange controls.** In the RS, the local currency is the dinar (RSD).

In the RS, all payments, collections and transfers must generally be effected in dinars, but a “currency clause” may allow conversion from hard currency on the date of payment. In addition, the following transactions may be effected using foreign currencies:

- Sale and rental of immovable property
- Granting loans in the RS for the payment of imported goods and services and acquisition of immovable property
- Insurance premiums and transfers based on life insurance contracts
- Purchasing receivables and accepting payables specified in the law
- Payments of deposits representing collateral
- Donations for charitable, cultural and scientific purposes in accordance with the donation legislation
- Transactions involving guarantees specified by the law, if the underlying transaction is in foreign currency
- Allowances for business trips abroad
- Salary payments to resident individuals sent on temporary work abroad based on an agreement on investment projects, as well as to individuals employed at diplomatic and consular missions, United Nations organizations and international financial institutions in the RS

Residents and nonresidents may open foreign-currency accounts in RS banks or in foreign banks authorized to operate in the RS. Foreign currency may be held in such accounts and used for payments out of the RS, such as dividends and payments for purchases of imports, as well as for authorized foreign-currency payments in the RS.

**Transfer pricing.** Under general principles, transactions between related parties must be made on an arm’s-length basis. The difference between the price determined by the arm’s-length principle and the taxpayer’s transfer price is included in the tax base for purposes of the computation of corporate income tax. Taxpayers must submit transfer-pricing documentation together with their corporate income tax return.



**Thin-capitalization rules.** Related-party interest expenses and related expenses are limited to 4 times the value of the taxpayer's equity (10 times value for banks and financial-leasing organizations).

## F. Treaty withholding tax rates

The following table lists the withholding tax rates under the treaties of the former Union of Serbia and Montenegro and under the treaties of the former Federal Republic of Yugoslavia and the former Yugoslavia that remain in force. It is suggested that taxpayers check with the tax authorities before relying on a particular tax treaty.

	Dividends	Interest	Royalties
	%	%	%
Albania	5/15	10	10
Armenia	8	8	8
Austria	5/15	10	5/10
Azerbaijan	10	10	10
Belarus	5/15	8	10
Belgium	10/15	15	10
Bosnia and Herzegovina	5/10	10	10
Bulgaria	5/15	10	10
Canada	5/15	10	10
China (mainland)	5	10	10
Croatia	5/10	10	10
Cyprus	10	10	10
Czech Republic	10	10	5/10
Denmark	5/15	10	10
Egypt	5/15	15	15
Estonia	5/10	10	5/10
Finland	5/15	0	10
France	5/15	0	0
Georgia	5/10	10	10
Germany	15	0	10
Greece	5/15	10	10
Hungary	5/15	10	10
India	5/15	10	10
Iran	10	10	10
Ireland	5/10	10	5/10
Italy	10	10	10
Kazakhstan	10/15	10	10
Korea (North)	10	10	10
Korea (South)	5/10	10	5/10
Kuwait	5/10	10	10
Latvia	5/10	10	5/10
Libya	5/10	10	10
Lithuania	5/10	10	10
Luxembourg	5/10	10	5/10
Macedonia	5/15	10	10
Malaysia	20	10	10
Malta	5/10	10	5/10
Moldova	5/15	10	10
Montenegro	10	10	5/10
Netherlands	5/15	0	10
Norway	5/15	10	5/10
Pakistan	10	10	10

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	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Poland	5/15	10	10
Qatar	5/10	10	10
Romania	10	10	10
Russian Federation	5/15	10	10
Slovak Republic	5/15	10	10
Slovenia	5/10	10	5/10
Spain	5/10	10	5/10
Sri Lanka	12.5	10	10
Sweden	5/15	0	0
Switzerland	5/15	10	0/10
Tunisia	10	10	10
Turkey	5/15	10	10
Ukraine	5/10	10	10
United Arab Emirates	0/5/10	10	10
United Kingdom	5/15	10	10
Vietnam	10/15	10	10
Non-treaty jurisdictions	20	20	20

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## A. At a glance

Corporate Income Tax Rate (%)	17 (a)
Capital Gains Tax Rate (%)	Not applicable
Branch Tax Rate (%)	17 (a)
Withholding Tax (%) (b)	
Dividends	0 (b)(c)
Interest	15 (b)
Royalties from Patents, Know-how, etc.	10 (b)
Branch Remittance Tax	Not applicable
Net Operating Losses (Years)	
Carryback	1 (d)
Carryforward	Unlimited (d)

(a) Various tax exemptions and reductions are available (see Section B).

(b) See Section F.

(c) See Section B.

(d) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Income tax is imposed on all income derived from sources in Singapore, and on income from sources outside Singapore if received in Singapore. However, a nonresident company that is not operating in or from Singapore is generally not taxed on foreign-source income received in Singapore. A company is resident in Singapore if the control and management of its business is exercised in Singapore; the place of incorporation is not relevant.

Remittances of foreign income in the form of dividends, branch profits and services income (specified foreign income) into Singapore by companies resident in Singapore are exempt from tax if prescribed conditions are met. For remittances of specified foreign income that does not meet the prescribed conditions, companies may be granted tax exemption under specific scenarios or circumstances on an approval basis.

**Rates of corporate income tax.** The standard corporate income tax rate is 17%. Seventy-five percent of the first SGD10,000 of normal chargeable income is exempt from tax, and 50% of the next SGD290,000 is exempt from tax. The balance of chargeable income is fully taxable at the standard rate of 17%. As proposed in the 2018 budget, for the 2018 year of assessment, a 40% corporate income tax rebate is granted, capped at SGD15,000.

**Tax incentives, exemptions and reductions.** The following tax incentives, exemptions and tax reductions are available in Singapore.

*Pioneer companies and pioneer service companies.* The incentive for pioneer companies and pioneer service companies is aimed at encouraging companies to undertake activities that have the effect of promoting economic or technological development in Singapore. A pioneer enterprise is exempt from income tax on its qualifying profits for a period of up to 15 years. A sunset clause has been introduced under which no approval will be given for the incentive on or after 1 January 2024.

*Development and Expansion Incentive.* The Development and Expansion Incentive (DEI) is available to companies that engage in high value-added operations in Singapore but do not qualify

for pioneer incentive status and to companies whose pioneer incentive status has expired. DEI companies enjoy a concessionary tax rate of 5% or 10% on their incremental income derived from the performance of qualifying activities. Typically, the initial relief period is 5 years, and the company may subsequently apply for 5-year extensions, up to a maximum relief period of 40 years. A sunset clause has been introduced under which no approval will be given for the incentive on or after 1 January 2024.

*Approved royalties, technical assistance fees, and contributions to research and development costs.* Approved royalties, technical assistance fees, and contributions to research and development (R&D) costs paid to nonresidents may be awarded an exemption from withholding tax or a reduced withholding tax rate. A sunset clause has been introduced under which no approval will be given for the incentive on or after 1 January 2024.

*Investment allowances.* On approval, investment allowances are available to companies that engage in qualifying projects. Such allowances are granted in addition to the normal tax depreciation allowances, and are based on a specified percentage (up to 100%) of expenditure incurred on productive equipment. Different sunset clauses (up to 31 December 2023, depending on the type of project) have been introduced under which no approval will be given for the incentive on or after the specified date.

*Tax exemption scheme for new companies.* Subject to certain conditions, a newly incorporated and tax-resident Singapore company or a Singapore company limited by guarantee may qualify for a full tax exemption on the first SGD100,000 of chargeable income and a 50% tax exemption on the next SGD200,000 of chargeable income. The exemption applies only to the qualifying company's first three consecutive years of assessment. However, the scheme does not apply to new start-ups undertaking property development or investment holding.

*Productivity and Innovation Credit.* Businesses that incur qualifying expenditure on the following six activities qualify for an enhanced deduction or allowance, known as a Productivity and Innovation Credit (PIC), from the 2011 year of assessment to the 2018 year of assessment:

- R&D
- Eligible design activities
- Acquisition and in-licensing of intellectual property rights
- Registration of patents, trademarks, designs and plant varieties
- Acquisition or leasing of PIC information technology (IT) and automation equipment
- External training and qualifying in-house training

All businesses can claim a deduction or allowance of 400% of the first SGD400,000 of their expenditures per year of assessment on each of the above activities from their taxable income, subject to a combined cap of SGD1,200,000 of eligible expenditure for each activity for the 2016 year of assessment to the 2018 year of assessment.

A PIC+ scheme is also available to support small and medium enterprises that are making more substantial investments to transform their businesses. Under the scheme, which is effective for

expenditure incurred from the 2015 year of assessment to the 2018 year of assessment, the expenditure cap is increased from SGD400,000 to SGD600,000 per qualifying activity per year of assessment, and the expenditure caps may also be combined. To qualify, the entity's annual turnover must not exceed SGD100 million or it must not employ more than 200 workers; the criterion is applied at the group level if the entity is part of a group.

Qualifying persons with at least three local employees have the option to convert up to SGD100,000 of eligible expenditure for each year of assessment into a non-taxable cash grant. The conversion rate is 40% (60% for qualifying expenditure incurred before 1 August 2016) until the 2018 year of assessment.

*R&D incentives.* Liberalized R&D deductions are available from the 2009 year of assessment through the 2025 year of assessment.

A tax deduction can be claimed for undertaking R&D in any area (that is, the R&D is no longer required to be related to the trade or business carried on by the company), and an additional 50% tax deduction is allowed for certain qualifying R&D expenditure. If the companies outsource their R&D activities to an R&D organization in Singapore, the tax deduction available is at least 130% of the amount of R&D expenses incurred. Businesses that incur qualifying R&D expenditure may qualify under the PIC scheme (see *Productivity and Innovation Credit* above).

*IP Development Incentive.* A new intellectual property (IP) regime named the IP Development Incentive (IDI) was proposed in the 2017 budget. This incentive incorporates the Base Erosion and Profit Shifting (BEPS)-compliant modified nexus approach. The date of introduction of the IDI has been delayed; it was originally intended to be effective from 1 July 2017, but it is now expected to be effective from 1 July 2018.

*Tax certainty on gains on disposal of equity investments.* To provide upfront tax certainty, and with certain exceptions, gains derived from the disposal of ordinary shares by companies during the period of 1 June 2012 through 31 May 2022 are not taxed if the qualifying divesting company had legally and beneficially owned at least 20% of the ordinary shares in the investee company for a continuous period of at least 24 months before the disposal of the shares.

*International Headquarters Programme.* The International Headquarters Programme applies to entities incorporated or registered in Singapore that provide substantive headquarters activities in Singapore for their network companies on a regional or global basis. Under the Programme, the pioneer incentive or DEI may be awarded to companies that commit to anchor substantive headquarters activities in Singapore for the management, coordination and control of regional business operations. Companies may enjoy tax exemption or concessionary tax rates of 5% or 10% for a specified period on qualifying income, depending on the level of commitment to Singapore. This commitment is demonstrated by various factors, including level of headcount, total business expenditure and quality of personnel hired.

*Finance and treasury center incentive.* The finance and treasury center (FTC) incentive is aimed at encouraging companies to use

Singapore as a base for conducting treasury management activities for related companies in the region. Income derived from the provision of qualifying services to approved network companies and from the carrying on of qualifying activities on own account (for its own purposes or benefit) is subject to tax at a rate of 8%. Approved network companies are offices and associated companies of the company granted the FTC incentive that have been approved by the relevant authority for purposes of the incentive.

A sunset clause of 31 March 2021 applies to the FTC scheme.

*Financial sector incentive.* The financial sector incentive (FSI) is designed to encourage the development of high-growth and high value-added financial activities in Singapore. A 5%, 10%, 12% or 13.5% concessionary tax rate applies to income derived from carrying on qualifying activities by approved FSI companies in Singapore. The FSI will expire on 31 December 2018, unless it is extended.

*Maritime sector incentives.* Ship operators, maritime lessors and providers of certain supporting shipping services may enjoy tax incentives under the Maritime Sector Incentive (MSI), which consists of the following three broad categories:

- International shipping enterprise
- Maritime (ship or container) leasing
- Supporting shipping services

The tax benefits include tax exemptions or concessionary tax rates of 5% and 10%.

Shipping companies that either own or operate a fleet of foreign vessels can apply for the MSI-Approved International Shipping Enterprise (MSI-AIS) award. Successful applicants are granted either MSI-AIS status or the MSI-AIS (Entry Player) [MSI-AIS (Entry)] status, depending on the company's scale of operations. Under this scheme, income derived from the operation of non-Singapore flagged vessels plying in international waters and other qualifying income are exempt from tax. An MSI-AIS award may be granted for a renewable period of 10 years (extendible up to 40 years), while MSI-AIS (Entry) status may be granted for a non-renewable period of 5 years, with the option of graduating to the MSI-AIS status if qualifying conditions are met. Applications for MSI-AIS (Entry) can be made from 1 June 2011 to 31 May 2021.

Under the MSI-Maritime Leasing (Ship) award, approved shipping investment enterprises (Singapore-incorporated ship leasing companies, shipping funds, business trusts or partnerships) may enjoy tax exemption on their qualifying income, which includes income from the chartering or finance leasing of seagoing ships to qualifying persons for use outside the port limits of Singapore. Approved shipping investment managers may also enjoy a 10% concessionary tax rate on income derived from the management of an approved shipping investment enterprise, and prescribed services and activities. Applications can be made from 1 March 2011 to 31 May 2021, and successful applicants are granted the status for a period of five years.

Under the MSI-Maritime Leasing (Container) award, approved container investment enterprises (Singapore-incorporated companies, business trusts or partnerships) may enjoy a concessionary



tax rate of 5% or 10% on their qualifying income, which includes income from the operating or finance leasing of sea containers that are used for the international transportation of goods. Approved container investment managers may also enjoy a 10% concessionary tax rate on income derived from the management of an approved container investment enterprise and prescribed services and activities. Applications can be made from 1 March 2011 to 31 May 2021, and successful applicants are granted the status for a period of five years.

The MSI-Supporting Shipping Services (MSI-SSS) award aims to promote the growth of ancillary shipping service providers and encourage shipping conglomerates to set up their corporate services functions in Singapore. An approved MSI-SSS company enjoys a 10% concessionary tax rate on incremental income derived from the provision of approved supporting shipping services, such as ship broking, forward freight agreement trading, ship management, ship agency, freight forwarding and logistics services. Applications can be made from 1 June 2011 to 31 May 2021, and successful applicants are granted the MSI-SSS award for a period of five years.

*Global Trader Programme.* The Global Trader Programme (GTP) is aimed at encouraging international companies to establish and manage regional or global trading activities with Singapore as their base. Under the GTP, approved companies enjoy a concessionary tax rate of 5% or 10% on qualifying transactions conducted in prescribed commodities and products (including energy, agricultural, building, industrial, electrical and consumer products, and carbon credits), qualifying transactions in derivative instruments and qualifying structured commodity financing activities. In addition, the 5% concessionary tax rate applies to income derived from qualifying transactions in liquefied natural gas, as specified by the relevant authority. A sunset clause of 31 March 2021 applies to the GTP scheme.

*Venture capital funds incentive.* The venture capital funds incentive aims to encourage a thriving venture capital industry in Singapore. Gains derived from the disposal of approved investments, interest from approved convertible loan stocks and dividends derived from approved investments are exempt from tax for a period of up to 10 years. Extension periods of up to five years each may be available, but the maximum total incentive period is 15 years. A sunset clause of 31 March 2020 applies to the incentive.

**Capital gains.** Capital gains are not taxed in Singapore. However, in certain circumstances, the Singapore Revenue considers transactions involving the acquisition and disposal of assets, such as real estate, stocks or shares to be the carrying on of a trade, and, as a result, gains arising from such transactions are taxable. The determination of whether such gains are taxable is based on a consideration of the facts and circumstances of each case.

**Administration.** The tax year, known as a year of assessment, runs from 1 January to 31 December. The period for which profits are identified for assessment is called the basis year. Therefore, income earned during the 2017 basis year is assessed to tax in the 2018 year of assessment. For companies engaged in business in Singapore that adopt an accounting period other than the calendar

year, the assessable profits are those for the 12-month accounting period ending in the year preceding the year of assessment.

An estimate of the chargeable income (ECI) of a company must be filed within three months after the end of its accounting year. However, companies are not required to file an ECI if their annual revenue is not more than SGD5 million for the financial year and if their ECI is nil.

The statutory deadline for filing the income tax return is 30 November for paper filing and 15 December for e-filing. No extension of time to file the return is allowed. Mandatory e-filing will be implemented in stages beginning from the 2018 year of assessment for companies with turnover of more than SGD10 million in the 2017 year of assessment, with e-filing becoming mandatory for all companies from the 2020 year of assessment.

Income tax is due within one month after the date of issuance of the notice of assessment. In certain circumstances, companies may pay tax in monthly installments on the ECI, up to a maximum of 10, with the first installment payable one month after the end of the accounting period. No installments are allowed if the ECI is submitted more than three months after the end of the relevant accounting period.

A late payment penalty of 5% of the tax due is imposed if the tax is not paid by the due date. If the tax is not paid within 60 days of the imposition of the 5% penalty, an additional penalty of 1% of the tax is levied for each complete month that the tax remains outstanding, up to a maximum of 12%.

The tax law provides that it is an offense for a person chargeable to tax in Singapore not to file an income tax return with the tax authority. On conviction of such offense, a penalty of up to SGD1,000 is imposed for late filing of tax returns. In default of payment, the person may be liable to imprisonment for a term not exceeding six months. On conviction, a further penalty of SGD50 per day is imposed for each day that the tax return remains unfiled. If a person fails or neglects without reasonable excuse to file a tax return for a year of assessment for two years or more, a higher penalty of double the amount of tax assessed for the relevant year of assessment and a fine of not exceeding SGD1,000 is imposed on conviction. In default of payment, the person may be liable to imprisonment for a term not exceeding six months. The Singapore Revenue may compound any of these offenses.

**Dividends.** Dividends paid by a Singapore tax-resident company are exempt from income tax in the hands of shareholders, regardless of whether the dividends are paid out of taxed income or tax-free gains.

**Foreign tax relief.** Singapore has entered into double tax agreements with more than 80 countries, but notably not with the United States. Under Singapore rules, a foreign tax credit is limited to the lower of the foreign tax paid and the Singapore tax payable on that income. The foreign tax credit (FTC) is granted on a country-by-country, source-by-source basis unless the resident taxpayer elects to claim FTC under the pooling method, subject to meeting certain conditions.

A unilateral tax credit system, similar to FTC relief, is also available for income derived from countries that have not entered into double tax agreements with Singapore.

### C. Determination of taxable income

**General.** In general, book profits reported in the financial statements prepared under generally accepted accounting principles are adjusted in accordance with the Singapore tax rules to arrive at taxable income.

If a company maintains its financial accounts in a functional currency other than Singapore dollars, as required under the financial reporting standards in Singapore, it must furnish tax computations to the Singapore Revenue denominated in that functional currency in a manner as prescribed by the law.

For expenses to be deductible, they must meet all of the following conditions:

- They must be incurred wholly and exclusively in the production of income.
- They must be revenue in nature.
- They must not be specifically prohibited under the Singapore tax law.

To facilitate business start-ups, it is specifically provided that a person is treated as having commenced business on the first day of the accounting year in which the business earns its first dollar of business receipt. This is known as the deemed date of commencement, and businesses may deduct revenue expenses incurred in the accounting year (not exceeding a 12-month period) immediately preceding the deemed date of commencement.

Special rules govern the deductibility of expenses for investment holding companies.

Expenses attributable to foreign-source income are not deductible unless the foreign-source income is received in Singapore and subject to tax in Singapore. In general, offshore losses may not be offset against Singapore-source income.

No deduction is allowed for the book depreciation of fixed assets, but tax depreciation (capital allowances) is granted according to statutory rates (see *Capital allowances [tax depreciation]*).

**Double deductions.** Double deductions are available for certain expenses relating to approved trade fairs, exhibitions or trade missions, maintenance of overseas trade offices, overseas investment development, R&D projects and approved salary expenditure for employees posted overseas. A sunset clause of 31 March 2020 applies to the double deduction schemes.

**Renovation or refurbishment deduction.** A tax deduction is allowable on due claim, for qualifying renovation or refurbishment (R&R) expenditure incurred for the purposes of a trade, profession or business. The allowable R&R costs are capped at SGD300,000 for every three-year period, beginning with the basis period in which the deduction is first allowed. Any unused R&R deduction is allowed as a loss carryback or loss carryforward (see *Relief for trading losses*) or for group relief (see *Groups of companies*).

**Inventories.** Trading inventory is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out (FIFO) basis; the last-in, first-out (LIFO) basis is not accepted.

**Provisions.** Under FRS 109 *Financial Instruments*, impairment losses that represent 12-month expected credit loss (ECL) or lifetime ECL are recognized if some risk of default exists or even in the absence of loss events. Only impairment losses recognized in the profit and loss statement with respect to the credit-impaired financial instruments on revenue account are allowed for tax deduction, and any reversal amount subsequently recognized in the profit and loss statement will be taxable.

### **Capital allowances (tax depreciation)**

*Plant and machinery.* Tax depreciation or capital allowances are given for capital expenditures incurred on the acquisition of plant and machinery used for the purposes of a trade or business. Qualifying plant and machinery are normally written off in equal amounts over three years when claimed. Alternatively, expenditures on such assets may be claimed in one year if each item costs no more than SGD5,000. However, the total claim for all such assets may not exceed SGD30,000 for a year of assessment.

The cost of the following may be written off in the year of acquisition:

- Computers or other prescribed automation equipment
- Generators
- Robots
- Certain efficient pollution-control equipment
- Certain industrial noise- and chemical hazards-control equipment

Businesses that incur expenditure on the acquisition of qualifying IT and automation equipment may also qualify for the PIC scheme (see Section B).

Only expenditure on certain automobiles, such as commercial vehicles and cars registered outside Singapore and used exclusively outside Singapore, qualify for capital allowances.

*Land intensification allowance incentive.* The land intensification allowance (LIA) incentive grants an initial allowance of 25% and an annual allowance of 5% on qualifying capital expenditure incurred on or after 23 February 2010 by businesses on the construction or renovation of qualifying buildings or structures if certain conditions are met. The application window period for the LIA incentive is from 1 July 2010 through 30 June 2020.

*Intellectual properties.* Writing-down allowances (WDAs) are granted for capital expenditure incurred on the acquisition of specified categories of intellectual property (IP) on or before the last day of the basis period for the 2020 year of assessment if the legal and economic ownership of the IP lies with Singapore companies. The allowances are calculated on a straight-line basis over five years. However, for qualifying IP rights acquired during the basis periods for the 2017 year of assessment to the 2020 year of assessment, companies may now elect a 5-, 10- or 15-year amortization period. This election is irrevocable.

On application, the legal ownership requirement may be waived for IP rights acquired on or after 17 February 2006 if the Singapore company has substantial economic rights over the IP, while the foreign parent holds the legal title.

On approval, an accelerated WDA over two years is granted to an approved media and digital entertainment (MDE) company with respect to the acquisition of approved IP rights for MDE content (pertaining to films, television programs, digital animations or games, or other MDE content) on or before the last day of the basis period for the 2018 year of assessment.

Companies that incur qualifying expenditure on the acquisition or in-licensing of IP rights may also qualify for the PIC scheme (see Section B).

*Disposal of plant and equipment and industrial buildings.* Allowances are generally subject to recapture on the sale of qualifying plant and equipment and industrial buildings if the sales proceeds exceed the tax-depreciated value (to the extent of the excess but not more than the allowances claimed). If sales proceeds are less than the tax-depreciated value, an additional allowance is given.

**Relief for trading losses.** Trading losses may be offset against all other chargeable income of the same year. Unused losses may be carried forward indefinitely, subject to the shareholding test (see below). Excess capital allowances can also be offset against other chargeable income of the same year and carried forward indefinitely subject to the shareholding test and to the requirement that the trade giving rise to the capital allowances continues to be carried on (same trade test).

A one-year carryback of up to an aggregate amount of SGD100,000 of current year unused capital allowances and trade losses (collectively referred to as “qualifying deductions”) may be allowed, subject to the meeting of certain conditions and compliance with specified administrative procedures.

The carryforward and carryback of losses and capital allowances are subject to the shareholders remaining substantially (50% or more) the same at the relevant comparison dates (shareholding test). If the shareholder of the loss company is itself another company, look-through provisions apply through the corporate chain to the final beneficial shareholder.

The carryback of capital allowances is subject to the same trade test that is applicable to the carryforward of unused capital allowances.

The Singapore Revenue has the authority to allow companies to deduct their unused tax losses and capital allowances, notwithstanding a substantial change in ownership at the relevant dates, if the change is not motivated by tax considerations. If allowed, these losses and capital allowances may be offset only against profits from the same business.

**Groups of companies.** Under group relief measures, current-year unused losses, capital allowances and donations may be transferred by one company to another within a group, subject to meeting certain qualifying conditions. A group generally consists of a Singapore-incorporated parent company and all of its Singapore-

incorporated subsidiaries. Two Singapore-incorporated companies are members of the same group if one is 75% owned by the other, or both are 75% owned by a third Singapore-incorporated company.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Goods and Services Tax (GST) on any supply of goods and services, except an exempt supply, made in Singapore by a taxable person (a person whose annual taxable supplies exceed or are expected to exceed SGD1 million) in the course of or furtherance of business and on imports of goods into Singapore unless the imports qualify for import reliefs	0/7
Social security contributions (Central Provident Fund [CPF]); foreigners holding work passes are exempt	
For employees up to age 55, on monthly ordinary wages (lower rates apply if employee is older than age 55); the monthly salary ceiling for contributions is SGD6,000 for ordinary wages; contributions paid by	
Employer (limited to SGD1,020 a month)	17
Employee (limited to SGD1,200 a month)	20
Contributions on additional wages, such as bonuses and non-regular payments (limited to SGD102,000 less the total ordinary wages subject to CPF contributions in the year); paid by	
Employer	17
Employee	20
(For both contributions on ordinary wages and contributions on additional wages, the employer's contribution rate for workers aged from above 55 to 60 is 13%; lower contribution rates apply to individuals older than age 60. The employee's contribution rate for workers aged from above 55 to 60 is 13%; lower contribution rates apply to individuals older than age 60. For employees who earn total wages of less than SGD750 per month, different rates apply.)	
Skills development levy; payable by employer for all employees; based on the first SGD4,500 of monthly gross remuneration; subject to a minimum of SGD2	0.25

#### E. Miscellaneous matters

**Foreign-exchange controls.** Singapore does not impose any restrictions on the remittance or repatriation of funds in or out of Singapore.

**Debt-to-equity ratios.** Singapore does not impose any specific debt-to-equity restrictions.

**Anti-avoidance legislation.** The tax legislation allows the Singapore Revenue to disregard or vary any arrangement that has the purpose or effect of altering the incidence of taxation or reducing or avoiding Singapore tax liability. The Singapore Revenue may also tax profits of a nonresident in the name of a resident as if the latter is an agent of the nonresident, if the profits of the resident from business dealings with the nonresident are viewed as lower than expected as a result of the close connection between the two parties.

**Transfer pricing.** Specific legislation governs the arm's-length principle to be applied to related-party transactions. The Singapore Revenue may make adjustments to the amount of income, deduction or loss of a taxpayer in cases in which the terms of commercial relations or financial relations between two related parties are not at arm's length. A 5% surcharge is imposed on transfer-pricing (TP) adjustments made for non-compliance with the arm's-length principle, effective from 2019 year of assessment.

*The Singapore Transfer Pricing Guidelines* provide guidance on the arm's-length principle and TP documentation requirements in Singapore. The guidelines on the application of the arm's-length principle are broadly consistent with the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, which endorse the arm's-length principle. Specific guidance, including a recommendation to adopt a three-step approach (conduct a comparability analysis, identify the most appropriate TP method and tested party, and determine the arm's-length results) to apply the arm's-length principle, is provided together with specific requirements relating to external benchmarking searches and the application of results.

The Singapore Revenue expects companies to maintain contemporaneous TP documentation. Effective from the 2019 year of assessment, Singapore taxpayers are required to prepare contemporaneous TP documentation, if certain conditions are satisfied, to support their transactions with related parties, unless specifically exempted. The Singapore Revenue does not require TP documentation to be submitted together with the tax returns but taxpayers have 30 days to submit the documents on the Singapore Revenue's request. Failure to prepare contemporaneous documentation or the inability of taxpayers to substantiate transfer prices may result in the imposition of penalties for noncompliance, upward adjustment, ineligibility to invoke competent authority assistance, rejection of an Advance Pricing Arrangement (APA) application and disallowance of self-initiated adjustments. The TP documentation must be organized at the group level and entity level.

*TP administration* provides information and guidance on the TP consultation program and the avoidance and resolution of TP disputes. The TP consultation process involves the Singapore Revenue selecting taxpayers based on various risk indicators and reviewing and auditing their TP methods and documentation. The guidelines also provide details on the step-by-step processes for the Mutual Agreement Procedure (MAP) and APAs, including

sample documents for the MAP and APAs. Double tax agreements provide for the MAP to resolve instances of double taxation. MAP is a dispute-resolution process used by the competent tax authorities to resolve disputes arising under the application of double tax agreements.

Discussion and guidance is also provided with respect to TP adjustments, related-party loans, services and attribution of profits to permanent establishments (PEs).

**Reporting of related-party transactions.** On 3 November 2016, the Singapore Revenue announced the introduction of a new requirement for companies to complete a “Form for reporting of related party transactions” (RPT Form), effective from the 2018 year of assessment. A company must complete the RPT Form and submit it together with the income tax return if the value of the related-party transactions, as disclosed in the audited accounts, exceeds SGD15 million for the relevant year of assessment.

**Country-by-Country Reporting.** On 16 June 2016, Singapore announced that it will join the inclusive framework for the global implementation of the Base Erosion and Profit Shifting (BEPS) Project. As a BEPS Associate, Singapore is committed to implementing the four minimum standards under the BEPS Project, which includes Action 13 on transfer-pricing documentation. As part of the proposed implementation of Action 13, Singapore will implement Country-by-Country Reporting (CbCR) for Singapore-headquartered multinational enterprises (MNEs). The Singapore Revenue has issued guidance that provides details on the CbCR requirements, which apply to Singapore tax-resident MNEs with consolidated revenue of at least SGD1,125,000,000 and have subsidiaries or operations in at least one foreign jurisdiction. CbCR is effective from the financial year beginning on or after 1 January 2017 (2017 financial year). Singapore-headquartered MNEs that are subject to CbCR requirements in foreign jurisdictions for the 2016 financial year can voluntarily file their CbC Reports in Singapore despite the CbCR requirements in Singapore becoming effective from the 2017 financial year.

On 21 June 2017, Singapore signed the Multilateral Competent Authority Agreement on exchange of CbC Reports (CbCR MCAA). The signing of the CbCR MCAA will enable Singapore to efficiently establish a wide network of exchange relationships for the automatic exchange of CbC Reports. As of 21 December 2017, the Singapore Revenue has activated bilateral Automatic Exchange of Information relationships for the exchange of CbC Reports with more than 40 jurisdictions.

**Common Reporting Standard.** Singapore is one of the jurisdictions that has committed to implement the Common Reporting Standard (CRS), an internationally agreed standard for the automatic exchange of financial account information in tax matters. On 21 June 2017, Singapore signed the CRS Multilateral Competent Authority Agreement (CRS MCAA). The signing of the CRS MCAA will enable Singapore to efficiently establish a wide network of exchange relationships for the automatic exchange of information based on CRS. As of 1 January 2018, the Singapore Revenue has concluded more than 20 bilateral CAAs. Singapore



will begin the automatic exchange of financial account information, with the first exchanges being in 2018.

**BEPS Multilateral Instrument.** On 7 June 2017, Singapore signed the OECD BEPS multilateral instrument (MLI), which seeks to facilitate the efficient updating of existing tax treaties to incorporate treaty-related measures recommended by the OECD to counter BEPS, without the need for jurisdictions to bilaterally renegotiate each tax treaty. Singapore has opted for the following provisions, among others, under the MLI:

- Statement of intent that a tax treaty is to eliminate double taxation without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (Action 6)
- Adoption of the Principal Purpose Test for tax treaties (Action 6)
- Enhancing dispute resolution (Action 14)
- Mandatory binding arbitration (Action 14)

At the point of signing the MLI, Singapore indicated provisionally that it wants to amend its double tax treaties with 68 countries by using the MLI.

### **Reorganizations**

*Amalgamations of companies.* For corporate amalgamations, a tax framework is available. This framework seeks to minimize the tax consequences arising from qualifying amalgamations and align it with the consequences provided in the Companies Act. On election, the tax treatment applies to two or more amalgamating companies and an amalgamated company in a qualifying amalgamation. Under the framework, the amalgamated company is treated as continuing the existing businesses of the amalgamating companies (and, accordingly, an acquisition of new businesses by the amalgamated company is not deemed to occur) for tax purposes.

*Deduction for acquisitions of shares of companies.* A Singapore company may claim a deduction if it and/or any one or more acquiring subsidiaries incur a capital expenditure during the period of 1 April 2010 to 31 March 2020 (both dates inclusive) in acquiring the ordinary shares in another company, subject to specified conditions. The amount of the deduction granted is 25% (5% for qualifying acquisitions made before 1 April 2015) of the capital expenditure, to be written off over five years. For this purpose, the capital expenditure is capped at SGD40 million (different caps apply for qualifying acquisitions made before 1 April 2016) for all qualifying acquisitions that have acquisition dates within one basis period. A 200% tax deduction is granted for certain transaction costs incurred on the qualifying acquisition, subject to an expenditure cap of SGD100,000 per relevant year of assessment.

**Carbon tax.** The Singapore government aims to implement a carbon tax on the emission of greenhouse gases from 2019. The expected tax rate of between SGD10 and SGD20 per ton of greenhouse gas emissions will generally be applied upstream, for example, on power stations and other large direct emitters, rather than electricity users. The final carbon tax and exact implementation scheme will be decided after public consultations and further studies.

## F. Domestic and treaty withholding tax rates

In general, withholding tax at a rate of 15% is imposed on interest and other payments with respect to loans or indebtedness paid to nonresidents. However, interest paid by approved banks in Singapore on deposits held by nonresidents is exempt from tax if the nonresidents do not have a PE in Singapore and do not carry on business in Singapore by themselves or in association with others, or if the nonresident persons carry on operations in Singapore through a PE in Singapore but do not use the funds from the operation of a PE in Singapore to make the deposit. In addition, interest paid on certain qualifying debt securities issued on or before 31 December 2018 to nonresidents who do not have a PE in Singapore is exempt from tax. This exemption also applies to nonresidents who have a PE in Singapore, but do not use the funds obtained from the operations of the PE to acquire the debt securities. Payments for arrangements, management or services relating to loans or indebtedness performed by nonresidents outside Singapore or guarantees with respect to loans or indebtedness provided by nonresident guarantors are not subject to withholding tax. Interest and qualifying payments made by banks, finance companies and certain approved entities to nonresident persons are also exempt from withholding tax during the period of 17 February 2012 through 31 March 2021 if the payments are made for the purpose of their trade or business and not with the intent of avoiding tax in Singapore.

A 10% withholding tax is imposed on the following types of payments to nonresidents:

- Royalties for the use of, or the right to use, intangible property
- Payments for the use of, or the right to use, scientific, technical, industrial or commercial knowledge or information

However, payments made to a nonresident and borne by a person resident in Singapore or a Singapore PE for use of or the right to use software, information or digitized goods, but not involving the right to commercially exploit the copyright, are not subject to withholding tax.

A 15% withholding tax is imposed on rent and other payments to nonresidents for the use of movable property. However, payments made to nonresidents (excluding PEs in Singapore) for the charter hire of ships are exempt from tax.

In general, a 17% withholding tax is imposed on payments to nonresident companies for assistance or services rendered in connection with the application or use of scientific, technical, industrial or commercial knowledge or information, and for management or assistance in the management of any trade, business or profession. If services are performed outside Singapore, such services are not subject to withholding tax.

Payers no longer need to withhold tax on the above payments that are due on or after 21 February 2014 to PEs that are Singapore branches of nonresident companies. These branches in Singapore continue to be assessed for income tax on such payments received and must declare such payments in their annual income tax returns.

Payments made to nonresident professionals for services performed in Singapore are subject to a final withholding tax of 15% on gross income, unless the nonresident professionals elect to be taxed at 22% of net income.

Double tax agreements may override the above withholding tax rules. However, if the rate under the domestic tax law is lower than the double tax agreement rate (see below), the domestic tax rate applies.

Singapore does not levy a withholding tax on dividends (see Section B).

The rates of withholding tax on interest and royalties may be reduced under the terms of a double tax agreement, and details of the rates applicable to treaty jurisdictions are set out below.

	<b>Interest</b>	<b>Royalties (i)</b>
	%	%
Albania	5 (a)	5
Australia	10	10
Austria	5 (a)	5
Bahrain	5 (a)	5
Bangladesh	10	10
Barbados	12 (a)	8
Belarus	5 (a)	5 (w)
Belgium	5 (a)	3/5 (p)
Brunei Darussalam	5/10 (a)(m)	10
Bulgaria	5 (a)	5
Cambodia (z)	10 (a)	10
Canada	15 (a)	15
China (mainland)	7/10 (a)(b)	6/10 (p)
Cyprus	7/10 (a)(b)	10
Czech Republic	0	0/5/10 (x)
Denmark	10 (a)	10
Ecuador	10 (a)	10
Egypt	15 (a)	15
Estonia	10 (a)	7.5
Ethiopia (aa)	5	5 (bb)
Fiji	10 (a)	10
Finland	5 (a)	5
France	10 (a)	0
Georgia	0	0
Germany	8 (a)	8
Guernsey	12 (a)	8
Hungary	5 (a)	5
India	10/15 (a)(c)	10
Indonesia	10 (a)	15
Ireland	5 (a)	5
Isle of Man	12 (a)	8
Israel	7 (a)	5 (q)
Italy	12.5 (a)	15/20 (t)
Japan	10 (a)	10
Jersey	12 (a)	8
Kazakhstan	10 (a)	10
Korea (South)	10 (a)	15
Kuwait	7 (a)	10
Laos	5 (a)	5
Latvia	10 (a)	7.5

	Interest %	Royalties (i) %
Libya	5 (a)	5
Liechtenstein	12 (a)	8
Lithuania	10 (a)	7.5
Luxembourg	0	7
Malaysia	10 (a)	8
Malta	7/10 (a)(b)	10
Mauritius	0 (u)	0 (u)
Mexico	5/15 (a)(d)	10
Mongolia	5/10 (a)(m)	5
Morocco	10 (a)	10
Myanmar	8/10 (a)(e)	10/15 (j)
Netherlands	10 (a)	0
New Zealand	10 (a)	5
Norway	7 (a)	7
Oman	7 (a)	8
Pakistan	12.5 (a)	10
Panama	5 (a)	5
Papua New Guinea	10 (a)	10 (a)
Philippines	10/15 (a)(r)	15/25 (k)(s)
Poland	5 (a)	2/5 (p)
Portugal	10 (a)	10
Qatar	5 (a)	10
Romania	5 (a)	5
Russian Federation	0	5
Rwanda	10 (a)	10
San Marino	12 (a)	8
Saudi Arabia	5 (a)	8
Seychelles	12 (a)	8
Slovak Republic	0	10
Slovenia	5 (a)	5
South Africa	7.5 (a)	5
Spain	5 (a)	5
Sri Lanka (cc)	10 (a)	10 (dd)
Sweden	10/15 (a)(f)	0
Switzerland	5 (a)	5 (g)
Taiwan	— (n)	15
Thailand	10/15 (a)(v)	5/8/10 (y)
Turkey	7.5/10 (a)(h)	10
Ukraine	10 (a)	7.5
United Arab Emirates	0	5 (l)
United Kingdom	5 (a)	8
Uruguay (ee)	10 (a)	5/10 (ff)
Uzbekistan	5	8
Vietnam	10 (a)	5/10 (o)
Non-treaty jurisdictions	15	10

(a) Exempt under certain specified circumstances.

(b) The rate is 7% for interest paid to banks or financial institutions.

(c) The 10% rate applies to interest paid to financial institutions. The 15% rate applies to other interest.

(d) The rate is 5% for interest paid to banks.

(e) The rate is 8% for interest paid to banks or financial institutions.

(f) The rate is 10% for interest paid by industrial undertakings to financial institutions in Sweden.

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- (g) Payments received as consideration for the use of, or the right to use, industrial, commercial or scientific equipment constitute business profits (that is, not royalties).
- (h) The rate is 7.5% for interest paid to financial institutions.
- (i) In certain circumstances, the reduced rates or exemptions do not apply to royalties for copyrights of literary or artistic works, including cinematographic films and films or tapes for radio or television broadcasting. Reference should be made to the applicable tax treaty.
- (j) The 10% rate applies to payments relating to patents, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment or information concerning industrial, commercial or scientific experience. The 15% rate applies in all other cases.
- (k) Royalties approved under the Economic Expansion Incentives (Relief from Income Tax) Act are exempt.
- (l) This rate does not apply to royalties with respect to the operation of mines or quarries or the exploitation of natural resources. A contracting state may exempt or reduce the tax on industrial royalties in accordance with its domestic laws.
- (m) The 5% rate applies if the interest is received by a bank or financial institution.
- (n) The double tax agreement between Singapore and Taiwan does not contain an interest article.
- (o) The lower rate applies to payments relating to patents, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment or information concerning industrial, commercial or scientific experience.
- (p) The lower rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
- (q) The tax rate on royalties in the recipient's country is limited to 20%.
- (r) The 10% rate applies to interest arising in the Philippines with respect to the public issuance of bonds, debentures or similar obligations.
- (s) In the case of the Philippines, the 15% rate applies to royalties paid by enterprises registered with the Philippine Board of Investments (BOI) and engaged in preferred activities. It also applies to royalties paid with respect to cinematographic films or tapes for television or broadcasting. The 25% rate applies in all other cases, except for those covered by footnote (k).
- (t) The 15% rate applies to payments relating to copyrights of scientific works, patents, trademarks, designs or models, plans, secret formulas or processes, industrial, commercial or scientific equipment or experience or information concerning industrial or scientific experience. The 20% rate applies to literary or artistic works, including cinematographic films or tapes for television or broadcasting.
- (u) The 0% withholding tax rate does not apply to persons incorporated under the International Companies Act if their income or profits are not taxed at the normal rate of corporate income tax in Mauritius or any income tax comparable thereto.
- (v) The 10% rate applies if the interest is beneficially owned by a financial institution or insurance company or if the interest is paid with respect to indebtedness arising from a sale on credit of equipment, merchandise or services.
- (w) The rate also applies to payments for the use of industrial, commercial or scientific equipment, which includes transport vehicles for cargo transportation.
- (x) The rates are three-tiered, which vary according to the nature of the payment.
- (y) The 5% rate applies to royalties paid for the use, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, or films or tapes used for radio or television broadcasting. The rate is 8% if the royalties are for the use of, or right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment.
- (z) This double tax treaty entered into force on 29 December 2017 and is effective from 1 January 2018.
- (aa) This double tax treaty entered into force on 8 December 2017 and is effective from 1 January 2018.
- (bb) The term "royalties" excludes payments of any kind received as a consideration for the use of, or the right to use, the following:
- Computer software if the payments do not constitute payments for the right to commercially exploit such computer software by reproducing, modifying or adapting the computer software for the purpose of distribution or sale or by preparing derivative works based on the computer software for the purpose of distribution or sale

- Any digital content on any media for reproduction or transmission if the payments do not constitute payments for the right to commercially exploit such digital content by reproducing, modifying or adapting the digital content for the purpose of distribution or sale or by preparing derivative works based on the digital content for the purpose of distribution or sale
- (cc) This double tax treaty entered into force on 31 December 2017 and is effective from 1 January 2018.
- (dd) Payments for computer software are royalties only if such payments are made for the right to use and exploit the copyright in the program.
- (ee) This double tax treaty entered into force on 14 March 2017 and is effective from 1 January 2018.
- (ff) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, or films or tapes used for radio or television broadcasting. The rate is 10% in all other cases.

# Sint Maarten

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On 10 October 2010, the country Netherlands Antilles, which consisted of five island territories in the Caribbean Sea (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten), was dissolved. On dissolution of the Netherlands Antilles, the islands of Bonaire, Sint Eustatius and Saba (BES-Islands) became part of the Netherlands as extraordinary overseas municipalities. Curaçao and Sint Maarten have both become autonomous countries within the Kingdom of the Netherlands. The former Netherlands Antilles tax laws remain applicable to Sint Maarten, with the understanding that references in the laws to “the Netherlands Antilles” should now read “Sint Maarten.” This chapter provides information on taxation in Sint Maarten only. Chapters on the BES-Islands and Curaçao also appear in this guide.

## A. At a glance

Corporate Income Tax Rate (%)	34.5 (a)
Capital Gains Tax Rate (%)	34.5 (a)
Branch Tax Rate (%)	34.5 (a)
Withholding Tax (%)	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10 (b)

- (a) A surtax of 15% is levied on a rate of 30%, resulting in an effective tax rate of 34.5%.
- (b) Losses incurred by certain companies during their first four years of business may be carried forward indefinitely. Losses incurred during the first six years by an entity that has the objective of engaging in a business in the shipping or aviation industry may be carried forward indefinitely. Companies under the Sint Maarten offshore tax regime may carry forward tax losses for five years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate income tax is levied on resident and nonresident entities. Resident entities are those incorporated under former Netherlands Antilles or current Sint Maarten law, even if their management is located abroad, as well as entities incorporated under foreign law, but effectively managed in Sint Maarten. For resident entities, corporate income tax is, in principle, levied on the aggregate amount of net profits earned from all sources during the entity's accounting period. Nonresident entities are subject to tax on specific Sint Maarten income items, such as profits earned through a permanent establishment and income related to real estate property in Sint Maarten, including interest derived from a mortgage on such real estate property.

**Tax rates.** The net profits earned by resident and nonresident entities, including branches of foreign entities, are subject to the standard corporate income tax rate of 34.5%. However, other rates may apply to companies qualifying for tax holidays, E-zone companies, offshore companies, tax-exempt companies, and taxed private foundations and trusts.

Withholding taxes are not imposed on remittances of profits by branches to their foreign head offices.

**Tax incentives.** Reduced tax rates and other tax incentives (tax holidays) are available to new business enterprises that engage in certain activities, including tourism and land development.

*Offshore companies.* The offshore tax regime was abolished in 2001. However, under grandfathering rules, special incentives are available for qualifying offshore companies in existence before 1 January 2002. Offshore companies are resident companies owned by nonresidents that perform their business activities abroad. Income derived by offshore companies (for example, royalty, financing, holding, portfolio investment, mutual fund, real estate and service activities) is subject to corporate income tax rates of 2.4% to 3%. For trading and service companies, offshore status may result in reduced rates. Capital gains on securities, loans, intellectual property and immovable property are exempt from corporate income tax. In addition, advance tax rulings can be obtained for determining the offshore tax status and method of calculating the tax base of offshore companies. The offshore tax rates are guaranteed through 2019.



*Tax-exempt companies.* Tax-exempt companies (TECs) are exempt from Sint Maarten corporate income tax. Only private limited liability companies incorporated under former Netherlands Antilles or current Sint Maarten law may qualify as TECs. TECs are allowed to solely or practically solely (more than 90%) engage in the extending of loans, investing in securities and deposits and licensing of intellectual and industrial property rights and similar property rights. To qualify as a TEC, a written request must be submitted to the Tax Inspector and certain conditions must be satisfied. TECs are not eligible for benefits under the Tax Arrangement between the Netherlands and Sint Maarten (effective as of 1 January 2017) or for benefits under any other double tax treaty of the former Netherlands Antilles or Sint Maarten. However, exchange-of-information provisions in this tax regulation, tax treaties and tax information exchange agreements apply to TECs. If a TEC loses its tax-exempt status, it is treated as a regularly taxed company subject to tax on its worldwide income, and it receives a tax-free step-up in basis.

*Taxable private foundations and trusts.* The corporate income tax law provides an option for private foundations and trusts to be subject to a reduced effective corporate income tax rate of 10% (including surtax). In principle, Sint Maarten private foundations and trusts are fully exempt from corporate income tax if they do not conduct an enterprise. After the option is exercised, the reduced effective rate of 10% applies for a period of at least three full fiscal years. After this three-year period, the private foundation can request that it no longer be subject to the reduced effective rate of 10%.

*Ruling policy.* Sint Maarten has an extensive advance tax ruling practice. These rulings include the following:

- Cost-plus rulings for intercompany support activities
- Minimum gross margin rulings for finance activities
- Participation exemption rulings for holding activities
- Informal capital (or cost-plus) rulings for intercompany trading activities

These rulings are usually valid for a three-year period, with an option for extension.

*Other incentives.* Sint Maarten also offers other incentives for specific activities, such as the international use of aircraft and ships and the insurance of risks outside Sint Maarten.

**Capital gains.** Under the current corporate income tax rules, in general, except for offshore companies, no distinction is made between the taxation of capital gains and the taxation of other income. All income is taxed at the applicable corporate income tax rate (34.5%). Taxation of capital gains on qualifying share interests (participation exemption) is discussed in Section C.

**Administration.** The standard tax year is the calendar year. However, on request and under certain conditions, a company may use a different financial accounting year as its tax year.

Companies must file a provisional tax return within three months after the end of the financial year. In principle, this return must show a taxable profit that is at least equal to the taxable profit shown on the most recently filed final tax return. Any tax due

must be paid at the time of filing of the provisional tax return. An extension for filing and payment with respect to the provisional tax return is not granted. On request of the company, the Tax Inspector may consent to the reporting of a lower taxable profit than the taxable profit shown on the most recently filed final tax return.

The final tax return must be filed within six months after the end of the financial year. Any difference between the tax due based on the provisional return and the tax due based on the final return must be settled at the time of the filing of the final return. On request, an extension for the filing of the final tax return can be obtained.

To ensure compliance with the rules described above, penalties may be imposed. The tax authorities may impose arbitrary assessments if the taxpayer fails to file a tax return. Additional assessments, including a penalty, may be imposed if insufficient tax is levied. A penalty of 100% of the additional tax due may be levied. Depending on the degree of wrongdoing, this penalty is normally 25% or 50%.

In general, offshore companies must file their tax returns within six months following the end of the financial year. In practice, the tax authorities do not strictly enforce this deadline for offshore companies.

**Dividends.** Sint Maarten does not levy dividend withholding tax on dividend distributions.

**Foreign tax relief.** A 100% exemption from Sint Maarten corporate income tax is available for foreign business profits. For this purpose, foreign profits are profits earned in another country through a permanent establishment or a permanent representative in the other country, or profits earned from immovable property located in a foreign country, including the rights related to the property that is part of the business activities of the taxpayer but is deemed to be part of the foreign business. If the foreign profits are derived from a business that can be considered a low-taxed portfolio investment, a reduced exemption of 70% applies.

### **C. Determination of taxable income**

**General.** Taxable profit must be calculated in accordance with “sound business practices.”

All expenses incurred with respect to conducting a business are, in principle, deductible. However, if expenses exceed normal arm’s-length charges and are incurred directly or indirectly for the benefit of shareholders or related companies, the excess is considered to be a nondeductible profit distribution (dividend). In addition, certain expenses, such as fines, penalties and expenses incurred with respect to crimes, are not deductible. Only 80% of representation expenses, as well as expenses incurred on meals, beverages, gifts, courses and seminars, is deductible.

In principle, interest expenses are deductible for tax purposes if the interest rate is determined on an arm’s-length basis. However, certain restrictions apply to the deduction of interest on loans connected to certain tax-driven transactions and intragroup

reorganizations. Under thin-capitalization rules, the deductibility of interest accrued or paid directly or indirectly to an affiliated TEC may be restricted.

**Participation exemption.** In principle, a 100% participation exemption applies for all qualifying share interests held by Sint Maarten corporate taxpayers.

In general, a shareholding qualifies for the participation exemption if it represents at least 5% of the share capital or voting power in a company or if the amount paid for the shareholding amounts to at least USD500,000. In addition, any member of a cooperative association can apply for the participation exemption.

For dividend income, additional requirements are imposed for a participation to be considered a qualifying participation. To apply the 100% exemption on dividends, either of the following conditions must be met:

- The qualifying participation is subject to a (nominal) profit tax rate of 10% (subject-to-tax clause).
- Dividends, interest or royalties received from other sources than the business of the participation do not account for 50% or more of the gross income of the participation (non-portfolio-investment clause).

The above conditions may be met on a consolidated basis. If neither of the above conditions is met, a lower participation exemption of 70% applies to dividends. The subject-to-tax clause and the non-portfolio-investment clause do not apply to the 100% participation exemption on capital gains and income received from participations that exclusively or almost exclusively hold immovable property.

Expenses that are connected with the participation, including financing expenses, are not deductible if the income is 100% tax-exempt.

**Tax depreciation.** In general, assets are depreciated using the straight-line method, with the residual value taken into consideration. The following are some of the applicable rates.

Asset	Rate (%)	Residual value (%)
Buildings	2 to 2.5	10
Office equipment	10 to 50	Nil
Motor vehicles	10 to 33	15
Plant and machinery	10	10

The rates listed above provide a general overview of the depreciation rates. The actual depreciation rate depends on the type of asset used by the company.

Fixed company assets acquired by companies operating in Sint Maarten may qualify for accelerated depreciation at a one-time maximum annual rate of 33<sup>1</sup>/<sub>3</sub>% of the acquisition costs of the assets. Fixed company assets are assets used for a business process for at least one business cycle, unless the assets are intended to be processed or sold.

An investment allowance deduction of 8% (12% for new buildings or restorations of buildings) is granted for acquisitions of fixed assets exceeding approximately USD2,800. The allowance

is deducted from taxable income in the year of the investment and in the following year. The investment allowance deduction is recaptured in the year of sale and the subsequent year if the asset is sold within 6 years (15 years for buildings) of the date of the investment.

**Groups of companies.** On written request, Sint Maarten resident companies may form a fiscal unity (tax-consolidated group) for corporate income tax purposes. To qualify for a fiscal unity, the parent company must own at least 99% of the shares in the subsidiary. A fiscal unity may include, among others, a company incorporated under Dutch law that has its place of effective management in Sint Maarten. The whole group is taxed for corporate income tax purposes as if it were one company and, as a result, the subsidiaries in the fiscal unity are no longer individually subject to corporate income tax.

Advantages for corporate income tax purposes of fiscal unity treatment include the following:

- Losses of one subsidiary may be offset against profits of other members of the fiscal unity.
- Reorganizations, including movements of assets with hidden reserves from one company to another, have no direct tax consequences for corporate income tax purposes.
- Intercompany profits may be fully deferred.

The fiscal unity does not apply for revenue tax purposes.

**Relief for losses.** Losses in a tax year may be carried forward for 10 years. No carryback is available. Losses incurred by certain companies during their first four years of business may be carried forward indefinitely. Losses incurred during the first six years by an entity that has the objective of engaging in a business in the shipping or aviation industry may be carried forward indefinitely. Companies under the Sint Maarten offshore tax regime can carry forward tax losses for five years.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Revenue tax; levied on turnover generated from goods sold and services rendered in Sint Maarten	
Standard rate	5
Real estate transfer tax	4
Import duties	0

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Sint Maarten is the Antillean guilder (ANG).

For foreign investors that obtain a foreign-exchange license from the Central Bank of Curaçao and Sint Maarten, no restrictions are imposed on the movement of funds into and out of Curaçao and Sint Maarten. In general, the Sint Maarten Central Bank automatically grants foreign-exchange licenses for remittances abroad. Residents are subject to several foreign-exchange regulations imposed by the Sint Maarten Central Bank. However, residents may

be granted nonresident status for foreign-exchange control purposes. Some reporting requirements exist for statistical purposes.

**Transfer pricing.** In general, intercompany charges should be determined on an arm's-length basis.

## F. Tax treaties

Provisions for double tax relief are contained in the tax treaty with Norway and in the Tax Arrangement between the Netherlands and Sint Maarten (effective as of 1 January 2017). Under a measure in the Tax Arrangement between the Netherlands and Sint Maarten, dividend distributions by a Dutch subsidiary to its Sint Maarten parent company are, in principle, subject to 15% Dutch dividend withholding tax or to reduced 0% Dutch dividend withholding tax if certain conditions are fulfilled. Sint Maarten does not impose withholding tax on payments from Sint Maarten to residents of other countries.

The Netherlands Antilles has entered into tax information exchange agreements with Antigua and Barbuda, Australia, Bermuda, British Virgin Islands, Canada, Cayman Islands, Costa Rica, the Czech Republic, Denmark, Faroe Islands, Finland, France, Germany, Greenland, Iceland, Italy, Mexico, New Zealand, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Spain, Sweden, the United Kingdom and the United States. As a result of the constitutional reform of the Kingdom of the Netherlands, the tax treaties entered into by the Netherlands Antilles became automatically applicable to the surviving countries, which are the legal successors of the Netherlands Antilles.

Under the latest published Organisation for Economic Co-operation and Development (OECD) list, Sint Maarten qualifies as a white-listed jurisdiction.

The government of the former Netherlands Antilles entered into bilateral agreements with the European Union (EU) member states with respect to the application of the EU Council Directive on taxation of savings income. The Sint Maarten (former Netherlands Antilles) law to implement the directive took effect in July 2006.

The Kingdom of the Netherlands has entered into many bilateral investment treaties that also apply to Sint Maarten.

Sint Maarten also signed the OECD Convention on Mutual Administrative Assistance in Tax Matters.

The Tax Arrangement between the Netherlands and Sint Maarten, which entered into force on 1 March 2016 (effective as of 1 January 2017), replaced the Tax Regulation for the Kingdom of the Netherlands.

# Slovak Republic

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*The chapter below is based on the existing law in the Slovak Republic as of 1 January 2018. Because further changes to the 2018 tax rules are possible, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	21 (a)
Capital Gains Tax Rate (%)	21 (a)
Branch Tax Rate (%)	21 (a)
Withholding Tax (%) (b)	
Dividends	0/7/35 (b)
Interest	19/35 (c)
Royalties	19/35 (d)

Income from Media	19/35 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	4 (f)

- (a) This rate applies for tax years beginning on or after 1 January 2017.
- (b) The 7% rate applies to the dividend income of individuals paid out from profits generated in tax periods beginning on or after 1 January 2017. The 35% rate applies to dividends paid out from profits generated in tax periods beginning on or after 1 January 2017 if the dividends are paid to or received from residents of non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters.
- (c) The 35% rate applies to income paid to residents of non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters. Also, see Section B.
- (d) This tax applies to nonresidents only. For resident companies, royalties are included in taxable income subject to corporate tax. The 35% rate applies to income paid to residents of non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters. The rates may be reduced by an applicable double tax treaty. Also, see Section B.
- (e) This tax applies to income received by authors (individuals) for contributions to newspapers, radio and television. It is possible for the author and the payer of the income to agree that no withholding tax be applied; in such case, the income is taxed through the tax return of the author at tax rates of 19% and 25%. The 35% rate applies to income paid to residents of non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters.
- (f) The tax loss may be carried forward proportionally during a period of four consecutive years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Slovak (resident) companies are subject to corporate income tax on their worldwide income. Slovak companies are those incorporated or having their place of management in the Slovak Republic. Foreign (nonresident) companies are subject to corporate income tax only on their Slovak-source income, such as income attributable to a permanent establishment.

Under Slovak law, a permanent establishment is a fixed place or facility for nonresidents to carry out activities in the Slovak Republic. A permanent establishment includes an administrative location, branch, office, workshop, sales location, technical facility or location for research and extraction of natural resources. The fixed place or the facility is considered to be permanent if the activities are carried out continuously or repeatedly. Repeated intermediary services related to transportation and accommodation that are rendered through a digital platform (a hardware or software platform required to create and administer applications) are also deemed to have their fixed place in the Slovak Republic. In the case of one-off activities, the place or facility is considered to be permanent if the duration of the activities exceeds six months, either continuously or divided into 2 or more periods in the course of 12 consecutive calendar months. A building site, construction site or assembly works site (as described in the Commentary to Article 5, Paragraph 3 of the Organisation for Economic Co-operation and Development [OECD] Model Tax Treaty) is regarded as a permanent establishment only if the duration of the activities performed by a tax nonresident and its related parties exceeds six months. The provision of services in the Slovak Republic by an enterprise through its employees or other personnel is considered to create a “service permanent

establishment” if the provision of services exceeds 183 days in any consecutive 12-month period. A permanent establishment also includes the activity of an agent if both of the following conditions are satisfied:

- The agent negotiates, enters into agreements, acts as an intermediary in the conclusion of contracts or plays a principal role leading to the conclusion of contracts that are routinely concluded without material modification by the enterprises.
- These contracts are concluded in the name of the enterprise, or for the transfer of the ownership of, or for the granting of the right to use, property owned by that enterprise or that enterprise has the right to use, or for the provision of services by that enterprise.

**Rates of corporate tax.** The corporate income tax rate is 21%, except for withholding tax (see Section A).

**Tax license.** A concept of a minimum tax, which is in the form of a tax license, is payable by legal persons in three different amounts, depending on the annual turnover. The following are the amounts:

- Non-value-added tax (VAT) payers with annual turnover of EUR500,000 or less: EUR480
- VAT payers with annual turnover of EUR500,000 or less: EUR960
- All legal persons with annual turnover exceeding EUR500,000, regardless of VAT status: EUR2,880

The tax license in the Slovak Income Tax Act was abolished, effective from 2018; that is, the last tax license will be paid for the 2017 calendar year or for the fiscal year ending in 2018.

**Incentives.** To promote investments, the Slovak government provides potential local and foreign investors with investment incentives that are proportionate to their activities in the Slovak Republic. The maximum limits for state aid are determined by the European Union (EU) regulations and are driven by the relative development of the country or region in which an investment project is located and the unemployment rate in that region. The limits are set as a percentage of eligible costs of an investment project.

The Slovak Republic provides the following indirect forms of incentives:

- Tax relief
- Transfer of immovable assets owned by the state or municipality at a price lower than the market price

The Slovak Republic provides the following direct forms of incentives:

- Cash grants on acquisitions of fixed assets
- Cash grants on newly created jobs
- Cash grants on training

**Tax relief.** Under the Investment Aid Act, companies may apply for a 100% tax reduction (full tax relief) for 10 consecutive tax years. The tax relief can be provided for newly established companies (new production) and also for existing companies (extension of existing production).



*Transfers of immovable assets owned by the state or municipality at a price lower than the market price.* In exceptional circumstances, as part of regional aid, the government may award a financial grant or discount from the market price with respect to a transfer of immovable assets (usually land and buildings) to investors by the state or municipalities.

*Cash grants for the acquisition of fixed assets.* Cash grants can be made for the acquisition of tangible fixed assets (for example, land, buildings, and plant and machinery) and intangible fixed assets (for example, patents, licenses, know-how or unpatented technical knowledge).

*Cash grants for newly created jobs.* Cash grants for newly created jobs are made based on the anticipated wage costs related to newly created jobs and the regional location of the project (taking into account the regional unemployment rate).

*Cash grants on training.* The amounts of cash grants for training are expressed as a percentage of eligible training costs and vary according to region (grants for the Bratislava region are lower than grants for the rest of the country) and type of training (general or specific).

*General conditions.* To qualify for investment aid, applicants must meet the general and specific conditions under the Slovak Investment Aid Act and the European legislation. The following are the general conditions:

- An applicant must submit its investment intention (plan) before the start of the projected works.
- An applicant must prove its ability to co-finance the project costs (at least 50%) through its own resources (free of any investment aid or subsidy).
- The project must be completed within three years.
- The project must comply with all conditions attached to the approval of the investment aid within three years after the issuance of the approval.
- All subsidized job positions must be filled within three years after the completion of the projects and maintained for a period of five years.
- The project operation must be maintained for a minimum period of five years from its completion without change of its location.

*Specific conditions.* The specific conditions vary according to the type of project.

The following are the specific conditions for manufacturing projects:

- Fixed assets with a total value of at least EUR10 million (lower thresholds apply in regions with high unemployment) must be acquired, and at least 50% of the value of the assets must be covered by the applicant's own resources.
- New machinery for production purposes must be acquired, and must represent at least 60% of the overall costs of the acquired assets. The machinery must be bought on arm's-length conditions, must not have been depreciated before the acquisition and must not be older than two years.
- The realization of the investment results in the creation of at least 40 new jobs.

The following are the specific conditions for technology centers:

- Fixed assets with a total value of at least EUR500,000 must be acquired, and at least 50% of the value of the assets must be covered by the applicant's own resources.
- The realization of the investment results in the creation of at least 30 new jobs.
- At least 70% of the total number of employees must have a university degree.

The following are the specific conditions for shared-service centers:

- Fixed assets with a total value of at least EUR400,000 must be acquired, and at least 50% of the assets must be covered by the applicant's own resources.
- The realization of the investment results in the creation of at least 40 new jobs.
- At least 60% of the total number of employees must have a university degree.

*Approval of the aid.* No legal entitlement to any investment aid exists. An applicant must submit an investment aid intent to the relevant authorities (that is, the Ministry of the Economy and other relevant aid providers), which review compliance with both the general and specific conditions under the Investment Aid Act. Effective from 2015, a pre-approval from the Ministry of Economy to begin the project is not needed. An applicant can begin work on the project as soon as the investment aid intent is submitted to the respective authority. If the conditions are met, the Ministry of Economy may issue an official offer to the applicant. Following receipt of the official offer, the investor may submit an investment aid application. The investment aid application is submitted to the Slovak government for approval. If the project capital expenditures exceed EUR50 million, approval of the European Commission is also required.

*Other national and local incentives.* The Slovak Republic is entitled to draw support from the Structural Funds and Cohesion Fund during the period of 2014 through 2020. Most of the funds will be drawn by public institutions (for example, municipalities, cities, nonprofit-making companies), while only a minor part will be available for businesses. The incentives available for companies are mainly focused on tourism, enhancing research and development (R&D) and employee training.

Investors may benefit from infrastructure (for example, electricity, water, gas and sewage) fully or partially financed by the state and/or municipality. The municipality may also offer minor tax exemptions (real estate tax and other local taxes). In general, most of this support qualifies as regional state aid.

Municipalities are entitled to use state budget funding for the development of industrial parks. At the predevelopment stage, investors are typically requested to sign a letter of intent with the relevant municipality. Benefiting from advantages offered by industrial parks does not, in general, qualify as state aid.

**Patent Box.** Effective from 1 January 2018, 50% of the income derived from the commercial use of certain intangible assets and embedded royalties is exempt from tax. This affects income from

compensation for the use of software, patents and utility models as well as income from the sale of products that were manufactured using patents or technical solutions protected by a utility model. To apply the income exemption in both of these cases, the intangible assets (for example, software or patents) must be the result of an R&D activity of a resident or a nonresident legal person performing the activity in the Slovak Republic through a permanent establishment.

**Capital gains.** Capital gains are subject to income tax at a rate of 21%.

Effective from 2018, the income of legal entities, Slovak tax residents or nonresidents with a Slovak permanent establishment, arising from the sale of shares may be exempted from tax if the following conditions are satisfied:

- These persons perform substantial function and manage and bear risks connected to the ownership of these shares in the Slovak Republic.
- They possess the required personal and material equipment necessary to perform these functions.
- They have a direct shareholding of at least 10% in the company, the share capital of which is being sold.
- At least 24 consecutive calendar months have passed since the shareholding was acquired. If shares were obtained before 1 January 2018, this holding qualification period begins on 1 January 2018 or on the first day of the tax year beginning after 31 December 2017, for taxpayers with a different tax year.

The exemption does not apply to income from the sale of securities and shares by securities dealers, as this represents their principal activity; nor is it available to taxpayers subject to liquidation proceedings. In addition, income arising from the sale of shares is not exempt if the company of which shares were sold has gone into liquidation, declared insolvency or had its restructuring approved.

Capital gains realized by Slovak tax nonresidents on the sale of shares of companies established in the Slovak Republic are considered Slovak-source income and are generally taxable.

**Administration.** The tax year is usually the calendar year. However, if a company informs the tax authorities in advance, it may change its tax (accounting) year.

Tax returns for each tax year must be filed within three months after the end of the tax year. The filing period may be extended by a maximum of three months based on a written announcement filed with the tax authority before the expiration of the regular filing deadline. Another extension of an additional three months is possible if the company received income from foreign sources.

In general, monthly or quarterly prepayments of tax are required, depending on the amount of tax liability for the preceding year.

**Dividends.** Profits distributed by companies to their holding companies are not subject to tax in the Slovak Republic unless either of the following circumstances exists:

- The distribution is deductible for tax purposes at the level of the subsidiary.

- The distribution is a transaction (or part of a series of transactions) that is (are) not business driven, and the purpose or one of the main purposes is to gain a tax advantage.

Effective from 2017, dividends paid out of profits generated for periods beginning on or after 1 January 2017 that are paid to or received from residents of non-treaty countries or countries that have not signed the Convention on Mutual Administrative Assistance in Tax Matters are subject to a 35% income tax. The dividend income of individuals paid out of profits generated for tax periods beginning on or after 1 January 2017 is taxed at a rate of 7% or 35%.

Special rules apply to dividends distributed out of profits realized before 2004.

**Interest and royalties.** Under Slovak law, interest and royalty payments satisfying the conditions contained in Council Directive No. 2003/49/EC are exempt from Slovak withholding tax.

**Foreign tax relief.** Under applicable double tax treaties, a foreign tax relief is available to Slovak residents for foreign tax paid on income earned abroad.

### C. Determination of trading income

**General.** Corporate tax is based on the statutory accounting profit as adjusted for certain items prescribed by the tax law.

In general, dividends are not included in the tax base.

Items that are specifically deductible for tax purposes include, among others, tax depreciation (see *Tax depreciation*) and certain expenses relating to health and safety at work and environmental protection.

Non deductible items include the following:

- Entertainment and travel allowances in excess of the statutory limits
- Penalties and fines
- Taxes paid on behalf of other taxpayers
- Damages exceeding compensation received, unless the damage arose as a result of natural disaster, or it was caused by a person or persons unknown and this is confirmed by the police
- Most accruals and provisions (see *Provisions*)
- Write-offs of debts, unless specific conditions are met

**Inventories.** Inventories may be valued using the first-in, first-out (FIFO) or average-cost methods. Costs include all costs necessary to convert the inventory to its current condition and to transport it to its current location. Shortages and damages are not tax deductible, unless the damage resulted from a natural disaster, or it was caused by a person or persons unknown and this is confirmed by the police.

**Provisions.** Accruals and provisions are generally not deductible, with certain exceptions specified by law.

Special rules apply to banks and insurance companies.

**Tax depreciation.** Under the Income Tax Act, tangible assets are divided into six categories, each of which specifies a period (a specified number of years, which range from 4 to 40) over which

all assets in the category are depreciated. Intangible assets are depreciated over their actual useful life.

It is possible to split assets and depreciate separable parts of the assets. Each separable part must have an acquisition price higher than EUR1,700, and separate evidence must be maintained. Only parts of assets specified by the Corporate Income Tax Act can be depreciated based on separate parts (for example, specific buildings and machinery).

Tax depreciation may be calculated by using either the straight-line method or the accelerated method. A company chooses the method on an asset-by-asset basis and, after the method is chosen, it cannot be changed during the depreciation period.

**Research and development.** To support entities performing research and development (R&D), the Slovak Republic provides an allowance equal to 100% of R&D costs and expenses that may be deducted from the tax base. This allowance may also include the cost of licenses for software used in performing R&D activities. In addition, the R&D allowance can be increased by 100% of the positive difference between the average of the total R&D costs for the current tax year and the preceding tax year and the average of total R&D costs for two tax years immediately preceding the current tax year.

**Relief for losses.** Companies may carry forward losses and offset them against income proportionally during a period of four consecutive years following the tax year of the loss. If the tax period is shorter than 12 months (for example, if the company changes its financial year), the tax loss that would normally be deductible is fully deductible in that tax period.

**Groups of companies.** Slovak law does not contain any provisions regarding the corporate taxation of groups in the Slovak Republic.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	
Pharmaceutical products, books and selected food products	10
Other	20
Social security contributions; imposed on monthly wages with a monthly cap on wages of EUR6,384; contributions are deductible for employers; paid by	
Employer	25.2
Employee	9.4
Health insurance contributions; imposed on monthly wages without a monthly cap; paid by	
Employer	10
Employee	4
Local taxes (tax on land, tax on buildings and apartments, and motor vehicle tax); rates vary depending on location	Various

## E. Miscellaneous matters

**Thin-capitalization rules.** Thin-capitalization rules apply to domestic and foreign related parties, effective from 1 January 2015. The maximum amount of tax-deductible interest is set at 25% of earnings before interest costs, tax, depreciation and amortization. These rules also apply to contracts signed before 1 January 2015. They do not apply to financial institutions.

**Transfer pricing.** If the price agreed between related parties differs from the usual market price and if this difference cannot be satisfactorily justified, the tax authorities may adjust the tax base to reflect the usual market price.

The transfer-pricing rules apply to personally or economically related persons, as well as to other related persons.

Persons are economically or personally related if one person participates in the ownership, control or administration of another person, if such persons are under the control or administration of the same person or a close family relative of the person, or if the same person or a close family relative of the person has a direct or indirect equity interest in the persons. Participation in ownership or control exists if the direct or indirect participation in the basic capital of, or voting rights in, one company by another company is higher than 25%. Participation in the administration is a relationship between members of statutory bodies or supervisory boards of the companies. Other relationships are defined as relationships created for the purpose of decreasing the tax base or increasing the tax loss.

Under the Slovak transfer-pricing measures, an advance ruling on the transfer-pricing method may be obtained through an agreement with the tax authorities at least 60 days before the tax year in which the transfer-pricing method will be used.

The Slovak transfer-pricing measures specify the acceptable transfer-pricing methods, which conform to the methods included in the OECD Transfer-Pricing Guidelines.

Taxpayers must provide transfer-pricing documentation within 15 days after an official request by the tax authorities.

**Tax regime for business combinations.** The Slovak Corporate Income Tax Act addresses in detail the taxation of the sale of all or part of an enterprise, the taxation of non-monetary contributions to registered capital and the taxation of mergers and divisions of companies.

The latest amendment to the Income Tax Act abolished local tax-neutral business combinations. New rules for local business combinations will apply to mergers, acquisitions or company splits, with decisive dates for tax and accounting purposes set after 1 January 2018 (that is, on 2 January 2018 at the earliest). The decisive date is the date from which the acts of a company dissolving as a result of business reorganization (for example, a merger) are considered, from an accounting and tax point of view, to be acts made on the account of successor company.

**Exit tax.** An exit tax at a rate of 21% is introduced, effective from 1 January 2018. Assets are subject to taxation if a taxpayer moves

them, with no change of ownership, to a jurisdiction outside of the Slovak Republic or if the taxpayer changes its tax residence.

The exit tax base equals the difference between the fair market value of the moved assets and their tax residual value (that is, the fiction of the sale of these assets is applied, and this difference must not be negative). The tax applies in the following circumstances, among others:

- Assets are moved from a head office in the Slovak Republic to a permanent establishment abroad.
- Assets are moved from a permanent establishment located in the Slovak Republic to a head office or other permanent establishment in another state.
- The tax residence of a taxpayer changes to a jurisdiction outside the Slovak Republic.
- A taxpayer moves an activity or part of an activity performed in Slovak Republic through a permanent establishment to another state, or a taxpayer with unlimited tax liability moves its business activity or its part of its activity to a permanent establishment abroad.

**Hybrid mismatches.** Rules against hybrid mismatches are effective from 1 January 2018. Under these rules, tax deductibility of expenses are denied in the following situations:

- The same tax expense incurred in another state has been deducted in the Slovak Republic pursuant to the Income Tax Act, as well as under the legislation of that other state (double deduction of the same expense).
- The tax expense has been applied in the Slovak Republic, but it is not taxable income included in the tax base in the Slovak Republic or in another jurisdiction (deduction without inclusion).

**Controlled foreign companies.** The rules for controlled foreign companies (CFCs) are effective from 1 January 2019. A CFC for Income Tax Act purposes is a legal person, entity or permanent establishment that satisfies both of the following conditions:

- A Slovak company or an entity has more than a 50% share of the assets, voting rights or profits of the controlled company (does not apply to a permanent establishment).
- Tax paid in the Slovak Republic on the income of this controlled company is lower than the difference between the corporate income tax that this controlled foreign company would have paid in the Slovak Republic after recalculating its tax base under Slovak law, and the tax paid by the company abroad.

If both of the above conditions are met, the company is considered a CFC and the taxpayer must carry out specific tax base arrangements.

## F. Treaty withholding tax rates

The Slovak Republic honors the bilateral tax treaties that were concluded by the former Czechoslovakia. The withholding rates under these treaties, and the treaties entered into by the Slovak Republic are listed in the following table.

In general, treaty rates apply if the recipient is the beneficial owner of the income. To obtain the benefit of the reduced treaty rates, the

beneficial owner must be in a position to provide a tax residency certificate.

In general, dividends are exempt from tax. Consequently, the treaty rates do not apply to dividends paid by Slovak companies.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Armenia	5/10 (n)	0/10 (kk)	5
Australia	15	10	10
Austria	10	0	0/5 (l)
Belarus	10/15 (d)	0/10 (c)	5/10 (l)(m)
Belgium	5/15 (d)	0/10 (s)	5
Bosnia and Herzegovina	5/15 (d)	0	10
Brazil	15	0/10/15 (c)(k)	15/25 (p)
Bulgaria	10	0/10 (c)	10
Canada	5/15 (b)	0/10 (c)	0/10 (l)
China (mainland)	10	0/10 (c)	10
Croatia	5/10 (d)	10	10
Cyprus	10	0/10 (c)	0/5 (l)
Czech Republic	5/15 (a)	0	10
Denmark	15	0	0/5 (l)
Egypt	5/15 (d)	0/12 (c)	15
Estonia	10	0/10 (c)	10
Finland	5/15 (d)	0	0/1/5/10 (l)(w)
France	10	0	0/5 (l)
Georgia	0	5	5
Germany	5/15 (d)(e)	0	5
Greece	– (x)	0/10 (c)	0/10 (l)
Hungary	5/15 (d)	0	10
Iceland	5/10 (d)	0	10
India	15/25 (d)	0/15 (c)(s)	30 (f)
Indonesia	10	0/10 (c)	10/15 (l)
Ireland	0/10 (d)	0	0/10 (l)
Israel	5/10 (b)	2/5/10 (t)	5
Italy	15	0	0/5 (l)
Japan	10/15 (g)	0/10 (c)	0/10 (l)
Kazakhstan	10/15 (cc)	0/10 (c)	10
Korea (South)	5/10 (d)	0/10 (y)	0/10 (l)
Kuwait	10	0/10 (ii)	10
Latvia	10	0/10 (c)	10
Libya	0	10	5
Lithuania	10	0/10 (c)	10
Luxembourg	5/15 (d)	0	0/10 (l)
Macedonia	5	10	10
Malaysia	0/5 (n)	0/10 (jj)	10
Malta	5 (u)	0	5
Mexico	0	0/10 (c)	10
Moldova	5/15 (d)	10	10
Mongolia (z)	0	0	0
Montenegro	5/15 (d)	10	10
Netherlands	0/10 (d)	0	5
Nigeria	12.5/15 (b)	0/15 (c)	10
Norway	5/15 (d)	0	0/5 (l)
Poland	0/5 (n)	0/10 (c)	5
Portugal	10/15 (d)	10	10
Romania	10	0/10 (c)	10/15 (r)



	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Russian Federation	10	0	10
Serbia	5/15 (d)	10	10
Singapore	5/10 (b)	0	10
Slovenia	5/15 (d)	10	10
South Africa	5/15 (d)	0	10
Spain	5/15 (d)	0	0/5 (q)
Sri Lanka	0/6/15 (h)	0/10 (o)	0/10 (i)
Sweden	0/10 (d)	0	0/5 (l)
Switzerland	0/15 (gg)	0/5 (j)	0/5/10 (hh)
Syria	5	10	12
Taiwan	10	0/10 (ff)	5/10 (l)
Tunisia	10/15 (d)	0/12 (c)	5/15 (l)
Turkey	5/10 (d)	0/10 (c)	10
Turkmenistan	10	0/10 (c)	10
Ukraine	10	10	10
United Arab Emirates	0	0/10 (ll)	0/10 (mm)
United Kingdom	5/15 (v)	0	0/10 (l)
United States (bb)	5/15 (b)	0	0/10 (l)
Uzbekistan	10	10	10
Vietnam	5/10 (dd)	10	5/10/15 (ee)
Non-treaty jurisdictions	0	19/35 (aa)	19/35 (aa)

- (a) The 5% rate applies to dividends paid to a company that owns more than 10% of the capital of the payer of the dividends.
- (b) The lower rate applies if the beneficial owner is a company that controls at least 10% of the voting power of the payer.
- (c) The lower rate applies to interest on government loans.
- (d) The lower rate applies if the recipient is a company that directly holds at least 25% of the capital of the payer of the dividends.
- (e) If the corporate tax rate in a contracting state on distributed profits is 20% lower than the corporate tax rate on undistributed profits, the withholding tax rate may be increased to 25%.
- (f) This rate also applies to fees for technical services.
- (g) The 10% rate applies if the recipient is a company that owns at least 25% of the voting shares of the payer during the six-month period immediately preceding the date of payment of the dividends.
- (h) The 15% rate applies to dividends paid by Slovak companies to Sri Lankan recipients. The 0% rate applies to dividends paid by Sri Lankan companies to Slovakian recipients, except for Sri Lankan income tax and additional tax under Sri Lanka's tax law. A maximum tax rate of 6% applies to the additional tax.
- (i) The 0% rate applies to royalties relating to copyrights and films derived from sources within one of the contracting states.
- (j) The 0% rate applies to interest paid in any of the following circumstances:
- It is paid with respect to indebtedness arising as a result of the sale on credit of equipment, merchandise or services.
  - It is paid on any type of loan granted by a financial institution.
  - It is paid to a pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement, disability and survivors' benefits, if such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of the other contracting state.
  - It is paid to the government of the other contracting state, a political subdivision or local authority thereof or the central bank of the other contracting state.
  - It is paid by a company to a company of the other contracting state if the recipient company was affiliated with the company paying the interest by a direct minimum holding of 25% in the capital for at least two years before the payment of the interest or if, for at least two years before the payment of the interest, both companies were held by a third company that held directly a minimum of 25% in both the capital of the first company and the capital of the second company.

The 5% rate applies to other interest payments.

- (k) The 10% rate applies if the recipient is the beneficial owner of the interest and if the interest is paid on a loan granted by a bank for a period of at least 10 years in connection with the sale of industrial equipment or the installation or furnishing of scientific units or public works.
- (l) The lower rate applies to cultural royalties, which are defined as the right to use copyrights of literary, artistic or scientific works, including cinematographic films.
- (m) The higher rate also applies to payments for the right to use transport vehicles.
- (n) The lower rate applies if the recipient is a company (other than a general partnership) directly holding at least 10% of the capital of the payer.
- (o) The 0% rate applies to interest paid to banking institutions, interest paid on government loans and interest paid by the government or other state institutions.
- (p) The 25% rate applies to royalties paid for trademarks.
- (q) The 5% rate applies if the royalties are taxable in Spain. Otherwise, the rate is determined in accordance with the law of the source country. The 0% rate applies to cultural royalties, except for royalties for films.
- (r) The lower rate applies to industrial royalties.
- (s) The lower rate applies to the following types of interest:
- Interest paid on commercial debt claims (including debt claims represented by commercial paper) that result from deferred payments for goods, merchandise or services supplied by an enterprise
  - Interest paid on loans made, guaranteed or insured by public entities that are intended to promote exports
  - Interest paid on current accounts or loans that are not represented by bearer instruments between banks or public credit institutions of the contracting states
  - Interest paid to the other contracting state, public subdivision or local authority
- (t) The 2% rate applies to interest on government loans. The 5% rate applies to interest paid to financial institutions.
- (u) The tax in Malta on dividends may not exceed the tax on the profits out of which the dividends are paid.
- (v) The 5% rate applies to dividends paid to a company that owns more than 25% of the voting power of the payer of the dividends.
- (w) The 1% rate applies to payments under a financial lease of equipment. The 5% rate applies to payments under an operating lease of equipment, as well as to payments for the right to use cinematographic films and software for personal computers.
- (x) Dividends may be taxed in both contracting states in accordance with the domestic laws in the states.
- (y) The 0% rate applies to interest on government loans and on loans for the purchase of goods or industrial, trade and scientific equipment.
- (z) These rates are based on a multilateral treaty, which the former Czechoslovakia entered into with the other members of the Council for Mutual Economic Assistance (Comecon or CMEA).
- (aa) See Section B.
- (bb) The lower rates apply only if the recipient is one of the following:
- An individual
  - A contracting state or a political subdivision or local authority of the state
  - A recipient engaged in the active conduct of a trade or business in the United States (other than the business of making or managing investments, unless these activities are banking or insurance activities carried on by a bank or insurance company) if the income derived from the Slovak Republic is derived in connection with, or is incidental to, that trade or business
  - A company whose principal class of shares is substantially and regularly traded on a recognized securities exchange or is wholly owned, directly or indirectly, by a resident of the company's state whose principal class of shares is substantially and regularly traded on a recognized securities exchange
  - A not-for-profit organization
  - A person who satisfies both of the following conditions:
    - More than 50% of the beneficial interest in such person is owned, directly or indirectly, by persons entitled to the lower rates according to the treaty.
    - Not more than 50% of the gross income of such person is used directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons not entitled to the lower rates according to the treaty.

- (cc) The lower rate applies if the recipient is a company that holds directly at least 30% of the capital of the payer of the dividends.
- (dd) The 5% rate applies if the recipient is a company that holds directly at least 70% of the capital of the payer of the dividends.
- (ee) The 5% rate applies to royalties paid for patents. The 10% rate applies to royalties paid for trademarks. The 15% rate applies in all other cases.
- (ff) The 0% rate applies to the following types of interest:
- Interest paid to the other contracting state, public subdivisions or local authorities with respect to loans, debt-claims or credits
  - Interest paid on loans made, guaranteed or insured by public entities that are intended to promote exports
- (gg) The lower rate applies if the recipient is one of the following:
- A company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends
  - A pension fund or other similar institution providing pension schemes in which individuals may participate in order to secure retirement, disability and survivors' benefits, if such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of the other contracting state
  - The government of the other contracting state, a political subdivision or local authority thereof or the central bank of the other contracting state
- (hh) The 0% rate applies to cultural royalties, which are defined as the right to use copyrights of literary, artistic or scientific works, including cinematographic films. The 0% rate also applies to other royalties if, for a period of at least two years before the royalty payment, the payer and recipient of the royalty were mutually connected by a direct share of at least 25% in ownership or if a third entity had a direct share of at least 25% in both the payer and recipient for a period of at least two years before the royalty payment. The 5% rate applies to industrial royalties, which are defined as the right to use a patent, trademark, design or model, plan, secret formula or process, and to consideration for information concerning industrial, commercial or scientific experience, provided Switzerland does not under its internal law levy a tax at source on royalties paid to nonresidents. The 10% rate applies to other royalties.
- (ii) The 0% rate applies to the following types of interest:
- Interest paid on loans made, guaranteed or insured by the government, a local authority or national bank of a contracting state
  - Interest paid on loans made, guaranteed or insured by institutions established according to public law whose assets are fully owned by the government of a contracting state
  - Interest paid on loans made, guaranteed or insured by Eximbank SR, Slovak Guarantee and Development Bank (Slovakia), Kuwait Investment Authority, Kuwait Petroleum Corporation, Public Institution for Social Security or the Kuwait Fund for Arab Economic Development (Kuwait)
- (jj) The 0% rate applies to the following types of interest:
- Interest paid on loans made by the government, a local authority or national bank of a contracting state
  - Interest paid on loans made by Eximbank SR, Slovak Guarantee and Development Bank and the Export-Import Bank of Malaysia Berhad
- (kk) The 0% rate applies if the interest is received from the other contracting state and beneficially owned by the government, including its administrative units, local authorities, central bank or other financial institutions owned by the government of the other contracting state or if interest is received and guaranteed by this government.
- (ll) The 0% rate applies if the interest is derived and beneficially owned by the following:
- The government of the Slovak Republic, its local authorities, the National Bank of Slovakia, the Export-Import Bank of the Slovak Republic, the Slovak Guarantee and Development Bank or the Debt and Liquidity Management Agency
  - The Central Bank of the United Arab Emirates, the Emirates Investment Authority, the Abu Dhabi Investment Authority, the International Petroleum Investment Company, the Abu Dhabi Investment Council, the Investment Corporation of Dubai, the Abu Dhabi National Energy Company, the Mubadala Development Company, the Abu Dhabi Retirement Pensions and Benefits Fund and the General Pension and Social Security Authority
  - Any other institutions that are agreed upon between the two contracting states through an exchange of letters

- (mm) The 0% rate applies if the royalties are derived and beneficially owned by the following:
- The government of the Slovak Republic, its local authorities, the National Bank of Slovakia, the Export-Import Bank of the Slovak Republic, the Slovak Guarantee and Development Bank, and the Debt and Liquidity Management Agency
  - The Central Bank of the United Arab Emirates, the Emirates Investment Authority, the Abu Dhabi Investment Authority, the International Petroleum Investment Company, the Abu Dhabi Investment Council, the Investment Corporation of Dubai, the Abu Dhabi National Energy Company, the Mubadala Development Company, the Abu Dhabi Retirement Pensions and Benefits Fund, and the General Pension and Social Security Authority
  - Any other institutions that are agreed upon between the two contracting states through an exchange of letters

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## A. At a glance

Corporate Income Tax Rate (%)	19
Capital Gains Tax Rate (%)	19
Branch Tax Rate (%)	19
Withholding Tax (%)	
Dividends	15 (a)
Interest	15 (a)
Royalties from Patents, Know-how, etc.	15 (a)
Services	15 (b)
Rentals	15 (c)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (d)

(a) This tax applies to payments to residents and nonresidents.

- (b) Specified categories of service payments (consulting, marketing, market research, human resources, legal, administrative and information technology services) are subject to a 15% withholding tax if the payments are made to persons with a head office outside the European Union (EU) and if the country of the head office is on the list published by the Ministry (list of black-listed countries).
- (c) A 15% withholding tax applies to cross-border payments for the lease of real estate located in Slovenia.
- (d) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** In general, all companies resident in Slovenia are subject to tax on their worldwide income (but see *Foreign tax relief*). A company is resident in Slovenia if it has its legal seat or effective place of management in Slovenia. Nonresident companies are subject to tax on their Slovenian-source income only (income derived from or through a permanent establishment and other Slovenian-source income subject to withholding tax).

The definition of a “permanent establishment” of a nonresident company in Slovenia generally follows the definition in the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention on Income and Capital 2010.

**Rates of corporate income tax.** The standard corporate income tax rate is 19%.

The corporate income tax rate for qualified venture capital companies is 0%, subject to specific conditions.

Investment funds that distribute 90% of their operating profits for the preceding tax year by 30 November of the current tax year are taxed at a rate of 0%.

Pension funds established in accordance with the Pension and Disability Insurance Act are taxed at a rate of 0%.

Insurance undertakings that are authorized to implement the pension scheme in accordance with the act regulating pension and disability insurance must pay tax with respect to the activities relating to such implementation at a rate of 0% of the tax base if a separate tax calculation is compiled only for this pension scheme.

**Capital gains.** Fifty percent of a capital gain from the disposal of shares is exempt from tax if certain conditions are met. The other 50% is treated as ordinary business income and is subject to tax at the regular corporate rate. However, in such circumstances, the expenses of a taxpayer are decreased by 5% of the exempt amount of capital gains. The same principle applies to capital losses (only 50% of a capital loss is deductible for tax purposes).

If a capital gain is realized from disposal of shares acquired with respect to venture capital investments in a venture capital company that is established in accordance with the act regulating venture capital companies, the total amount of such gain may be exempt from tax if the company had the status of a venture capital company for the entire tax period and if the company had the status of venture capital company for the entire period of the holding of the shares by the taxpayer. Losses incurred on the transfer of shares acquired under a venture capital scheme are not deductible for tax purposes.

**Administration.** The tax year is the calendar year. However, a company may select its financial year as its tax year if the selected year does not exceed a period of 12 months and if it informs the tax authorities regarding its selection of the tax year. The selected tax year may not be changed for a period of three years.

Annual tax returns must be filed within three months after the end of the tax year.

Companies must make advance payments of corporate income tax. Monthly advance payments of corporate income tax are required if the total amount of the advance payments exceeds EUR400, based on the tax calculated in the tax return for the preceding tax year. Companies must make quarterly advance payments if the total amount of the advance payments is less than EUR400, based on the tax calculated in the tax return for the preceding tax year. Advance payments of corporate income tax are due on the 10th day of the month following the period to which the advance tax payment relates. The balance of tax due must be paid within 30 days after the annual tax return is filed with the tax authorities. If the total amount of advance payments of corporate income tax exceeds the amount of tax due for the year, the overpaid tax is refunded to the company.

**Dividends.** In principle, dividends paid to residents and nonresidents are subject to withholding tax at a rate of 15%. The tax does not apply to dividends paid to a resident or to a permanent establishment of a nonresident if the dividend recipient informs the dividend payer of its tax number.

Measures implementing the EU Parent-Subsidiary Directive are in effect in Slovenia. Under these measures, dividend distributions are exempt from withholding tax if all of the following conditions are satisfied:

- The recipient of the dividends owns at least 10% of the equity capital or voting power of the payer of the dividends.
- The duration of the recipient's ownership in the payer is at least two years.
- The recipient of dividends is a taxable company that has one of the prescribed legal forms, is a resident of an EU member state and is a taxpayer for one of the taxes for which the common system of taxation applies.

If, at the time of payment of a dividend, the duration of ownership of the recipient is shorter than two years and all other requirements are met, a withholding tax exemption is still possible if the payer or its agent provides an appropriate bank guarantee to the tax authorities.

Dividends paid to EU/European Economic Area (EEA) residents are exempt from withholding tax if a tax credit is not available in the country of residence of the recipient.

Dividends and interest paid to EU/EEA resident pension funds, investment funds and insurance companies performing pension plans are exempt from withholding tax if a tax credit is not available in the country of residence of the recipient and if the recipient of such income is not a Slovenian branch of such persons.

Dividends received by Slovenian taxable persons are generally subject to a full participation exemption.

Expenses of an amount equal to 5% of the dividends received are not deductible for tax purposes because they are deemed to be expenses incurred with respect to the exempt dividend income.

**Foreign tax relief.** Income tax paid abroad can be credited against the final tax liability of a company if the income on which the tax has been paid abroad is included in the tax base. The foreign tax credit may not exceed the lower of the amount of foreign tax on foreign income that was paid or the amount of tax that would have been paid under Slovenian law on the foreign income if the credit had not been granted. To claim the tax credit, the taxpayer must submit appropriate documentation together with the tax return.

### C. Determination of trading income

**General.** Taxable income is based on the profits reported in the annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) or Slovenian accounting standards, which generally follow IFRS. For tax purposes, profits are adjusted, primarily for nondeductible expenses.

In general, only those expenses that are directly required for the generation of taxable revenues are allowed as deductible expenses.

The law specifies that certain expenses are not deductible, including the following:

- Incentives paid to the management board and to the board of directors
- Pecuniary penalties (fines paid to government agencies)
- Donations
- Bribes

Only 50% of entertainment expenses and fees paid to the supervisory board is deductible for tax purposes.

Interest on loans to related entities is deductible up to the amount computed by applying the acknowledged interest rate at the time of the loan approval. The Ministry of Finance publishes the acknowledged interest rate. It is possible for a taxable person to prove that a contractual interest rate exceeding the acknowledged interest rate is an arm's-length rate. The measure described in the preceding sentence applies to interest accrued after 7 June 2008 and to loan agreements entered into after January 2007.

A deduction for bad debts can be claimed if specified conditions are met.

**Inventories.** Inventories may be valued using any of the methods prescribed by the applicable accounting standards. Permissible methods include first-in, first-out (FIFO), average cost and other methods. The last-in, first-out (LIFO) method is not allowed. Inventories are measured at the lower of cost or net realizable value.

**Provisions.** The following provisions are deductible for tax purposes up to an amount equal to 50% of the provisions established in accordance with the accounting standards:

- Provisions for warranties
- Provisions for restructurings
- Provisions for expected losses from onerous contracts
- Provisions for pensions
- Provisions for termination benefits with respect to employees
- Provisions for jubilee benefits



Other provisions established based on applicable accounting standards are 100% tax deductible when they are set aside.

Specific provisions established by a bank for specific risks are deductible up to the amount prescribed by the Banking Act. Technical provisions that insurance companies are required to establish under the law are deductible up to the amount prescribed by the Insurance Act. Special provisions that are required for stockbrokerage companies are deductible up to the amount prescribed by the Financial Instruments Market Act.

**Revaluation expenses.** In general, subject to special conditions and limitations, revaluations of the following items are deductible for tax purposes:

- Receivables
- Financial assets and financial instruments measured at fair value through profit or loss
- Goodwill
- Debts, receivables, investments and cash receivables, provided that the revaluations are based on changes in the exchange rate

**Tax depreciation.** Depreciation calculated using the straight-line method is deductible for tax purposes. The tax law sets the maximum depreciation rates. The following are some of the prescribed maximum straight-line depreciation rates.

<b>Assets</b>	<b>Rate (%)</b>
Buildings, including investment property	3
Parts of buildings, including investment property	6
Equipment, vehicles and machinery	20
Parts of equipment and equipment for research activities	33.3
Computer equipment, hardware and software	50
Crops lasting several years	10
Breeding animals	20
Other investments	10

**Tax relief for investments.** A taxable person may claim a reduction of the tax base in the amount of 40% of the amount invested in equipment and intangible assets (subject to certain limitations). The reduction may not exceed the amount of the tax base, and the unused portion of the tax relief can be carried forward to the next five tax periods.

For 2010 through 2019, a special regulation applies in the region of Pomurje. Taxable persons may claim a reduction of the tax base in the amount of 70% of salaries paid to employees (under certain conditions). The reduction may not exceed the amount of the tax base. In addition, taxable persons may reduce their tax base by up to 70% of the amount invested in equipment and intangible assets, under certain conditions.

**Tax relief for research and development expenditure.** Tax relief is available for research and development (R&D) expenditure.

The tax base may be decreased by 100% of the expenditure incurred in R&D activities.

The taxable person may also carry forward the unused portion of the tax relief to the following five fiscal periods.

Such tax relief may not be granted for R&D that is financed by government funding or the EU.

Tax relief for R&D expenditure excludes the use of the tax relief for investments.

**Tax relief for the hiring of employees.** An employer who hires certain employees may claim relief in the amount of 45% of the salary of such employees for the first 24 months of employment, but not exceeding the amount of the tax base. To be eligible for the relief, all of the following conditions must be met:

- The employee must be younger than 26 years old or older than 55 years old.
- The employee must have been registered as unemployed at the Employment Service of Slovenia for more than six months before the commencement of employment.
- The employee was not employed by the employer seeking the tax relief or a related party in the past 24 months.
- Agreement is reached on an employment contract for an indefinite time period.
- The overall number of employees employed at the employer in the tax period increased.

**Hidden profit distributions.** Hidden profit distributions are non-deductible expenditures and are subject to withholding tax as deemed dividends. The following items are treated as hidden profit distributions to a shareholder owning directly or indirectly at least 25% of the capital in the payer (or controlling the payer on the basis of the contract or having influence over the payer):

- Providing assets or performing services, including the discharge of debts, without consideration or at a price that is lower than the comparable market prices
- Payments for the purchase of assets and services at a price that is higher than the comparable market prices
- Payments for assets that were not transferred or for services that were not rendered
- Interest on loans granted at an interest rate that differs from the acknowledged interest rate if the taxpayer cannot prove that an unrelated entity would have agreed to the interest rate
- Interest on loans exceeding the thin-capitalization limit (see Section E)

**Relief for losses.** Assessed tax losses may be carried forward for an unlimited time period. It is possible to use tax losses carried forward from previous years, up to a maximum of 50% of the tax base for a tax period. The right to carry forward tax losses is lost if the ownership of share capital or voting rights changes by more than 50% during a tax year, as compared to the beginning of the tax year, and if the taxpayer did not conduct any business activity for two years or the business activity was significantly changed in the two-year period before or after the change of ownership (unless the business activity was significantly changed to maintain jobs or to restore business operations).

Loss carrybacks are not allowed.

**Groups of companies.** The formation of groups of companies for tax purposes is not allowed.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	
Standard rate	22
Reduced rate	9.5
Transfer tax on immovable property	2
Motor vehicle tax	
Petrol cars	0.5 to 28 and 0 to 16
Diesel cars; rate based on the level of exhaust emissions	1 to 31 and 0 to 16
Motorcycles	1.5 to 5 and 0 to 5
Camper vans; rate based on the power of the engine	6 to 18
Water Vessel Tax; amount of the tax depends on the length of the vessel (minimum of five meters) and the power of the engine	Various
Tax on insurance premiums	8.5
Property tax; levied on premises such as buildings, parts of buildings and land	0.1 to 1.5
Social security contributions, on monthly salary	
Health insurance, paid by	
Employer	6.56
Employee	6.36
Pension and disability, paid by	
Employer	8.85
Employee	15.5
Unemployment insurance, paid by	
Employer	0.06
Employee	0.14
Maternity benefits, paid by	
Employer	0.1
Employee	0.1
Workers' compensation insurance (for occupational injuries and diseases), paid by employer	0.53

## E. Miscellaneous matters

**Foreign-exchange controls.** The official Slovenian currency is the euro (EUR).

Legal entities with their head office in Slovenia and subsidiaries of foreign commercial companies that are registered in the Court Registry in Slovenia may maintain foreign-currency accounts or foreign-currency deposit accounts at authorized banks in Slovenia. Slovenian and foreign enterprises and their subsidiaries may freely perform one-sided transfers of property to or from Slovenia. Profits may be freely transferred abroad in foreign currency.

Resident enterprises may obtain loans from nonresident enterprises in their own name and for their own account. They are required to report selected loan transactions with nonresident enterprises to the Bank of Slovenia. For this purpose, loan transactions include the following:

- Pledges of real estate and other security

- Purchases by nonresidents of accounts receivable arising from transactions between resident enterprises
- Purchases by residents of accounts receivable arising from transactions between nonresident enterprises
- Certain other transactions between resident and nonresident enterprises if the economic purpose of the transaction is effectively the granting of a loan

**Transfer pricing.** Transfer prices are determined by referring to market prices of the same or comparable assets or services charged between unrelated parties (comparable market prices). Comparable market prices are determined by one of the five methods prescribed by the OECD guidelines.

A resident or nonresident and a foreign legal entity or foreign partnership are deemed to be related parties if any of the following circumstances exist:

- The taxable person directly or indirectly holds 25% or more of the value or number of shares or equity holdings, or control over management or supervision or voting rights of the foreign person or controls the foreign person on the basis of contract or transaction terms that differ from terms that are or would in the same or comparable circumstances be agreed to between unrelated parties.
- The foreign person directly or indirectly holds 25% or more of the value or number of shares or equity holdings or control over management or supervision or voting rights of a taxable person, or controls the taxable person on the basis of contract or transaction terms that differ from terms that are or would in the same or comparable circumstances be agreed to between unrelated parties.
- The same person at the same time, directly or indirectly, holds 25% or more of the value or number of shares or holdings or participates in the management or supervision of the taxable person and the foreign person or two taxable persons or they are under the same person's control on the basis of contract or transaction terms that differ from terms that are or would in the same or comparable circumstances be agreed to between unrelated parties.
- The same natural persons or members of their families directly or indirectly hold 25% or more of the value or number of shares or holdings or control over the management or supervision of the taxable person and the foreign person or two resident entities or they are under their control on the basis of contract or transaction terms that differ from terms that are or would in the same or comparable circumstances be achieved between unrelated parties.

Taxpayers must maintain transfer-pricing documentation continuously. The transfer-pricing documentation requirements are based on the master file concept. Under this concept, which is recommended by the European Community (EC) Council and the EU Joint Transfer Pricing Forum, the transfer-pricing documentation consists of a general part and a country-specific part. If prescribed conditions are met, certain ultimate parents of global groups also must submit a Country-by-Country Report. A prescribed abstract of the documentation must be enclosed with the tax return when the tax return is filed with the tax authorities. The transfer-pricing

documentation must be archived for a period of 10 years after the year to which it relates.

The transfer-pricing rules can apply to transactions between domestic related parties in specific circumstances.

**Debt-to-equity rules.** Interest on loans from shareholders, who directly or indirectly at any time during a tax year hold at least 25% of capital or voting rights of the taxable person (with the exception of banks and insurance companies as borrowers), is deductible only if it is attributable to the part of the loan that does not exceed a specified multiple of the value of the share capital owned (debt-to-equity ratio). Loans from shareholders are also considered loans from related persons of the taxable person if the shareholder directly or indirectly at any time during a tax year holds at least 25% of shares, holdings or voting rights in the lender and the taxable person. For example, this applies to loans obtained from sister companies. For 2018, the applicable debt-to-equity ratio is 4:1.

## F. Treaty withholding tax rates

Most of Slovenia's double tax treaties follow the OECD model convention. The following table shows the withholding tax rates under Slovenia's tax treaties.

	Dividends %	Interest %	Royalties %
Albania	5/10 (a)	7 (s)	7
Armenia	5/10 (a)	0/10 (m)	5
Austria	5/15 (a)	0/5 (m)	5
Azerbaijan	8	0/8 (x)	5/10 (y)
Belarus	5	5 (t)	5
Belgium	5/15 (a)	10	5
Bosnia and Herzegovina	5/10 (a)	7	5
Bulgaria	5/10	5	5/10 (c)
Canada	5/15 (f)	0/10 (k)	10
China (mainland)	5	10	10
Croatia	5	0/5	5
Cyprus	5	5	5
Czech Republic	5/15 (a)	0/5 (b)	10
Denmark	5/15 (a)	5	5
Estonia	5/15 (a)	0/10 (b)	10
Finland	5/15 (a)	0/5 (b)	5
France	0/15 (d)	5 (b)	5
Georgia	5	0/5 (s)	5
Germany	5/15 (a)	0/5 (k)	5
Greece	10	10	10
Hungary	5/15 (a)	0/5 (k)	5
Iceland	5/15 (a)	0/5 (b)	5
India	5/15	10	10
Iran	7	0/5 (ee)	5
Ireland	5/15 (a)	0/5 (b)	5
Israel	5/10/15	0/5 (b)	5
Italy	5/15	10	5
Kazakhstan	5/15 (a)	10	10
Korea (South)	5/15 (a)	5	5
Kosovo	5/10 (cc)	0/5 (dd)	5
Kuwait	0/5 (v)	0/5 (w)	10

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Latvia	5/15 (a)	0/10 (b)	10
Lithuania	5/15 (a)	0/10 (b)	10
Luxembourg	5/15 (a)	0/5 (b)	5
Macedonia	5/15 (a)	10	10
Malta	5/15 (g)	5	5
Moldova	5/10	5	5
Netherlands	5/15 (o)	0/5 (b)	5
Norway	0/15 (r)	0/5 (e)	5
Poland	5/15 (a)	0/10 (b)	10
Portugal	5/15 (a)	0/10 (b)	5
Qatar	5	5	5
Romania	5	0/5 (b)	5
Russian Federation	10	10	10
Serbia and Montenegro (n)	5/10 (a)	0/10 (b)	5/10 (h)
Singapore	5	5	5
Slovak Republic	5/15	10	10
Spain	5/15 (a)	0/5 (b)	5
Sweden	5/15 (a)	0	0
Switzerland	0/15 (z)	5 (aa)	0/5 (bb)
Thailand	10	0/10/15 (b)(i)	10/15 (j)
Turkey	10	0/10 (b)	10
Ukraine	5/15 (a)	5	5/10
United Arab Emirates	0/5 (ff)	0/5 (l)	5
United Kingdom	0/15 (p)	0/5 (q)	5
United States	5/15 (a)	0/5	5
Uzbekistan	8	8	8
Non-treaty jurisdictions	15	15	15

- (a) The lower rate applies if the recipient of the dividends is a company that holds at least 25% of the capital of the payer of the dividends.
- (b) The 0% rate applies to interest paid to the government including local authorities or the national bank. In certain treaties, the 0% rate applies to interest paid to national export companies and other institutions, subject to additional conditions.
- (c) The lower rate applies to royalties paid for the use of, or the right to use, the following:
- Copyrights of literary, artistic or scientific works (not including cinematographic works)
  - Industrial, commercial or scientific equipment
- (d) The 0% rate applies if the recipient of the dividends is a company that holds at least 20% of the capital of the payer of the dividends.
- (e) Interest arising in a contracting state and paid to the government of the other contracting state is exempt from tax in the state of the payer. In the case of Slovenia, interest arising in Norway and paid with respect to a loan guaranteed or insured by Slovene Export and Development Bank Inc., Ljubljana on account of the Republic of Slovenia as authorized in accordance with the domestic law is exempt from tax in Norway.
- (f) For dividends paid by Slovenian companies, the 5% rate applies if the recipient of dividends holds at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends paid by Slovenian companies. For dividends paid by Canadian companies, the 5% rate applies if the recipient of dividends holds at least 10% of the voting power of the payer of the dividends. The 15% rate applies to other dividends paid by Canadian companies.
- (g) For dividends paid by Slovenian companies, the 5% rate applies if the recipient of dividends owns at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends paid by Slovenian companies. For dividends paid by Maltese companies to Slovenian resident beneficiaries, the withholding tax rate may not exceed the tax imposed on the profits out of which dividends are paid.

- (h) The 5% rate applies to royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic works, and films or tapes used for radio or television broadcasting.
- (i) The 10% rate applies to interest paid to financial institutions, including insurance companies.
- (j) The 10% rate applies to royalties paid for the following:
- The use of, or the right to use, copyrights of literary or artistic works, including motion pictures, live broadcasting, films and tapes
  - Other means for use or reproduction in connection with radio and television broadcasting
  - The use of, or the right to use, industrial, commercial or scientific equipment
- (k) Subject to additional conditions, the 0% rate applies to the following:
- Interest paid with respect to indebtedness of the government or local authorities
  - Interest paid to an entity that was established and operates exclusively to administer or provide benefits under pension, retirement or other employee benefit plans

Interest arising in Slovenia (Canada) and paid to a resident of Canada (Slovenia) is taxable only in Canada (Slovenia) if it is paid with respect to loans made, guaranteed or insured by the Export Development Corporation (Slovenian Export Company).

- (l) Interest paid by a company that is a resident of a contracting state is taxable only in the other contracting state if the beneficial owner of the interest is one of the following:
- The other state
  - Political subdivision
  - Local government
  - Local authority
  - Central bank
  - Recognized pension fund
  - Abu Dhabi Investment Authority
  - Abu Dhabi Investment Council
  - Emirates Investment Authority
  - Mubadala Development Company
  - International Petroleum Investment Company
  - Dubai World
  - Investment Corporation of Dubai
  - Any other institution created by the government, a political subdivision, a local authority or a local government of that other state that is recognized as an integral part of that government, as agreed through an exchange of letters by the competent authorities of the contracting states

Interest arising in the United Arab Emirates and paid on a loan guaranteed or insured by the Slovenian Export and Development Bank (Slovenska Izvozna in Razvojna Banka, or SID Bank) Inc. Ljubljana, on behalf of the Republic of Slovenia as authorized by the domestic law is exempt from tax in the United Arab Emirates.

- (m) The 0% applies if any of the following circumstances exists:
- The interest is paid to the government including local authorities or the national bank.
  - The payer of the interest is the government including local authorities or the national bank.
  - The interest is paid with respect to a loan made, approved, guaranteed or insured by an institution that is authorized under internal law to act as an export financing institution on behalf of the contracting state.
- (n) The tax treaty between Slovenia and the former Union of Serbia and Montenegro is expected to continue to apply to the republics of Serbia and Montenegro. The treaty does not apply to Kosovo.
- (o) The 5% rate applies if the recipient of the dividends is a company that holds at least 10% of the capital of the payer of the dividends.
- (p) The 0% rate applies if the recipient of dividends owns more than 20% of the capital voting rights of the payer of the dividends.
- (q) The 0% rate applies if either of the following circumstances exists:
- The interest is paid to the government including local authorities or the national bank.
  - The payer and the recipient are both companies and one of the companies owns directly at least 20% of the capital of the other company, or a third company that is a resident of a contracting state holds directly at least 20% of the capital of both the payer company and the recipient company.
- (r) The 0% rate applies if any of the following circumstances exists:
- The recipient of dividends owns more than 15% of the capital voting rights of the payer of the dividends.

- In the case of Norway, the beneficial owner of the dividends is a resident of Norway who is a partner in a Norwegian partnership and alone or together with the other partners holds directly at least 15% of the capital of the company paying the dividends.
  - The dividends are derived and beneficially owned by the government of a contracting state.
- (s) A 0% rate applies if any of the following circumstances exists:
- The payer of the interest is the government of a contracting state, political subdivision, local authority or central bank of such state.
  - The interest is paid to the government of the other contracting state or a political subdivision, local authority or central bank of such state.
  - The interest is paid with respect to a loan made, approved, guaranteed or insured by an institution that is authorized in accordance with internal law on insurance and financing of international business transactions.
- (t) A 0% rate applies if either of the following circumstances exists:
- The payer of the interest is the government of a contracting state, or a political subdivision, local authority or central bank of such state.
  - The interest is paid to the government of the other contracting state or a political subdivision, local authority or central bank of such state.
- (u) The lower rate applies to royalties paid for the use, or the right to use, patents, patterns, models, plans, and secret formulas or procedures or for information regarding industrial, commercial or scientific experience.
- (v) The 0% rate applies if the beneficial owner of the income is a resident of the other contracting state and is one of the following:
- The government of that contracting state or a political subdivision or local authority thereof or the central bank
  - A governmental institution created in that contracting state under public law such as a corporation, fund, authority, foundation, agency or similar entity
  - An entity established in that contracting state, all the capital of which has been provided by that contracting state or a political subdivision or local authority thereof or any governmental institution mentioned in the bullet above together with other states
- (w) A 0% rate applies if the beneficial owner of the interest is a resident of the other contracting state and is one of the following:
- The government of that contracting state, a political subdivision or local authority thereof or the central bank
  - A governmental institution created in that contracting state under public law such as a corporation, fund, authority, foundation, agency or similar entity
  - An entity established in that contracting state, all the capital of which has been provided by that contracting state or a political subdivision or local authority thereof or a governmental institution as defined in the bullet above, together with other states
- (x) A 0% rate applies if any of the following circumstances exists:
- The payer of the interest is the government of that contracting state or an administrative-territorial or political subdivision or a local authority or the central bank.
  - The interest is paid to the government of the other contracting state or an administrative-territorial or political subdivision or a local authority or the central bank.
  - The interest is paid with respect to a loan made, approved, guaranteed or insured, on behalf of the Republic of Slovenia, by the Slovenian Export and Development Bank (Slovenska Izvozna in Razvojna Banka, or SID Bank) Inc. Ljubljana, which is authorized under the domestic legislation of the Republic of Slovenia for insuring and financing international business transactions.
  - The interest is paid to the State Oil Fund of the Republic of Azerbaijan.
- (y) The lower rate applies to royalties paid for the use of, or the right use, computer software, patents, designs or models, plans, secret formulas or processes, or for information concerning industrial, commercial or scientific experience.
- (z) A 0% rate applies if the beneficial owner of the dividends is one of the following:
- A company (other than a partnership) that is a resident of the other contracting state and that holds directly at least 25% of the capital in the company paying the dividends
  - A pension scheme
- (aa) Interest arising in a contracting state and paid to a resident of the other contracting state that is the beneficial owner of the interest is taxable only in that other state to if any of the following circumstances exist:
- It is paid by the government of a contracting state, a political subdivision, a local authority or the central bank.
  - It is paid to the government of a contracting state, a political subdivision, a local authority or the central bank.



- It is paid with respect to a loan made, approved, guaranteed or insured by an institution that is authorized in accordance with internal law to insure and finance international business transactions.
  - It is paid with respect to indebtedness arising as a result of the sale on credit of equipment, merchandise or services.
  - It is paid by a bank to a bank of the other contracting state.
  - It is paid by a company to a company of the other contracting state if the recipient company is affiliated with the company paying the interest by a direct minimum holding of 25% in the capital or if both companies are held by a third company that is resident of an EU member state or Switzerland and that has directly a minimum holding of 25% in the capital of the first company and in the capital of the second company.
- (bb) Royalties paid by a company that is a resident of a contracting state to a resident of the other contracting state is taxable in only the other state if the beneficial owner is a company that is affiliated with the company paying the royalties by a direct minimum holding of 25% in the capital or if both companies are held by a third company that is resident of an EU member state or Switzerland and that has directly a minimum holding of 25% in the capital of the first company and in the capital of the second company.
- (cc) The lower rate applies if the beneficial owner is a company (other than a partnership) that holds directly at least 10% of the capital of the company paying the dividends.
- (dd) A 0% rate applies if any of the following circumstances exists:
- The payer of the interest is the government of that contracting state or a political subdivision, local authority or the central bank.
  - The interest is paid to the government of the other contracting state or a political subdivision, local authority or the central bank.
  - The interest is paid with respect to a loan made, approved, guaranteed or insured by an institution of the other contracting state on behalf of that state as authorized by a special domestic law on insuring and financing of international business transactions.
- (ee) Interest arising in a contracting state and paid to a resident of the other contracting state that is the beneficial owner of the interest is taxable only in that other state if any of the following circumstances exists:
- The interest is paid the government of the other contracting state, a political subdivision or a local authority thereof, or to the central bank of the other contracting state.
  - The interest is paid in connection with the sale on credit of industrial, commercial or scientific equipment.
  - The interest is paid in connection with the sale on credit of merchandise by one enterprise to another enterprise.
- (ff) Dividends paid by a company that is a resident of a contracting state is taxable only in the other contracting state if the beneficial owner of the dividends is one of the following:
- The other state
  - Political subdivision
  - Local government
  - Local authority
  - Central bank
  - Recognized pension fund
  - Abu Dhabi Investment Authority
  - Abu Dhabi Investment Council
  - Emirates Investment Authority
  - Mubadala Development Company
  - International Petroleum Investment Company
  - Dubai World
  - Investment Corporation of Dubai
  - Any other institution created by the government, a political subdivision, a local authority or a local government of the other state that is recognized as an integral part of that government as agreed through an exchange of letters by the competent authorities of the contracting states

Slovenia has ratified double tax treaties with Egypt, Japan and Morocco, but these treaties are not yet effective.

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*Certain amendments to the tax law have been proposed, but not yet enacted. Because of the expected changes to the tax law, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	28 (a)
Capital Gains Tax Rate (%)	22.4 (b)
Branch Tax Rate (%)	28 (a)
Withholding Tax (%)	
Dividends	20 (c)

Interest	15 (d)(e)
Royalties from Patents, Know-how, etc.	15 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (f)

- (a) The mining income of gold mining companies is taxed under a special formula, and the non-mining income of such companies is taxed at a rate of 28%. Special rules apply to life insurance companies, petroleum and gas producers and small business corporations. See Section B.
- (b) This is the effective rate for companies. See Section B.
- (c) Dividend withholding tax (DWT) was introduced, effective from 1 April 2012. Previously, a tax known as the secondary tax on companies (STC) was levied at a rate of 10%. The rate increased from 15% to 20% for dividends paid on or after 22 February 2017 (regardless of declaration date). The DWT applies to dividends declared by South African-resident companies. Certain dividends are exempt from the withholding tax, such as dividends received by South African-resident companies and public benefit organizations. A decreased rate may apply under a double tax treaty. See Section B.
- (d) Interest withholding tax at a rate of 15%, which took effect on 1 March 2015, applies to nonresidents only. Certain interest income is exempt from this withholding tax, such as interest with respect to government debt instruments, listed debt instruments and debt instruments owed by banks. A reduced rate may apply under a double tax treaty.
- (e) The 15% rate applies to royalties paid (or due and payable) on or after 1 January 2015. This withholding tax applies to nonresidents only. A reduced rate may apply under a double tax treaty.
- (f) See Section C.

## B. Taxes on corporate income and gains

**Company tax.** A residence-based tax system applies in South Africa. Companies are considered to be resident in South Africa if they are incorporated or have their place of effective management in South Africa.

South African-resident companies are taxed on their worldwide income (including capital gains).

Under complex look-through rules, the foreign operating income of nonresident subsidiaries derived from “non-business establishment” operations in foreign countries is taxed in the hands of the immediately cross-border South African-resident parent company on an accrual basis (see the discussion on controlled foreign companies [CFCs] in Section E). The income of nonresident subsidiaries with business establishments in foreign countries is generally exempt from the look-through rules. Dividends paid by foreign companies that are not CFCs are taxable unless the shareholding of the South African-resident recipient is 10% or more (see the discussion of foreign dividends in *Dividends*). The participation exemption amendment reducing the participation percentage from 20% to 10% took effect on 1 April 2012.

Nonresident companies are taxed on their South African-source income only.

**Tax rates.** The basic corporate tax rate is 28%. Branch profits tax at a rate of 28% is imposed on South African-source profits of nonresident companies.

*Secondary tax on companies and new dividend withholding tax.* The secondary tax on companies (STC) has been abolished. It was effective until 31 March 2012. STC was imposed on the company, not on the shareholders, and was regarded as a tax on income.

It was not similar to a withholding tax and consequently did not qualify for relief under dividends' articles in treaties.

The STC was replaced by a withholding tax imposed at a rate of 15% on dividends declared on or after 1 April 2012. The tax is levied on dividends declared and paid by South African-resident companies or by foreign companies listed on the Johannesburg Stock Exchange (JSE). Dividend withholding tax is a tax levied on the recipient of a dividend.

The declaring company must withhold the tax from the dividend paid and pay the tax to the South African Revenue Service (SARS) on behalf of the recipient. In the case of a listed company, a regulated intermediary withholds the tax.

Dividends are not subject to the withholding tax if any of the following circumstances, among others, exists:

- The beneficial owner is a resident company.
- The beneficial owner is a local, provincial or national government.
- The beneficial owner is a specified tax-exempt entity.
- The dividend is paid by a closure rehabilitation trust.
- The dividend is paid to an institution, board or body corporate that meets specific requirements.
- The dividend is paid to certain regulated intermediaries who in turn are liable to administer the tax on behalf of the declaring company.
- The dividend is paid by a micro business, up to ZAR200,000.
- The dividend is paid by a foreign company listed on the JSE to a nonresident beneficial owner.
- The dividend is paid to a portfolio of a collective-investment scheme in securities.
- The dividend is taxable in nature or was subject to STC.

A paying company may not withhold the dividends tax if the beneficial owner has supplied it with a written declaration stating the following:

- It is exempt from the dividends tax.
- It will inform the company when it is no longer the beneficial owner of the shares.

If the beneficial owner is a nonresident that wants to rely on a reduced dividends tax rate under a double tax treaty between South Africa and its country of residence, it must provide the company with a written declaration that the reduced rate applies and specified undertakings.

A dividend is any amount transferred or applied by a company for the benefit of its shareholders, whether by way of a distribution or as consideration for a share buyback, excluding the following:

- Amounts that result in a reduction of the contributed tax capital of the company
- Shares in the company
- An acquisition by a listed company of its own shares through a general repurchase of shares in accordance with the JSE listing requirements

STC credits that were available to a company on 31 March 2012 were carried forward into the dividend tax regime for setoff against dividends in determining the net dividend subject to the tax. The STC credit was increased by dividends received after the

introduction of the dividends tax from another company that had used its own STC credits when paying the dividends concerned and that had notified the recipient company of the amount of credits used. A company's STC credits were available for a period of three years after the introduction of the dividends tax (that is, until 31 March 2015). Effective from 1 April 2015, STC credits of a company are deemed to be nil.

**Special types of companies.** Gold mining companies may elect to have their mining income taxed under a special formula, while the non-mining income of such companies is taxed at a rate of 28%.

Petroleum and gas production is taxed in accordance with the usual provisions of the Income Tax Act, as modified by a special schedule applicable to prospecting and development expenses, as well as to farm-ins. A fiscal stability regime can be agreed to with the Minister of Finance. The tax rate is capped at a maximum of 28% for both South African-resident and nonresident companies. Dividends tax need not be withheld from dividends paid out of oil and gas income, and interest withholding tax need not be withheld from interest paid with respect to loans used to fund oil and gas exploration and post-exploration capital expenditure.

Life assurance companies are subject to special rules that separate the taxation of policyholders' and corporate funds and apply different tax rates to such items.

Small business corporations (SBCs) are taxed at the following rates on their taxable income:

- 0% on the first ZAR75,000 of taxable income
- 7% of the amount of taxable income exceeding ZAR75,000 but not exceeding ZAR365,000
- ZAR20,300 plus 21% on taxable income exceeding ZAR365,000 but not exceeding ZAR550,000
- ZAR59,150 plus 28% on taxable income exceeding ZAR550,000

To qualify as an SBC, a company must satisfy all of the following requirements:

- Its gross income for the year must not exceed ZAR20 million.
- Its shares must be held by individuals who do not hold interests in other companies (except for certain specified interests such as interests in South African-listed companies).
- Its total personal service and investment income must not exceed 20% of its gross income.
- It is not an employment entity.

**Capital gains.** Capital gains derived by resident companies are subject to capital gains tax (CGT) at an effective rate of 22.4% (80% of the normal corporate tax rate).

Resident companies are subject to CGT on capital gains derived from disposals of worldwide tangible and intangible assets.

Nonresidents are subject to CGT on capital gains derived from disposals of fixed property (land and buildings) and interests in fixed property located in South Africa, and assets of a permanent establishment located in South Africa. An interest in fixed property includes a direct or indirect interest of at least 20% in a resident or nonresident company if, at the time of disposal of the interest, 80% or more of the market value of the assets of the

company is attributable to fixed property located in South Africa that is held as capital assets.

A capital gain is equal to the amount by which the disposal proceeds for an asset exceed the base cost of the asset. A capital loss arises if the base cost exceeds the disposal proceeds. Capital losses may offset capital gains, and regular income losses may offset net capital gains. However, net capital losses may not offset regular income.

The base cost for an asset includes the sum of the following:

- The amount actually incurred to acquire the asset
- Cost of the valuation of the asset for the purposes of determining the capital gain or loss
- Expenditure directly related to the acquisition or disposal of the asset, such as transfer costs, advertising costs, costs of moving the asset from one location to another and cost of installation
- Expenditure incurred to establish, maintain or defend the legal title to, or right in, the asset
- Expenditure on improvement costs (if the improvement is still in existence)

The base cost is reduced by any amounts that have been allowed as income tax deductions. It is also reduced by the following amounts if such expenditure was originally included in the base cost:

- Expenditure that is recoverable or recovered
- Amounts paid by another person
- Amounts that have not been paid and are not due in the tax year

Inflation indexation of the base cost is not allowed.

Special rules apply to the base cost valuation of an asset acquired before 1 October 2001. Subject to loss limitation rules, in principle, a taxpayer may elect to use the market value of such asset on 1 October 2001 as the base cost of the asset (the asset must have been valued before 30 September 2004) or, alternatively, it may use a time-apportionment basis, which is determined by a formula, effectively splitting the gain between the components from before 1 October 2001 and after that date.

A disposal is defined as an event that results in, among other things, the creation, variation or extinction of an asset. It includes the transfer of ownership of an asset, the destruction of an asset and the distribution of an asset by a company to a shareholder. For CGT purposes, a company does not dispose of assets when it issues shares or when it grants an option to acquire a share or debenture in the company.

The proceeds from the disposal of an asset by a taxpayer are equal to the amount received by, or accrued to, the taxpayer as a result of the disposal less any amount that is or was included in the taxpayer's taxable income for income tax purposes. If a company makes a dividend distribution of an asset to a shareholder, it is deemed to have disposed of the asset for proceeds equal to the asset's market value.

Rollover relief is available in certain circumstances including destruction of assets and scrapping of assets.

All related-party transactions are deemed to occur at market value, and restrictions are imposed on the claiming of losses incurred in such transactions.

Corporate emigration, which occurs when the effective management of the company is moved outside South Africa, triggers a deemed disposal at market value of the assets of the company, followed by a deemed dividend in specie.

Subject to certain exceptions, disposals of equity shares in foreign companies to nonresidents are exempt from CGT if the disposing party has held at least 10% of the equity in the foreign company for at least 18 months.

**Administration.** The Tax Administration Act, which took effect on 1 October 2012, governs the administration of most taxes in South Africa.

The tax year for a company is its financial year. A company must file its annual tax return in which it calculates its taxable income and capital gains, together with a copy of its audited financial statements, within 60 days after the end of its financial year. Extensions of up to 12 months after the end of the financial year are usually granted. No payment is made with the annual return.

The tax authorities issue an official tax assessment based on the annual return. The company must pay the balance of tax due after deduction of provisional payments within a specified period after receipt of the assessment.

Companies must pay provisional tax in two installments during their tax year. The installments must be paid by the end of the sixth month of the tax year (the seventh month if the tax year begins on 1 March) and by the end of the tax year. The second payment must generally be accurate to within 80% of the actual tax for the year. A third (“topping up”) payment may be made within six months after the end of the tax year. If this payment is not made and if there is an underpayment of tax, interest is charged from the due date of the payment. A 20% penalty is charged if the total provisional tax paid for the year does not fall within certain prescribed parameters.

Tax penalties fall into two broad categories, which are non-compliance (for which penalty amounts can range between ZAR250 and ZAR16,000) and understatement (for which penalty amounts can range between 5% and 200% of the shortfall).

An e-filing system allows provisional payments and tax returns to be submitted electronically.

### **Dividends**

*South African dividends.* Dividends paid by South African-resident companies are generally exempt from mainstream tax in the hands of the recipients and, accordingly, recipients may not deduct expenses relating to the earning of these dividends, such as interest and other expenses incurred on the acquisition of their shares.

*Foreign dividends.* Foreign dividends are dividends paid by non-resident companies and headquarter companies. Most foreign dividends accruing to or received by South African residents are taxable. The following foreign dividends are exempt from tax:



- Dividends paid by a foreign company to a South African resident holding at least 10% of the equity and voting rights in the foreign company, unless the dividend paid by the foreign company is deductible for purposes of determining its tax liability in that foreign country
- Dividends paid by a CFC to a South African resident (subject to certain limitations)
- Dividends paid by a listed foreign company that are not considered distributions of assets in specie (a dividend in specie is a distribution to shareholders in a form other than cash)
- Dividends paid by a foreign company to another foreign company that is resident in the same country as the payer, unless the dividend paid by the foreign company is deductible for the purposes of determining its tax liability in that country

For foreign dividends that are not exempt, a rebate may be claimed by South African resident recipients. The rebate is limited to the amount of South African tax attributable to the foreign dividend. Any excess of the foreign tax over the allowable rebate may be carried forward for a period of seven years. The excess taxes are available for setoff against foreign-source income in subsequent years (the calculation is done on a pooled basis).

A South African resident (company or individual) holding 10% or more of the equity share capital of a nonresident company is exempt from tax on dividends received from the nonresident company with respect to those equity shares. The reduced participation rate of 10% took effect on 1 April 2012 for companies and on 1 March 2012 for individuals and applies to dividends received or accrued on or after that date.

Recipients of dividends that are not exempt are taxed on a formula basis.

*Withholding tax.* Dividend withholding tax at a rate of 20% is imposed, subject to applicable treaty rates. For further details, see *Secondary tax on companies and new dividend withholding tax*.

**Foreign tax relief.** In the absence of treaty relief provisions, unilateral relief is granted through a credit for foreign taxes paid on foreign income, foreign dividends, foreign taxable capital gains, or income attributed under the CFC rules (see Section E), limited to the lesser of the actual foreign tax liability and the South African tax on such foreign income. The credit may be claimed only if the income is from a non-South African source. Excess credits may be carried forward, but they are lost if they are not used within seven years.

A credit was previously available with respect to foreign taxes on service income from a South African source. These credits could not be carried forward. This measure has been eliminated, effective from 1 January 2016.

Foreign taxes that cannot be claimed as a tax credit can generally be claimed as a deduction from taxable income.

### C. Determination of trading income

**General.** The assessment to tax is based on taxable income determined in accordance with the Income Tax Act. Taxable income normally approximates profit calculated in accordance with

International Financial Reporting Standards, before adjustment for specific allowances and nondeductible items.

To be eligible for deduction, expenditures must be incurred in the production of income and for purposes of trade, and must not be of a capital nature.

Prepayments of insurance, rent and certain other items may not be deducted in full in the tax year of payment unless either of the following applies:

- The related service or other benefit is enjoyed within six months after the end of the tax year of payment.
- The aggregate of such expenditure is less than ZAR100,000.

Withholding tax on interest at a rate of 15% was introduced on 1 March 2015. A reduced rate of tax or exemption may apply under an applicable treaty. The treaty may reduce the rate that South Africa is allowed to charge, or even deny South Africa the right to tax interest payments. The reduced rates or exemptions under a double tax treaty do not automatically apply but require certain documentation to be submitted to the payer of the interest before payment of the interest.

**Inventories.** Inventory is valued at the lower of cost or net realizable value. Last-in, first-out (LIFO) is not an acceptable method of valuation for tax purposes. Appropriate overhead expenses must be included, in the valuation of inventory. Special rules apply to construction work in progress. Consumable stores and spare parts may be included in inventory.

#### **Tax depreciation (capital allowances)**

*Industrial plant and machinery.* New plant and machinery that is brought into use in a manufacturing or similar process by other businesses is depreciated at a rate of 40% in the first year and at a straight-line rate of 20% for the second, third and fourth years. Used machinery or plant used in such a process qualifies for a 20% allowance per year over five years. The same allowances apply to foundations for plant and machinery if they are built specifically for particular machines and have a useful life limited to the life of the relevant machine.

SBCs (see Section B) qualify for a 100% deduction of the cost of new or used plant or machinery that is first brought into use on or after 1 April 2001 in a manufacturing or similar process. For other plant or machinery of an SBC, the following allowances are granted:

- 50% in the first year of use
- 30% in the second year of use
- 20% in the third year of use

*Industrial buildings.* A 5% annual straight-line allowance is granted on the cost of the construction of, and improvements to, industrial buildings erected by a taxpayer. Purchased industrial buildings generally qualify for annual straight-line allowances on the purchase price paid, excluding the amount attributable to the land, at the following rates:

- 2% if originally constructed before 1 January 1989
- 5% if constructed during the period of 1 January 1989 through 30 June 1996

- 10% if constructed during the period of 1 July 1996 through 31 March 2000
- 5% if constructed after 1 April 2000

*Hotels.* Construction of and improvements to hotels qualify for a 5% straight-line allowance. However, capital expenditure on the internal renovation of hotels qualifies for straight-line depreciation at an annual rate of 20%.

*Urban renewal.* The cost of erection of new buildings or renovation (including extension) of old buildings in certain depressed urban areas qualifies for allowances if the building is used by the taxpayer for the taxpayer's own trade or is leased for commercial or residential purposes. If the building is new or significant extensions are made to an existing building, the allowance is 20% in the year of first occupation and 8% per year for the following 10 years. If a building is renovated and if the existing structural or exterior framework is preserved, the allowance is 20% per year for five years.

*Renewable energy plant and machinery.* Effective from 1 January 2016, costs incurred with respect to the acquisition and construction of plant and machinery used in the generation of renewable energy qualify for allowances (based on certain criteria) at the following rates:

- 50% in the first year of use
- 30% in the second year of use
- 20% in the third year of use

*Other commercial buildings.* An allowance of 5% of the cost is generally available on commercial buildings not qualifying for any of the above allowances.

*Wear-and-tear allowance for movables.* An annual "wear-and-tear" tax depreciation allowance on movable items may be calculated using the declining-balance method or the straight-line method, but the straight-line method is generally preferred by the revenue authority. The allowance may be claimed based on the value (generally the cost) of movable non-manufacturing machinery and equipment used by the taxpayer for the purposes of its trade. Rates for the wear-and-tear allowance are not prescribed by statute, but certain periods of depreciation are generally accepted by the tax authorities. The following are some of the acceptable periods of straight-line depreciation.

<b>Asset</b>	<b>Years</b>
Aircraft (light passenger, commercial and helicopters)	4
Computers (mainframe)	5
Computers (personal computers)	3
Computer software (mainframes)	
Purchased	3
Self-developed	1
Computer software (personal computers)	2
Furniture	6
Passenger cars	5
Heavy duty trucks	3

Apportionment of the wear-and-tear allowances is required for assets acquired during the course of a year.

Any asset costing ZAR7,000 or less may be written off in the year of acquisition of the asset.

*Special capital allowances.* Subject to the approval of the Minister of Science and Technology, the cost of developing and registering patents, designs, copyrights or similar property, and related know-how and of discovering novel scientific and technological information qualifies for a 150% deduction in the year in which the costs are incurred.

The acquisition cost of patents, copyrights and similar property (other than trademarks) and of related know-how is deductible at a rate of 5% per year. The cost of designs is deductible at a rate of 10% per year.

The cost of goodwill and trademarks (acquired on or after 1 January 2004) is not depreciable for tax purposes.

Deductions with respect to restraint of trade payments are allowed over the period of restraint, with a minimum period of three years.

A 10% annual allowance is granted for the cost of new and unused pipelines used for transportation of natural oil, gas and refined products.

A 5% annual allowance is granted for the following:

- Water pipelines and electrical lines
- Railway lines used for the transportation of persons, goods and other items

Other special capital allowances are provided for expenditures on ships and aircraft, hotel equipment, scientific research, employee housing, plant and machinery of small business corporations (see Section B), aircraft hangars, aprons, runways and taxiways, and solar, wind and tidal equipment for the generation of electricity, as well as for certain capital expenditures for mining and agriculture, which are deductible in full against mining and agricultural income.

*Recapture.* The amount of tax depreciation claimed on an asset may be recouped (recaptured) when the asset is sold. In general, the amount recouped is the excess of the selling price over the tax value, but it is limited to the amount of tax depreciation claimed.

**Groups of companies.** Companies in a group may not share their tax losses with other profitable companies in the group.

Special rules provide income tax and CGT relief for transactions between 70%-held group companies and between shareholders and their companies. These transactions include the following:

- Asset-for-share transactions
- Amalgamation transactions
- Substitutive share-for-share transactions (this is a transaction between a person and a company in which the person disposes of an equity share in the form of a linked unit in the company and acquires an equity share other than a linked unit in the company)
- Intragroup transactions
- Unbundling transactions
- Transactions relating to the liquidation, winding up and deregistration of companies

**Relief for losses.** Tax losses may not be carried back but may be carried forward indefinitely, provided there is trading in every tax year.

Foreign tax losses may be offset against foreign income only. If a foreign tax loss exceeds foreign income, the excess may be carried forward to offset foreign income in future years for an unlimited period.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, levied on supply of a wide range of goods and services	
Standard rate	14
Disposals of going concerns and certain exports	0
Skills development levy, on remuneration	1
Securities transfer tax (stamp duty); levied on the transfer of listed and unlisted securities	0.25

#### E. Miscellaneous matters

**Foreign-exchange controls.** Measures were introduced in the 1960s to stem the outflow of capital from South Africa and to ensure a measure of stability in currency markets.

Permission must be obtained from the South African Reserve Bank (SARB) for the remittance of management fees. Royalties are freely remittable if the license agreement has been approved by the SARB (see *Debt-to-equity rules*). South African companies raising loan financing offshore must obtain the authorization of the SARB regarding the terms and conditions. Foreign-equity investments are not restricted but share certificates must be endorsed “nonresident” by the SARB.

**Debt-to-equity rules.** The tax law includes measures that counter thin capitalization by adjusting both the interest rate and the amount of a loan based on arm’s-length principles. These measures previously contained a debt-to-equity ratio safe harbor of 3:1. However, the tax authorities have moved away from this ratio to require each company to consider its debt-equity mix on an arm’s-length basis. In certain circumstances, the thin-capitalization rules do not apply to headquarter companies. In addition, new legislation further limits deductions to an amount determined by a formula. This amount roughly equals 40% of taxable income (with adjustments largely intended to match cash flow, subject to a ceiling of 60%). The new limitation applies from 1 January 2015.

**Transfer pricing.** The South African tax law includes transfer-pricing provisions, which are based on the internationally accepted principles of transfer pricing. These provisions allow the South African tax authorities to treat any term or condition of a cross-border related-party transaction differently, but only to the extent that the term or condition differs from those that would exist between unrelated parties. In addition, exchange control regulations discourage unreasonable pricing by requiring that many

foreign contracts, such as license agreements, be approved by the Department of Trade and Industry before payment is allowed.

**Anti-avoidance legislation.** In addition to transfer-pricing rules (see *Transfer pricing*), South African law contains general anti-avoidance provisions that target “impermissible tax avoidance arrangements.” Broadly, an impermissible tax avoidance arrangement is an arrangement that seeks to achieve a tax benefit as its sole or main purpose and was entered into in a manner that would not normally be employed for bona fide business purposes, lacks commercial substance or misuses or abuses other provisions of the tax law. The SARS has wide powers in determining the tax consequences of an impermissible tax avoidance arrangement.

**Personal service companies.** The interposition of a corporate entity (personal service company) to disguise employment income does not prevent the imposition of employee withholding tax on fees earned. These companies are taxed at a rate of 28% and may claim only certain deductions, such as salaries, legal expenses, bad debts, contributions by the employer to pension and provident funds and medical aids, tax depreciation, rental expenses, finance charges, insurance, repairs, and fuel and maintenance for assets. The expenses with respect to premises and assets are allowed as deductions only if they are incurred wholly or exclusively for purposes of trade.

**Controlled foreign companies.** Legislation regulates the taxation of certain income of CFCs. Key aspects of the legislation are described below.

Net foreign income, including capital gains, derived by a CFC may be attributed proportionately to any South African-resident beneficial owner of the CFC (other than a headquarter company) that has an interest of 10% or more in the CFC. The net foreign income is calculated using South African tax principles, but generally ignoring passive income flows between CFCs in a 70%-held group.

A company is considered to be a CFC if more than 50% of the participation or voting rights of the company is held directly or indirectly by South African residents. In determining whether a company is a CFC, the participation rights and voting rights of a headquarter company (see *Headquarter companies*) are ignored. In addition, for a foreign listed company or a collective-investment portfolio, any person who holds less than 5% of the participation rights of the foreign company is deemed not to be a resident unless connected parties hold more than 50% of the participation rights or voting rights of the company. The CFC attribution rules do not apply to a resident if the resident (together with any connected person) holds less than 10% of the participation rights and voting rights.

A CFC's income is not attributed to a South African resident to the extent that the income is effectively connected to a business operation carried on through a “foreign business establishment” (FBE). In broad terms, an FBE is a fixed place of business that is suitably equipped with on-site operational management, employees, equipment and other facilities for the purpose of conducting

the primary operations of the business and that is used for a bona fide business purpose and not for tax avoidance (the place of business may be located elsewhere than in the CFC's home country). Several anti-avoidance exceptions exist with respect to the measure described in this paragraph. Also, if the tax payable to a foreign government equals at least 75% of the tax liability that would have arisen in South Africa, no income needs to be imputed into the resident's taxable income.

See Section B for information regarding foreign attributable tax credits and carryforward rules.

**Headquarter companies.** The headquarter company regime was introduced to encourage foreign companies to use South Africa as their base for investing in Africa. Broadly, headquarter companies are exempt from withholding taxes on dividends, interest and royalties.

A headquarter company is a South African-resident company that has elected to be treated as a headquarter company and that satisfies all of the following conditions:

- Each shareholder (alone or together with its connected persons, whether resident or nonresident) holds 10% or more of the equity shares and voting rights in the headquarter company.
- At least 80% of the cost of the headquarter company's assets (excluding cash) is attributable to investments in equity shares, loans or advances and intellectual property in nonresident companies in which at least a 10% equity interest is held.
- If the gross income of the company exceeds ZAR5 million, at least 50% of that gross income must consist of rentals, dividends, interest, royalties, service fees received from foreign companies, or proceeds from the sale of equity shares or intellectual property in such foreign companies.

A headquarter company must submit an annual report to the Minister of Finance.

The CFC imputation rules do not apply to headquarter companies, unless 50% or more of its shares are held by South African residents. As a result of this concession, the net income of the headquarter company's foreign subsidiaries is not taxed in its hands, but in the hands of the ultimate shareholders if they are South African residents.

Headquarter companies are also exempt from the transfer-pricing and thin-capitalization rules if they on-lend loan proceeds received from their offshore shareholders to their foreign subsidiaries in which they hold at least 10%. The transfer-pricing rules also do not apply to back-to-back royalties under licenses from nonresidents.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the withholding rate under domestic tax law.

	Dividends (a) %	Interest (b) %	Royalties (c) %
Algeria	10/15 (s)	0/10 (aa)	10 (e)
Australia	0/15 (vv)	0/10 (aa)	10
Austria	5/15 (l)	0	0

	<b>Dividends (a)</b>	<b>Interest (b)</b>	<b>Royalties (c)</b>
	%	%	%
Belarus	5/15 (l)	5/10 (bb)	5/10 (pp)
Belgium	5/15 (l)	0/10 (cc)	0 (e)
Botswana	10/15 (s)	0/10 (gg)	10 (e)
Brazil	10/15 (s)	0/15 (dd)	10/15 (j)
Bulgaria	5/15 (l)	0/5 (ee)	5/10 (i)
Cameroon (rr)	10/15 (s)	0/10 (aa)	10
Canada	5/15 (t)	10	6/10 (e)(f)
Chile	5/15 (l)	5/15 (ww)	5/10 (xx)
China (mainland)	5	0/10 (gg)	7/10 (e)(g)
Congo (Democratic Republic of)	5/15 (l)	0/10 (gg)	10 (e)
Croatia	5/10 (m)	0	5 (e)
Cyprus	5/10 (k)	0	0 (e)
Czech Republic	5/15 (l)	0	10 (e)
Denmark	5/15 (l)	0	0 (e)
Egypt	15	0/12 (hh)	15 (e)
Ethiopia	10	0/8 (ii)	20 (e)
Finland	5/15 (t)	0	0 (e)
France	5/15 (t)	0	0 (e)
Germany	7.5/15 (n)	10 (ff)	0 (c)
Ghana	5/15 (t)	5/10 (jj)	10 (e)
Greece	5/15 (l)	0/8 (ii)	5/7 (h)
Hong Kong SAR	5/10 (t)	10	5 (e)
Hungary	5/15 (l)	0	0 (e)
India	10	0/10 (gg)	10 (e)
Indonesia	10/15 (w)	0/10 (gg)	10 (e)
Iran	10	5	10 (e)
Ireland	5/10 (k)	0	0 (e)
Israel	20	15	0/15 (d)
Italy	5/15 (l)	0/10 (gg)	6 (e)
Japan	5/15 (x)	0/10 (gg)	10 (e)
Kenya	10	10	10
Korea (South)	5/15 (l)	0/10 (gg)	10 (e)
Kuwait	0	0	10 (e)
Lesotho	10/15 (w)	10	10 (e)
Luxembourg	5/15 (l)	0	0 (e)
Malawi	20	15	0/15 (c)
Malaysia	5/15 (l)	0/10 (gg)	5
Malta	5/10	0/10 (gg)	10 (e)
Mauritius	5/10 (t)	10	5 (e)
Mexico	5/10 (k)	0/10 (kk)	10
Mozambique	8/15 (o)	0/8 (ii)	5
Namibia	5/15 (l)	10	10
Netherlands	5/10 (k)	0	0
New Zealand	5/15 (l)	0/10 (gg)	10
Nigeria	7.5/10 (r)	0/7.5 (ll)	7.5 (e)
Norway	5/15 (l)	0	0 (e)
Oman	5/10	0	8
Pakistan	10/15 (w)	0/10 (gg)	10 (e)
Poland	5/15 (l)	0/10 (gg)	10
Portugal	10/15 (y)	0/10 (gg)	10
Qatar (ss)	5/10 (k)	10	5
Romania	15	15	15
Russian Federation	10/15 (z)	0/10 (gg)	0
Rwanda	10/20 (u)	0/10 (gg)	10



	<b>Dividends (a)</b>	<b>Interest (b)</b>	<b>Royalties (c)</b>
	%	%	%
Saudi Arabia	5/10 (k)	5	10
Seychelles	5/10 (k)	0	0
Singapore	5/10 (k)	7.5	5 (e)
Slovak Republic	5/15 (l)	0	10
Spain	5/15 (l)	5 (mm)	5 (e)
Swaziland	10/15 (s)	0/10 (gg)	10 (e)
Sweden	5/15 (t)	0	0 (e)
Switzerland	5/15 (q)	5	0
Taiwan	5/15 (t)	10	10 (e)
Tanzania	10/20 (v)	0/10 (gg)	10
Thailand	10/15 (s)	0/10/15 (nn)	15
Tunisia	10	0/5/12 (oo)	10
Turkey	10/15 (s)	0/10 (gg)	10
Uganda	10/15 (s)	0/10 (gg)	10 (e)
Ukraine	5/15 (q)	0/10 (gg)	10
United Arab Emirates (tt)	5/10 (k)	10	10 (e)
United Kingdom	5/10/15 (p)	0	0 (e)
United States	5/15 (t)	0	0 (e)
Zambia	—	—	—
Zimbabwe (uu)	5/10 (m)	5	10 (e)
Non-treaty jurisdictions	20	15	15

- (a) Effective from 1 April 2012, dividends are subject to withholding tax in South Africa at a standard rate of 15%, unless reduced by tax treaties as shown in the table above.
- (b) Interest withholding tax at a rate of 15%, which is effective from 1 March 2015, applies to nonresidents only.
- (c) In general, royalties are exempt from withholding tax if they are subject to tax in the recipient's country. Otherwise, the rate is 12% until 31 December 2014, and 15%, effective from 1 January 2015. These rates may be reduced by tax treaties as shown in the table above.
- (d) In general, royalties are exempt if they are subject to tax in Israel. Otherwise, the rate is in accordance with South African domestic law, as discussed in footnote (c). Therefore, the treaty rate of 25% is not used.
- (e) The rate applies only if the recipient is the beneficial owner of the royalties.
- (f) The 6% rate applies to royalties paid for copyrights of literary, dramatic, musical or other artistic works (excluding royalties with respect to motion picture films, works on film or videotape or other means for use in connection with television broadcasting), as well as for the use of, or the right of use, computer software, patents or information concerning industrial, commercial or scientific experience (excluding information provided in connection with a rental or franchise agreement). The 10% rate applies to other royalties.
- (g) The 10% rate applies to royalties paid for copyrights of literary, artistic or scientific works, including cinematographic films, tapes, discs, patents, know-how, trademarks, designs, models, plans or secret formulas. The 10% rate applies to the "adjusted amount" of royalties paid (that is, 70% of the gross amount of royalties) for industrial, commercial or scientific equipment. This effectively provides a 7% rate on the gross royalties paid.
- (h) The 5% rate applies to royalties paid for copyrights of literary, artistic and scientific works. The 7% rate applies to royalties paid for patents, trademarks, designs, models, plans or secret formulas, as well as for industrial, commercial or scientific equipment.
- (i) The 5% rate applies to royalties paid for copyrights of cultural, dramatic, musical or other artistic works or for industrial, commercial and scientific equipment. The 10% rate applies to other royalties.
- (j) The 15% rate applies to royalties paid for the use of trademarks. The 10% rate applies to other royalties.
- (k) The 5% rate applies if the beneficial owner is a company that owns at least 10% of the shares. The 10% rate applies to other dividends.
- (l) The 5% rate applies if the beneficial owner is a company that owns at least 25% of the shares. The 15% rate applies to other dividends.

- (m) The 5% rate applies if the beneficial owner is a company that owns at least 25% of the shares. The 10% rate applies to other dividends.
- (n) The 7.5% rate applies if the beneficial owner is a company that owns at least 25% of the shares or voting power. The 15% rate applies to other dividends.
- (o) The 8% rate applies if the beneficial owner is a company that owns at least 25% of the shares. The 15% rate applies to other dividends.
- (p) The 5% rate applies if the beneficial owner is a company that owns at least 10% of the shares. The 15% rate applies to qualifying dividends paid by a property investment company that is a resident of a contracting state. The 10% rate applies to other dividends.
- (q) The 5% rate applies if the beneficial owner is a company that owns at least 20% of the shares. The 15% rate applies to other dividends.
- (r) The 7.5% rate applies if the beneficial owner is a company that owns at least 10% of the shares or voting power. The 10% rate applies to other dividends.
- (s) The 10% rate applies if the beneficial owner is a company that owns at least 25% of the shares. The 15% rate applies to other dividends.
- (t) The 5% rate applies if the beneficial owner is a company that owns at least 10% of the shares. The higher rate applies to other dividends.
- (u) The 10% rate applies if the beneficial owner is a company that owns at least 25% of the shares. The 20% rate applies to other dividends.
- (v) The 10% rate applies if the beneficial owner is a company that owns at least 15% of the shares. The 20% rate applies to other dividends.
- (w) The 10% rate applies if the beneficial owner is a company that owns at least 10% of the shares. The 15% rate applies to other dividends.
- (x) The 5% rate applies if the beneficial owner is a company that owns at least 25% of the voting shares of the company paying the dividends during the six-month period immediately before the end of the accounting period for which the distribution of profits takes place. The 15% rate applies to other dividends.
- (y) The 10% rate applies if the beneficial owner is a company that owns at least 25% of the shares for an uninterrupted period of two years before the payment of the dividend. The 15% rate applies to other dividends.
- (z) The 10% rate applies if the beneficial owner is a company that owns at least 30% of the shares in the company paying the dividends, and holds a minimum direct investment of USD100,000 in that company. The 15% rate applies to other dividends.
- (aa) The 0% rate applies to government institutions and unrelated financial institutions. The 10% rate applies in all other cases.
- (bb) The 5% rate applies to banks or other financial institutions. The 10% rate applies in all other cases.
- (cc) The 0% rate applies to commercial debt claims, public financial institutions or public entities under a scheme for the promotion of exports, loans and deposits with banks and interest paid to the other contracting state. The 10% rate applies in all other cases.
- (dd) The 10% rate applies to government institutions. The 15% rate applies in all other cases.
- (ee) The 0% rate applies to government institutions. The 5% rate applies in all other cases.
- (ff) The 10% rate applies to government institutions.
- (gg) The 0% rate applies to government institutions. The 10% rate applies in all other cases.
- (hh) The 0% rate applies to government institutions. The 12% rate applies in all other cases.
- (ii) The 0% rate applies to government institutions. The 8% rate applies in all other cases.
- (jj) The 5% rate applies to banks. The 10% rate applies in all other cases.
- (kk) The 0% rate applies to government institutions and interest paid on loans or credits for periods of no less than three years that are granted, guaranteed or insured by a financial or credit institution that is wholly government-owned.
- (ll) The 0% rate applies to government institutions. The 7.5% rate applies in all other cases.
- (mm) The 5% rate applies to government institutions and interest paid on long-term loans (seven years or more) granted by banks or other credit institutions that are resident in a contracting state.
- (nn) The 0% rate applies to government institutions. The 10% rate applies to financial institutions (including insurance companies). The 15% rate applies in all other cases.
- (oo) The 0% rate applies to government institutions. The 5% rate applies to banks. The 12% rate applies in all other cases.

- (pp) The 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment, or transport vehicles. The 10% rate applies in all other cases.
- (qq) The exemption of royalties from tax in a contracting state if they are taxable in the other contracting state does not apply to an amount paid with respect to the operation of a mine, oil well or quarry or any other extraction of natural resources.
- (rr) The treaty entered into force on 13 July 2017 and is effective from 1 January 2018.
- (ss) The treaty entered into force on 23 November 2016 and is effective from 1 January 2017.
- (tt) The treaty entered into force on 11 February 2016 and is effective from 1 January 2017.
- (uu) The treaty entered into force on 1 December 2016 and is effective from 1 February 2017.
- (vv) The 0% rate applies if the dividend is paid out of profits that have borne the normal rate of company tax and if the beneficial owner is a company that owns at least 10% of the shares. The higher rate applies to other dividends.
- (ww) The 5% rate applies to interest on loans from banks and insurance companies, bonds and securities traded on a recognized securities market and credit sales of machinery or equipment if the seller is the beneficial owner of the items. The 15% rate applies in all other cases.
- (xx) The 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment. The 10% rate applies in all other cases.

South Africa has ratified comprehensive tax treaties with Gabon, Germany (renegotiated) and Sudan, as well as a protocol to an existing comprehensive tax treaty with Brazil.

South Africa is currently negotiating comprehensive tax treaties with Cuba, the Isle of Man (limited treaty), Morocco, Senegal, Syria and Vietnam, as well as protocols to existing comprehensive tax treaties with Austria, Belgium, Germany, Ireland, Kuwait, Luxembourg, Mozambique, the Netherlands, Norway, Swaziland, Switzerland and Thailand, but these instruments have not yet been signed.

South Africa is currently renegotiating tax treaties with Malawi, Namibia and Zambia, but the renegotiated treaties have not yet been signed.

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### A. At a glance

Corporate Income Tax Rate (%)	10/20/25 (a)
Capital Gains Tax Rate (%)	10/20/25 (a)(b)
Branch Tax Rate (%)	10/20/25 (a)(c)
Withholding Tax (%)	
Dividends	10 (d)(e)
Interest	10 (d)(e)
Royalties	10 (d)
Rent	20 (d)(e)
Technical Fees	10 (e)(f)
Government Contracts	20 (d)(e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) For details regarding these rates, see Section B.  
 (b) Capital gains are recognized as business income, while capital losses are recognized as business losses.  
 (c) The taxation of a branch is similar to that of a company or subsidiary.  
 (d) This withholding tax applies to payments to both residents and nonresidents.  
 (e) This is considered to be a final tax.  
 (f) This withholding tax applies only to payments to nonresidents.

### B. Taxes on corporate income and gains

**Corporate income tax.** Business organizations pay South Sudan corporate income (business profits) tax. Business organizations are organizations that are required to be registered under the provisions of the Taxation Act except for insurance companies and individuals.

A resident taxpayer is a company, partnership or other entity that is established in South Sudan or that has its place of effective management in South Sudan. Taxable profit for a resident taxpayer is the taxable profit from South Sudan and foreign sources.

**Corporate tax rates.** The corporate income tax rates range from 10% to 25%, depending on the level of turnover. The following are the rates for resident and nonresident companies.

Type of business	Annual turnover (SSP)*	Tax rate (%)
Small business enterprises	Up 1,000,000	10
Medium business enterprises	From 1,000,000 to 30,000,000	20
Large business enterprises	Above 30,000,000	25

\* The exchange rate for the South Sudanese pound (SSP) against the US dollar (USD) was SSP118.8534 = USD1 as of September 2017.

To encourage industrial growth and attract foreign investment, certain incentives are available to certified investors under the Investment Promotion Act of 2009.

**Capital gains.** Capital gains are recognized as business income, while capital losses are recognized as business losses.

**Administration.** The tax period is the calendar year. The law does not allow for a change of the tax period from the calendar year.

A company must make payments for each quarter by 15 April, 15 July, 15 October and 15 January. The payments are estimated on a current year or prior year basis. The tax balance, if any, must be paid by 1 April of the following year. A company must file the tax return on or before 1 April of the year following the tax year.

Late filing of a return results in a penalty of 5% of the tax reportable on the return per month, up to a maximum of 25% of the tax reportable. Late payment of tax results in a penalty of 5% per month until the tax is paid. The interest rate payable on late payment of tax is published annually by the Directorate of Taxation and is 120% of the prime commercial rate (this is the average rate that commercial banks in South Sudan charge other banks and financial institutions).

**Dividends and interest.** A 10% withholding tax is imposed on payments of dividends and interest. This tax is deemed to be a final payment of tax.

**Foreign tax relief.** Tax paid by resident taxpayers that derive profits from business activities outside South Sudan through permanent establishments is allowed as a foreign tax credit if the jurisdiction (country) in which the permanent establishment is located allows similar treatment for tax paid in South Sudan.

Relief for foreign taxes paid will also be granted in accordance with tax treaties with other countries. However, South Sudan has not yet signed any tax treaties.

### C. Determination of business profits

**General.** Business profit is accounting income adjusted for certain non-taxable income and nondeductible expenses, such as

depreciation. Expenses are deductible if incurred wholly and exclusively in the production of income.

Representation costs are all costs related to the promotion of the business or its products. These are allowed as deductible expenses, up to a maximum of 2% of gross income.

**Inventories.** The normal accounting basis of the lower of cost or net realizable value is generally accepted for tax purposes.

**Bad debts.** Bad debts are allowable deductions if they meet the stipulated conditions contained in the Taxation Act.

**Tax depreciation.** Depreciation charged in the financial statements is not deductible for tax purposes. It is replaced by the following tax depreciation allowances.

Asset class	Description	Rate (%)	Method
Category 1	Buildings and other structures	10	Straight line (a)
Category 2	Vehicles, office equipment and computers	33	Reducing balance (b)
Category 3	All other property	25	Reducing balance (b)

(a) The initial cost for buildings and other structures includes taxes, duties and interest attributable to the property before they are placed in service.

(b) Expenditure on property in Categories 2 and 3 of less than SSP1,000 is allowed as a current expense.

Amounts expended on repair, maintenance or improvement of a category of capital assets are allowed as deductions, up to a maximum of 5% of the written-down value of that category of capital assets.

**Relief for losses.** Business losses can be carried forward for up to five successive tax periods and may be claimed as a deduction against any income in those years.

**Groups of companies.** The income tax law does not permit consolidated returns combining the profits and losses of affiliated companies or the transfer of losses from loss companies to profitable members of the same group of companies.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Sales tax; on the production and importation of goods into South Sudan and on the supply of specified services	
General rate	18
Social security scheme	8/17
(The country has not yet set up a national social security scheme. However, deductions of 8% from wages and employer contributions of 17% of wages are required.)	

## E. Miscellaneous matters

**Foreign-exchange controls.** The Bank of South Sudan imposes certain foreign-exchange controls. In December 2015, the fixed

exchange rate regime was phased out and a free-market exchange rate regime was introduced.

**Transfer pricing.** The arm's-length price should be determined under the comparable uncontrollable price method. If this is not possible, the resale-price method or the cost-plus method can be used.

**Debt-to-equity rules.** No debt-to-equity ratio restrictions are imposed.

## **F. Tax treaties**

South Sudan has not yet signed double tax treaties with other countries.

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (b)
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	19 (c)
Interest	19 (d)
Royalties from Patents, Know-how, etc.	24 (d)
Branch Remittance Tax	19 (e)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

(a) Other rates apply to specific entities. See Section B.

(b) Certain capital gains are exempt from tax or are subject to tax at a reduced rate. See Section B.

(c) See Section B.

(d) Certain interest and royalties are exempt from tax. See Section B.

(e) Exceptions may apply to this rate. See Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Corporate tax is imposed on the income of companies and other entities and organizations that have a separate legal status. Resident entities are taxable on their worldwide income. The following entities are considered to be resident entities:

- An entity incorporated under Spanish law
- An entity having its legal headquarters in Spain or its effective place of management in Spain

In addition, the tax authorities may presume that an entity resident in a tax haven or in a country with no income taxation is tax resident in Spain if any of the following circumstances exist:

- The majority of its assets is directly or indirectly located in Spain.
- A majority of its rights may be exercised in Spain.
- The principal activity of the entity is carried out in Spain.

The above measure does not apply if business reasons justify the effective performance of operations and exercise of management in such foreign jurisdiction.

Nonresident entities are taxable only on Spanish-source income, which includes income from any kind of business activity conducted in Spain through a branch, office or other permanent establishment. Nonresident companies or individuals must appoint a fiscal representative if they are conducting business activities in

Spain through a permanent establishment (exceptions apply) or if certain other specified circumstances occur.

**Tax rates.** The general tax rate for residents and nonresidents that conduct business activities in Spain through a permanent establishment is 25%.

Newly incorporated entities carrying out business activities are taxed at a rate of 15% in the first fiscal year in which the entity has a positive tax base and in the following year, regardless of the amount of the tax base. However, this special tax rate does not apply in certain cases, such as the following:

- Newly incorporated entities carrying out economic activities previously carried out by related entities
- Newly incorporated companies belonging to a group of companies
- Entities qualifying as passive entities (*entidades patrimoniales*), which are entities that have more than 50% of their assets constituted by shares or other assets not linked to a business activity

In addition to other tax benefits, companies licensed to operate in the Canary Islands Special Zone (Zona Especial Canaria, or ZEC) are subject to a reduced tax rate of 4% if certain conditions are satisfied. This reduced rate applies up to a maximum amount of taxable income, equaling the lesser of the following:

- The ratio of income derived from qualified ZEC transactions with respect to total income
- The amount resulting from the sum of the following amounts:
  - EUR1, 800,000 for those entities within the ZEC that fulfill the minimum job creation requisites (that is creation of three or five jobs annually, depending on the island)
  - An additional EUR500,000 for each job created exceeding the minimum job creation requirements, up to 50 jobs

The tax reduction resulting from the application of the above rule (this reduction is calculated by comparing the corporate income tax paid to the tax that would have been due under the general corporate income tax rate) cannot be greater than the following:

- 17.5% of the ZEC entity's turnover for an entity in the industrial sector
- 10% of the ZEC's entity's turnover for an entity in a different sector

Specific tax rates apply to, among others, non-governmental organizations, charities, certain cooperatives, investment fund entities meeting certain requirements and financial institutions.

In general, nonresidents operating in Spain without a permanent establishment are taxable at a rate of 24%. This tax rate is reduced to 19% for income derived by European Union (EU) or European Economic Area tax residents in a jurisdiction with which an effective exchange of tax information agreement is in place. Nonresidents without a permanent establishment that operate in Spain and that are resident in an EU member state and that can prove that their expenses are directly linked to their Spanish-source income and have a "direct and fully inseparable nexus" with the activity performed in Spain may deduct any expenses allowed by the following:

- The Personal Income Tax Law, as provided in Law 36/2006, 28 November (this law also refers to the Corporate Income Tax Law to determine the net tax base in the case of economic activities), if they are individuals
- The Corporate Income Tax Law (27/2014), if they are legal entities

Dividends and interest received by nonresidents are subject to a final withholding tax of 19%. As a result of a change in the Spanish Personal Income Tax Law, share premium distributions made to non-Spanish resident shareholders may be treated as dividend distributions instead of a return of basis and therefore subject to withholding tax under the general rules.

The tax rate applicable to income from reinsurance operations is 1.5%. A 4% tax rate applies to Spanish-source income generated by companies resident abroad operating ships and aircraft in Spain.

Interest income is exempt from tax if the recipient is resident in an EU member state (or if the recipient is an EU permanent establishment of a resident in another EU member state) that is not on the Spanish tax haven list. Interest paid to nonresidents on Spanish Treasury obligations is exempt from tax. Income derived by nonresidents without a permanent establishment in Spain from bonds issued in Spain by nonresidents without a permanent establishment in Spain and from bank accounts is exempt from tax in Spain.

Distributions by Spanish subsidiaries to parent companies in EU member states that are not on the Spanish tax haven list are exempt from withholding tax if the parent company owns directly or indirectly at least 5% of the subsidiary for an uninterrupted period of at least one year and if certain other requirements are met. The one-year holding period requirement may be satisfied at the date of the distribution or subsequent to such date. An anti-avoidance provision applies in situations in which the ultimate shareholder is not an EU resident.

Royalties paid to associated EU resident companies or permanent establishments are exempt from tax in Spain if specific conditions are met.

In addition to nonresident income tax at a rate of 25%, nonresidents operating in Spain through a permanent establishment are subject to a branch remittance tax at a rate of 19%, unless one of the following exemptions applies:

- Branches of EU resident entities, other than tax-haven residents, are exempt from the tax.
- A branch can be exempt from tax if Spain and the country of residence of its head office have entered into a double tax treaty that does not provide otherwise and grants reciprocal treatment.

**Patent Box Regime.** Under the Patent Box Regime, a 60% exemption is granted for net income derived from the licensing of certain qualifying intellectual property (IP). Such income is considered only in the proportion of the amount resulting from the application of a specified ratio. The following are the rules for calculating the ratio:

- The numerator consists of the expenses incurred by the licensing entity that are directly related to the creation or development of the IP, including those incurred from outsourcing to unrelated third parties in this regard. These expenses are increased by 30%, subject to the limit of the amount included in the denominator.
- The denominator consists of the expenses incurred by the licensing entity that are related to the creation of the IP, including those related to the outsourcing and, if applicable, the acquisition of the IP.

Under the regime, expenses with respect to works related to the development of the IP that are subcontracted to related parties are included in the denominator, but not the numerator. Therefore, to the extent that the works related to the development of the IP are subcontracted to related parties, the reduction is less than 60% (that is, the lower the numerator in comparison with the denominator, the lower the percentage of reduction).

This exemption also applies to the income from the transfer of the qualifying IP.

To qualify for the exemption, the following requirements must be met:

- The licensee must use the licensed IP assets in an economic activity. This use cannot result in the sale of goods or provision of services to the licensor that generates deductible expenses for the licensor if the licensor and the licensee are related parties.
- The licensed entity must not be resident in a no-tax or black-listed jurisdiction.
- If any additional services are included in the licensing agreement, the consideration for such services must be included separately in the agreement.
- Accounting books for determining the income and direct expenses with respect to the licensed assets must be maintained. Income to be reduced is considered net of depreciation and of expenses directly related to such asset in the relevant period.

*Transitory regime.* The regulation provides for a transitory regime for pre-July 2016 licensing agreements. The taxpayer needs to select the option on the tax form corresponding to the 2016 fiscal year.

For licensing agreements entered into before 29 September 2013, the licensing entities may opt to continue applying the original Spanish Patent Box Regime, which entered into force on 1 January 2008.

For licensing agreements entered into from 30 September 2013 to 30 June 2016, the licensing entities may opt for applying the Spanish Patent Box Regime in accordance with the law in force from 1 January 2015.

These transitory regimes will remain applicable until 30 June 2021. After this date, the amended Spanish Patent Box Regime will be the only applicable regime.

In addition, gains derived from the sale of the IP assets made from 1 July 2016 to 30 June 2021 may also benefit from the application of the reduction in accordance with the law in force as of



1 January 2015. The option should be made in the tax form corresponding to the period in which the assets are sold.

**Capital gains.** Spanish law generally treats capital gains as ordinary income taxable at the regular corporate tax rate.

Capital gains realized by nonresidents without a permanent establishment in Spain are taxed at a rate of 19%. Capital gains on movable property, including shares, are exempt from tax if the recipient is resident in an EU country that is not on the Spanish tax haven list, unless the gains are derived from the transfer of shares and any of the following circumstances exists:

- The company's assets directly or indirectly consist primarily of Spanish real estate.
- For an EU shareholder who is an individual, he or she has held at least a 25% interest in the Spanish company at any time during the prior 12 months
- For an EU shareholder that is a legal person, it has not held a minimum ownership percentage of 5% or its acquisition cost was less than EUR20 million and a one-year minimum holding period in the subsidiary has not been met.

If a nonresident that does not have a permanent establishment in Spain disposes of Spanish real estate, a 3% tax is withheld by the buyer from the sale price, with certain exceptions. The tax withheld constitutes an advance payment on the final tax liability of the seller.

Capital gains derived by nonresidents without a permanent establishment in Spain from the reimbursement of units in Spanish investment funds or from the sale of shares traded on a Spanish stock exchange are exempt from tax in Spain if the seller is resident in a jurisdiction that has entered into a tax treaty with Spain containing an exchange of information clause.

**Administration.** The tax year is the same as the accounting period, which may be other than a calendar year. The tax year may not exceed 12 months. The tax return must be filed within 25 days after six months following the end of the tax year. In April, October and December of each calendar year, companies and permanent establishments of nonresident entities or individuals must make payments on account of corporate income tax or nonresidents income tax, respectively, equal to one of the following:

- Eighteen percent of the tax liability for the preceding tax year.
- An amount calculated by applying 19/20 (for entities with net turnover of more than EUR10 million) or 5/7 (for entities with net turnover not exceeding EUR10 million) of the corporate income tax rate (that is, 24% or 17%, respectively, if the corporate tax rate is the general rate of 25%) to the profits for the year as of the end of the month preceding the date of the payment and then subtracting from the result tax withheld from payments to the company and advance payments of tax previously made. This alternative is compulsory for companies with turnover of more than EUR6 million in the immediately preceding tax year.
- For taxpayers with net turnover of more than EUR10 million in the immediately preceding tax year, a minimum interim payment of 23% of the taxpayer's accounting result after taxes (regardless of eventual applicable book-to-tax adjustments and the

pending application of a tax-loss carryforward), reduced by the amount of previous payments on account corresponding to the same fiscal year. As a result, for taxpayers with net turnover of more than EUR10 million, the interim payment is the higher of the following:

- 24% to the profits (tax base) for the year as of the end of the month preceding the date of the payment, reduced by the tax withheld from payments to the company and advance payments of tax previously made
- 23% of the positive accounting profit for the year as of the end of the month preceding the date of the payment, reduced by tax withheld from payments to the company and advance payments of tax previously made

*Statute of limitations.* Although the Spanish tax law provides that the statute of limitations period is four years, the Corporate Income Tax Act provides that tax losses and tax credits may be subject to tax audit for a period of 10 years from the tax year of generation. It also contains provisions enabling the tax auditors to review transactions implemented in statute-barred years if they produce effects in non-statute barred periods.

**Participation exemption regime and foreign tax relief.** The exemption method may be used to avoid double taxation on dividends received from Spanish-resident and non-Spanish resident subsidiaries and on capital gains derived from transfers of shares issued by such companies if the following requirements are met:

- At the time of the distribution of the dividend or the generation of the capital gain, the Spanish company has owned, directly or indirectly, at least 5% of the share capital of the resident or non-resident company for an uninterrupted period of at least one year or the acquisition cost of the subsidiary exceeds EUR20 million. Up to 2014, for a foreign portfolio holding company (*entidades de tenencia de valores extranjeros* or ETVE; see *Foreign portfolio holding company regime*), investments over EUR6 million qualified for the participation exemption rules. Under a transitional regime, investments made by ETVEs before 1 January 2015 that meet the EUR6 million threshold but do not meet the EUR20 million requirement qualify for the participation exemption regime. For dividends, the one-year period can be completed after the distribution. In addition, the time period in which the participation is held by other group entities is taken into account for purposes of the computation of the one-year period.
- For foreign companies only, a minimum level of (nominal) taxation of 10% is required under a foreign corporate tax system similar to Spain's corporate tax system. This requirement is considered to be met if the subsidiary is resident in a country that has entered into a double tax treaty with Spain containing an exchange-of-information clause.
- The foreign company is not resident in a country identified by the Spanish tax authorities as a tax haven.

The new Spanish Corporate Income Tax Act eliminates the so-called "business activity test," commonly referred to as the 85/15 rule. However, the potential impact of the new controlled foreign company (CFC) rules (see Section E) need to be taken into account because capital gains derived from the transfer of shares may not benefit from the participation exemption regime if the

subsidiary has registered CFC income in excess of certain thresholds. In addition, a new anti-hybrid measure prevents the application of the participation exemption if the dividend constitutes a deductible expense for the payer.

If the exemption method does not apply, a tax credit is allowed for underlying foreign taxes paid by a subsidiary on the profits out of which dividends are paid and for foreign withholding taxes paid on dividends.

For medium-size and large taxpayers (with revenue exceeding EUR20 million in the immediately preceding year), the tax credit is limited to 50% of the gross tax liability, but the unused credit may be carried forward indefinitely.

The credit method (see below) and exemption method cannot be used with respect to the same income. Tax credits granted under the credit method may be carried forward indefinitely.

A tax credit is available for resident entities deriving foreign-source income that is effectively taxed abroad. Such credit is equal to the lesser of the following:

- The Spanish corporate tax payable in Spain if the foreign income had been obtained in Spain
- The tax effectively paid abroad on the foreign-source income (in accordance with applicable double tax treaty provisions)

**Foreign portfolio holding company regime.** A special tax regime applies to companies that have foreign portfolio holding company (*entidades de tenencia de valores extranjeros* or ETVE) status. ETVEs are ordinary Spanish companies engaged in the administration and management of participations in the equity of nonresident entities. ETVEs may also be engaged in other activities. In addition to the general exemption for dividends and capital gains derived from shares in qualifying foreign companies as described in *Participation exemption regime and foreign tax relief*, an ETVE benefits from certain other tax advantages, including the following:

- No withholding tax is imposed on distributions made by ETVEs out of reserves derived from tax-exempt foreign-source dividends and capital gains to nonresident shareholders who are not tax-haven residents.
- Capital gains derived by foreign shareholders of ETVEs from transfers of shares in ETVEs are not taxed to the extent that the capital gain corresponds to qualifying exempt dividends and gains (realized or unrealized) derived at the ETVE level if the shareholder is not resident in a tax haven.

### C. Determination of taxable income

**General.** Taxable income is the company's gross income for the tax year, less certain deductions. It is determined from the annual financial statements prepared under Spanish generally accepted accounting principles (Spanish GAAP), as adjusted under certain statutory tax provisions. Spanish GAAP follows several criteria contained in International Financial Reporting Standards (IFRS).

In general, all necessary expenses incurred in producing income during the year and depreciation on income-producing property may be deducted from gross income to arrive at taxable income.

Certain items are not deductible from gross income, such as the following:

- Penalties and fines.
- Corporate income tax payments.
- Gifts and donations (gifts to customers are deductible up to an amount equal to 1% of a company's turnover).
- Expenditures for the improvement or enhancement of capital assets.
- Amounts directly or indirectly remunerating own equity (for example, dividends and other payments made by entities in favor of their shareholders).
- Expenses related to services carried out by persons or entities that are resident in a listed tax haven, unless the taxpayer can prove that the expense relates to an effectively performed transaction.
- Depreciation charges that exceed the maximum rates prescribed by law, unless it can be demonstrated that the rates used correspond to the actual depreciation incurred.
- Interest expenses on intragroup financing related to the acquisition (or equity increase) of a participation in group entities, unless valid business reasons for such transactions are proven.
- Losses from foreign permanent establishments, unless the permanent establishment is transferred or closed down. In the event that the permanent establishment is closed down, the losses may be reduced by the amount of previous exempt income.
- Capital losses derived from the sale of a permanent establishment.
- Losses from members of Temporary Business Alliances (Uniones Temporales de Empresas) operating abroad, unless the interest is transferred or the relevant Temporary Business Alliance is closed down.

Deduction of losses derived from the impairment of tangible assets, intangible assets (including goodwill), real estate assets and shares of subsidiaries is deferred until they are sold to third parties or, if they are depreciated, during their useful life.

Deduction of losses arising from the transfer of tangible assets, intangible assets, real estate assets and debt securities between entities in the same group of companies (as defined by Article 42 of the Commercial Code) is deferred until the earliest of the following periods:

- The period in which the assets are further written off by the buyer
- The period in which the buyer resells the assets to a third party outside the group of companies
- The period in which the seller or the buyer leaves the group of companies

For depreciable assets, the deduction is claimed during their useful life.

Deduction of tax losses derived from the sale of shares in subsidiaries in which the buyer is a company of the same group of companies as the seller is deferred until the shares are resold to a third party outside the group or until the buyer or the seller leaves the group of companies. However, such deferred tax losses are deductible only with respect to the sale of non-qualifying participations (see *Participation exemption regime and foreign tax*

*relief* in Section B); in the case of nonresident subsidiaries, they must also meet the 10% minimum taxation requirement. In addition, the tax losses may be reduced by the exempt gains recognized by the related-party buyer on the sale to a third party outside the group.

Capital losses derived from the sale of qualifying participations are not deductible.

Capital losses derived from the sale of non-qualifying participations may be deductible, but reduced by the amount of exempt dividends received since 2009 and by the amount of exempt gains recognized by a related-party seller in the purchase by the Spanish company.

The deduction of losses derived by the dissolution of subsidiaries may be reduced by exempt dividends recognized in the preceding 10 years.

**Recapture of losses.** Write-downs of participations deducted before 2013 must be recaptured in a maximum period of five years beginning in 2016, or in a shorter period if the value of the subsidiary is recovered in a shorter time period or if the participation is sold before the end of the five-year period.

The Spanish head office is not allowed to apply the participation exemption regime on profits of the branch abroad until profits do not exceed the amount of branch losses deducted before 2013.

In the case of a sale of a permanent establishment, the taxpayer's tax base must be increased by an amount equal to the positive difference between the negative income generated by the permanent establishment before 1 January 2013 and the positive income generated by the permanent establishment after 1 January 2013, up to the amount of the capital gain derived from the sale.

**Capitalization reserve.** Taxpayers may reduce their tax base by an amount equal to 10% of the increase of their net equity in a given year if they book a non-distributable reserve corresponding to the tax base reduction and keep it in their balance sheet for five fiscal years.

The reduction is calculated as 10% of the difference between the net book value of the company at the beginning of the year (excluding the preceding year's accounting result) and the net book value at the end of the financial year after deducting negative adjustments, up to a maximum limit of the positive taxable base before the utilization of any tax loss carryforward. Any amount exceeding this limit will be carried forward to the following two years.

**Hybrid instruments.** The new Spanish Corporate Income Tax Act introduces certain amendments to anti-abuse rules in accordance with the Organisation of Economic Co-operation and Development (OECD) Base Erosion Profit Shifting (BEPS) project. In this regard, a special anti-abuse provision for hybrid instruments prevents the deductibility of expenses incurred in transactions with related parties in which as a result of different tax characterizations, any of the following circumstances would exist:

- Income would not be subject to tax.

- No income would be generated to the counterparty.
- The income would be subject to a nominal tax rate below 10%.

In addition, intra-group profit-sharing loans are characterized as equity instruments for Spanish tax purposes. Consequently, interest expenses derived from profit-participating loans are not tax deductible for the borrower. In line with such treatment, interest income derived from intra-group profit-sharing loans qualifies as a dividend that is exempt for the lender under the participation exemption regime (see Section B).

**Inventories.** The corporate tax law does not prescribe permissible methods for the valuation of inventory. Consequently, any valuation method allowed under the Spanish accounting rules may be used for tax purposes. Weighted average price is the generally accepted method, but first-in, first-out (FIFO) is also accepted. A common method is required with regard to inventories of the same nature and use.

**Provisions.** Provisions that are properly recorded are generally tax-deductible except for those specified by law.

**Depreciation.** All fixed or movable tangible assets (except land) that are owned by and used in the trade or business of a company are depreciable if their useful life exceeds a tax year. Intangible assets, such as patents, may be amortized during their useful life if they depreciate and have a limited and clearly defined useful life. Intangible assets whose useful life cannot be estimated reliably are amortized at an annual rate of 10%.

Goodwill is amortized at an annual rate of 5%.

Under certain conditions, Spanish-resident entities may amortize for tax purposes the financial goodwill embedded in shares of qualified foreign subsidiaries with respect to the following acquisitions:

- Acquisitions carried out before 21 May 2011 in non-EU countries if it can be proven that cross-border mergers cannot be accomplished
- Other acquisitions carried out before 21 December 2007

The amortization of financial goodwill is set at a maximum rate of 5%.

Depreciation methods are restricted to the straight-line method and the declining-balance method. The straight-line method may be used for any depreciable asset. The declining-balance method may be used only for certain new tangible assets (industrial and farming machinery, vehicles, information systems and so forth) that have an anticipated useful life of three years or more.

The basis for depreciation is the acquisition price of assets purchased by the company or the manufacturing cost of assets manufactured by the company. The acquisition price includes all related costs, such as customs duties, transportation costs and installation expenses.

Maximum depreciation rates for tax purposes are fixed by law. The following are general straight-line rates and periods of depreciation for certain assets.

Asset	Maximum rate %	Maximum period of depreciation years
Commercial buildings	2	100
Industrial buildings	3	68
Office equipment	10 or 15	20 or 14
Motor vehicles	16	14
Plant and machinery	10 or 12	20 or 18
Computers	25	8

Companies may use higher rates if they can demonstrate that the actual depreciation is in excess of that allowed by law.

To be deductible, the depreciation amount must be recorded in the company's accounting books and must be "effective"; that is, it must correspond to the actual depreciation of the asset. The second condition is met if the depreciation amount is calculated in accordance with the rates prescribed by law or with other rates that have been expressly approved by the tax authorities. Otherwise, the "effectiveness" of the depreciation must be demonstrated. On request, the tax authorities may grant approval for accelerated depreciation if the company presents a plan specifying the assets, the date and price of the acquisition, the depreciation rates and the annual depreciation allowance desired, and reasons to support the adoption of such a plan.

Investments in new tangible assets and real estate in Spain or abroad carried from 2009 through 31 March 2012 may qualify for a free tax depreciation allowance. For investments made during tax years that began during 2009 and 2010, such tax benefit is conditioned on the maintenance of the level of employment. Any depreciation allowance on such assets that was pending to be fully accelerated by 31 March 2012 is still available for use but is subject to certain limitations. New fixed assets can be freely depreciated on an annual basis if their unit cost is below EUR300, with an overall cap of EUR25,000.

**Relief for losses.** Net operating losses can be carried forward indefinitely (no expiration period) with an annual limit of 70% of the positive tax base before the application of the capitalization reserve tax reduction (see *Capitalization reserve*). The limitation applies to losses in excess of EUR1 million.

The following restrictions are imposed on taxpayers with revenue exceeding EUR20 million in the immediately preceding year:

- If the revenue within the 12 months before the beginning of the tax period ranged from EUR20 million to EUR60 million, tax losses carried forward may offset up to a maximum of 50% of taxable income.
- If the revenue in the period mentioned in the first bullet exceeded EUR60 million, the limitation equals 25% of taxable income.

Change-in-control rules for entities with tax loss carryforwards are aimed at limiting the transfer or the use of loss carryforwards. In particular, the use of tax losses is restricted if the entity that is transferred engages in a different or additional activity within the two years after the change of ownership and if the net turnover derived from such activities in those years is greater than 50% of the average turnover of the prior two years.

**Groups of companies.** A group of companies may file a consolidated tax return if the election to apply this regime is carried out before the beginning of the tax year in which the regime is to be applied and if the tax authorities are notified of the election. After the group elects taxation under the consolidated regime, the regime applies indefinitely, provided that certain requirements are satisfied.

Effective from 1 January 2015, in line with several EU court cases, Spanish legislation has extended the scope of the tax group concept in order to allow the following:

- Subsidiaries held indirectly through a foreign intermediary company can form part of the tax group.
- Horizontal tax consolidation is allowed, so that Spanish direct or indirect subsidiaries of a common foreign parent company are able to form a Spanish tax group.

For this purpose, Spanish corporations include stock companies (*sociedades anónimas*), limited liability companies (*sociedades limitadas*) and limited partnerships (*sociedades comanditarias por acciones*). The parent company may adopt any of these legal forms or otherwise it must have legal personality and be subject to and not exempt from corporate income tax, if resident in Spanish territory, or if resident abroad, subject to a similar corporate tax system as in Spain. Registered branches of nonresident entities may qualify as controlling top entities in consolidated groups if certain requirements are met.

A company is deemed to control another company if, on the first day of the tax year for which the consolidated regime applies, it satisfies the following requirements:

- It owns, directly or indirectly, at least 75% of the other company's share capital (70% for companies quoted on the stock exchange) and it maintains such ownership and a minimum 50% of voting rights in such entities for the entire tax year of consolidation.
- It is not subject to the special tax regimes applicable to Domestic and European Economic Interest Groupings (*Agrupaciones de Interés Económico*) or Temporary Business Alliances (*Uniones Temporales de Empresas*).
- It is not a subsidiary of another company fulfilling the requirements to be regarded as the controlling company.

Tax-exempt companies, companies taxed at a different rate than the parent company and companies in specified legal situations, such as bankruptcy, may not be part of a group of companies.

Pre-consolidation losses can be used only up to the amount of the individual positive tax base that could be used on a stand-alone basis.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), levied on goods delivered and services rendered within the Spanish territory (excluding the Canary Islands, Ceuta and Melilla), on	



Nature of tax	Rate (%)
imports from EU and non-EU member states, and on certain services rendered by foreign suppliers to persons subject to Spanish VAT (also, see Section E)	
Standard rate	21
Rate on certain necessary products and services	10
Rate on basic products	4
Special annual tax on real estate owned by companies resident in tax havens; assessed on the government's official value on 31 December	3
Social security and employee-related fund contributions, calculated on an employee's total compensation, with certain limitations; paid by	
Employer	29.9
Employee	6.35
Capital duty on reductions and liquidations of companies	1

## E. Miscellaneous matters

**Foreign-exchange controls.** Exchange controls are administered by the Bank of Spain and the Ministry of Economy and Finance. Exchange controls were liberalized several years ago. As a result, only a few, simple reporting requirements are now imposed, primarily for statistical purposes.

**Restrictions on the deduction of financial expenses.** In general, net interest expenses exceeding 30% of earnings before interest, tax, depreciation and amortization (EBITDA), with some adjustments, may not be claimed as a deduction for tax purposes in the year of their accrual (with some exceptions, such as a minimum allowance of EUR1 million per year). The excess may be carried forward indefinitely. This restriction applies regardless of whether the interest is paid to a related party or an unrelated lender. In addition, as mentioned in *General* in Section C, interest expense on intragroup financing related to the acquisition (or equity increase) of participation in group entities is disallowed unless valid business reasons for such transactions are proven.

Additional rules for leveraged acquisitions limit the deductibility of interest on loans to purchase shares (acquisition debt) to 30% of the operating profit of the acquiring entity. The limitation applies if the acquired and acquiring entities are merged within a four-year period or if new entities join the tax group in which the acquiring and acquired entity are included. Under an escape clause in the law, the limitation does not apply in the year of the acquisition if the acquisition debt does not exceed 70% of the consideration paid for the shares. In the following years, the limitation will not apply if the acquisition debt is proportionally repaid within an eight-year period until it is reduced to 30% of the total consideration.

**Anti-avoidance legislation.** To prevent fraud, the tax code contains several anti-avoidance measures in various chapters. Substance-over-form principles apply.

**Controlled foreign companies.** Under controlled foreign company (CFC) rules contained in the corporate income tax law, Spanish resident companies must include in their tax base certain passive income derived by their foreign subsidiaries if certain control and effective taxation conditions are satisfied. Significant exceptions apply to these rules.

These rules do not apply to EU-controlled subsidiaries if the Spanish shareholder proves that the incorporation of the foreign entity was undertaken for sound business reasons and such entity carries on business activities.

Effective from 1 January 2015, certain amendments to CFC rules were introduced. These include, among others, additional substance requirements to be met by the foreign subsidiary in order to avoid the imputation of the foreign low-taxed income.

**Transfer pricing.** Spanish law includes the arm's-length principle and the requirement of documenting all related-party transactions. The arm's-length principle applies to all transactions carried out by taxpayers with related parties. The following are the principal aspects of the law:

- Taxpayers must use arm's-length values in their tax returns. As a result, taxpayers bear the burden of proof on transfer-pricing issues.
- OECD guidelines and pricing methodology apply.
- The law provides for secondary adjustments. Under this measure, if the agreed value in a transaction differs from the normal market value, the difference between the values is recharacterized by following a substance-over-form approach. In particular, for a transaction between a company and a shareholder, the difference (proportionally to the participation in the entity) is considered a dividend if such difference is in favor of the shareholder or a contribution by the shareholder to the entity's equity if the difference is in favor of the entity.
- Advance Price Agreements (APAs) may be negotiated. They apply to the current year, the preceding four years and the following four years. The law allows APAs to have retroactive effect within the statute-of-limitations period.
- Statutory documentation requirements in line with the guidelines of the EU Joint Transfer Pricing Forum entered into force on 19 February 2009. This documentation is required to support the taxpayer's transfer-pricing policy regarding domestic and international transactions.
- Penalties and delay interest may be imposed. If the documentation is correct, the tax authorities do not impose a penalty with respect to a transfer-pricing assessment. However, the absence (or incompleteness) of documentation is subject to penalties, even if no adjustments are assessed.

The Spanish Corporate Income Tax Act provides the following three exceptions to the obligation to prepare statutory transfer-pricing documentation:

- When the transaction takes place between entities that form part of a Spanish tax consolidated group
- When the transaction is carried out between members of an Economic Interest Grouping (Agrupaciones de Interés Económico) or a Temporary Business Alliance (Uniones Temporales de Empresas)

- When the transaction is carried out within the scope of a public stock offering
- When transactions with the same entity do not exceed EUR250,000 per year

Simplified documentation requirements apply to entities with a turnover that does not exceed EUR45 million, computed at the level of the mercantile group.

Some specified transactions must be documented in any case, such as transactions performed with group “related parties” that are tax resident in a tax-haven jurisdiction. Article 18.2 of the Spanish Corporate Income Tax Act provides a definition of “related parties.”

In addition, transactions performed with related or unrelated residents of listed tax havens must comply with the arm’s-length principle and are subject to statutory documentation requirements.

New Country-by-Country (CbC) Reporting obligations apply to Spanish tax resident groups if the consolidated group’s net turnover in the immediately preceding fiscal year exceeded EUR750 million. This obligation may also apply in certain cases to subsidiaries of foreign groups.

As of 1 January 2016, new transfer-pricing documentation rules require more detailed information (for example, intangible assets, financial activities, management structure, main competitors and reconciliation of data used in economic analyses with annual financial statements).

**VAT Immediate Supply of Information System.** Effective from the 2017 fiscal year, businesses and professionals who are required to file VAT returns on a monthly basis are subject to the new VAT Immediate Supply of Information System. Businesses and professionals who are required to file monthly returns if they meet any of the following conditions:

- They have revenue exceeding EUR6 million.
- They are included in the monthly refund regime.
- They are applying the VAT grouping provisions.

Under the new system, information related to all invoices issued or received, customs documents and accountancy documents, if any, must be transmitted electronically and almost immediately to the Spanish tax authorities so that the tax authorities have all of the information relating to the operations carried out by VAT taxpayers in real time. Failure to comply with this filing system is subject to penalties.

## F. Treaty withholding tax rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

Spain has signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (Multilateral Instrument, or MLI) and included several of the agreements listed below in their list of covered tax agreements under Article 2(1)(a)(ii) of the MLI. The text and interpretation of such agreements may be affected by the MLI dispositions.

	<b>Dividends (a)</b> %	<b>Interest (b)</b> %	<b>Royalties</b> %
Albania	0/5/10 (c)	6 (d)	0
Algeria	5/15 (e)	5 (d)	7 (f)
Andorra	5/15 (gggg)	5 (d)	5
Argentina	10/15	12 (d)	3/5/10/15
Armenia (i)	0/10 (j)	5	5/10 (k)
Australia	15	10	10
Austria	10/15 (e)	5	5
Barbados	0/5 (kkkk)	0	0
Belgium	0/15 (m)	10 (d)	5
Bolivia	10/15 (e)	15 (d)	15
Bosnia and Herzegovina	5/10 (n)	7 (d)	7
Brazil	15	10/15 (o)	10/15 (p)
Bulgaria	5/15 (e)	0	0
Canada	5/15	0/10	0/10
Chile	5/10 (q)	5/15 (r)	5/10 (s)
China (mainland)	10	10	10
Colombia	0/5 (t)	0/10	10
Costa Rica (u)	5/12 (v)	5/10 (w)	10
Croatia	0/15 (x)	0/8 (d)	8
Cuba	5/15 (e)	0/10 (d)	5 (y)
Cyprus	0/5 (zzz)	0	0
Czech Republic (z)	5/15 (e)	0	5
Dominican Republic	0/10 (www)	10 (d)	10
Ecuador	15	0/5/10 (d)(aa)	5/10 (bb)
Egypt	9/12 (cc)	10 (d)	12
El Salvador	0/12 (dd)	10 (d)	10
Estonia	5/15 (e)	10 (d)	5/10 (ee)
Finland	10/15 (e)	10	5
France	0/15 (ff)	10 (d)	5
Georgia	0/10 (hh)	0	0
Germany	5/15 (e)	0	0
Greece	5/10 (ii)	8 (d)	6
Hong Kong SAR	0/10 (l)	5 (d)	5
Hungary	5/15 (e)	0	0
Iceland	5/15 (e)	5 (jj)	5
India	15	15 (g)	10/20 (kk)
Indonesia	10/15 (e)	10 (d)	10
Iran	5/10 (ll)	7.5 (d)	5
Ireland	0/15	0	5/8/10 (mm)
Israel	10	5/10 (nn)	5/7 (oo)
Italy	15	12 (d)	4/8 (pp)
Jamaica	5/10 (qq)	10 (d)	10
Japan	10/15 (e)	10	10
Kazakhstan	5/15 (rr)	10 (d)	10
Korea (South)	10/15 (e)	10 (d)	10
Kuwait	0/5 (zzz)	0	5
Latvia	5/10 (ss)	10 (d)	5/10 (ee)
Lithuania	5/15 (tt)	10 (d)	5/10 (s)
Luxembourg	10/15 (e)	10 (d)	10
Macedonia	5/15 (uu)	5 (d)	5
Malaysia	0/5 (vv)	10	5/7 (ww)
Malta	0/5 (xx)	0	0
Mexico	0/10 (hhhh)	4.9/10 (iiii)	0/10 (y)

	<b>Dividends (a)</b> %	<b>Interest (b)</b> %	<b>Royalties</b> %
Moldova	0/5/10 (zz)	5 (d)	8
Morocco	10/15 (e)	10	5/10 (bb)
Netherlands	5/10/15 (e)(aaa)	10	6
New Zealand	15	10 (jj)	10
Nigeria	7.5/10 (cccc)	7.5 (d)	3.5/7.5 (dddd)
Norway	10/15 (e)	10 (d)	5
Oman	0/10 (eeee)	5 (d)	8
Pakistan	5/7.5/10 (bbb)	10 (ccc)	7.5
Panama (ddd)	0/5/10 (eee)	5 (d)	5
Philippines	10/15 (e)	10/15 (d)(fff)	10/15/20 (ggg)
Poland	5/15 (e)	0	0/10 (hhh)
Portugal	10/15 (e)	15	5
Qatar	0/5 (jjjj)	0	0
Romania	10/15 (e)	10 (d)	10
Russian Federation	5/10/15 (iii)	5 (jjj)	5
Saudi Arabia	0/5 (kkk)	5 (d)	8
Senegal	10	10 (d)	10
Serbia	5/10 (ii)(lll)	10 (d)(lll)	5/10 (lll)(mmm)
Singapore	0/5 (hh)(nnn)	5 (d)	5
Slovak Republic (z)	5/15 (e)	0	5
Slovenia	5/15 (e)	5 (d)	5
South Africa	5/15 (tt)	0/5 (ooo)	5
Sweden	10/15 (e)	15 (d)	10
Switzerland	0/15 (vv)	0	5 (ppp)
Thailand	10	0/10/15 (g)	5/8/15 (mm)
Trinidad and Tobago	0/5/10 (zz)(qqq)	8 (d)(qqq)	5 (qqq)
Tunisia	5/15 (e)	5/10 (rrr)	10
Turkey	5/15 (sss)	15 (ttt)	10
USSR (uuu)	18	0	5 (hhh)
United Arab Emirates	5/15 (vvv)	0	0
United Kingdom	0/10/15 (aaaa)	0	0
United States	10/15 (e)	10 (d)	5/8/10 (mm)
Uruguay	0/5 (www)	10 (d)	5/10 (xxx)
Uzbekistan	5/10 (ffff)	5	5
Venezuela	10 (ppp)	4.95/10 (d)(yyy)	5
Vietnam	7/10/15 (gg)	10 (e)	10
Non-treaty jurisdictions (h)	19	19	20/24 (bbbb)

- (a) Distributions by Spanish subsidiaries to parent companies in EU member states are exempt from withholding tax if the parent company owns at least 5% of the subsidiary for an uninterrupted period of at least one year and if certain other requirements are met. The one-year holding period requirement may be satisfied at the date of the distribution or subsequent to such date. An anti-avoidance provision also applies in situations in which the ultimate shareholder is not an EU resident.
- (b) Interest paid to an EU resident without a permanent establishment in Spain is exempt from tax if the EU country is not on the Spanish tax haven list.
- (c) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly controls at least 75% of the capital of the distributing company. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly controls at least 10% of the capital of the distributing company.
- (d) Certain interest payments are not subject to withholding tax.
- (e) The treaty withholding rate tax is increased to 15% in certain circumstances if the recipient is not a corporation or if the shareholding does not exceed a certain percentage.

- (f) A 14% rate applies to royalties paid for artistic, scientific or literary works.
- (g) Interest paid to the government or central bank of the other contracting state is exempt from tax if the recipient is the beneficial owner of the interest. The government of the state of the payer may authorize an exemption for interest paid to a beneficial recipient other than the government or central bank of the other contracting state.
- (h) See Section B.
- (i) The treaty provides for a tax sparing in favor of Armenia for the five years following the entry into force of the treaty.
- (j) The 0% rate applies if all of the following conditions are satisfied:
- The recipient of the dividends is the beneficial owner of the income.
  - The direct or indirect shareholding is equal to or higher than 25%.
  - A minimum two-year shareholding period has been fulfilled.
  - Dividends are not subject to tax in the state of residency of the recipient of the dividends.
- (k) The 5% rate applies to royalties for copyrights of literary, artistic or scientific works (including films and videotapes used for its reproduction on television or radio).
- (l) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly controls at least 25% of the capital of the distributing company.
- (m) The 0% rate applies if all of the following conditions are satisfied:
- The recipient of the dividends is a corporation.
  - The shareholding is equal to or higher than 25%.
  - Exemption is allowed under the rules of the state of residence of the subsidiary.
- The rate is 15% if the effective beneficiary is a resident of the other contracting state.
- (n) The 5% rate applies if the beneficial owner of the dividends is a company that directly controls at least 20% of the capital of the distributing company.
- (o) A 10% rate applies to interest paid to financial institutions for long-term (10 or more years) loans for goods or equipment.
- (p) A 10% rate applies to royalties paid for copyrights of literary, artistic or scientific works (including films and videotapes produced by a resident of a contracting state).
- (q) A 5% rate applies if the effective beneficiary of the dividends is a corporation that controls at least 20% of the capital of the distributing company.
- (r) A 5% rate applies to interest derived from loans granted by banks and insurance companies, from bonds and securities traded on a recognized stock exchange and from sales on credit of machinery and equipment.
- (s) A 5% rate applies to royalties paid for the use of industrial, commercial and scientific equipment.
- (t) The 0% rate applies if the dividends are received by a company that holds a direct or indirect shareholding of at least 20% in the capital of the distributing company.
- (u) The protocol includes a most-favored-nation clause under which Costa Rica automatically will provide similar tax treatment to Spanish residents if Costa Rica enters into a treaty with a third country that enters into force and that offers more beneficial tax treatment for dividends, interest, royalties and/or income from personal independent services.
- (v) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly controls at least 20% of the capital of the distributing company.
- (w) The 5% rate applies to loans with a maturity exceeding five years.
- (x) A 15% rate applies if the shareholding is less than 25%.
- (y) Certain copyright royalties are exempt.
- (z) Spain honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics.
- (aa) A 5% rate applies to certain loans.
- (bb) A 5% rate applies to royalties paid for copyrights of literary, dramatic, musical or artistic works (excluding motion picture films and television films or videotapes).
- (cc) A 12% rate applies if the shareholding is less than 25%.
- (dd) The 12% rate applies if the shareholding is less than 50%.
- (ee) A 5% rate applies to royalties paid for industrial, commercial or scientific equipment.
- (ff) No withholding tax is imposed if the recipient is a company that is subject to corporate income tax and that holds a participation of at least 10% in the payer.
- (gg) The 7% rate applies if the shareholding is at least 50%. The 10% rate applies if the shareholding is at least 25%, but less than 50%. The 15% rate applies if the shareholding is less than 25%.

- (hh) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly controls at least 10% of the capital of the distributing company.
- (ii) The withholding tax rate is 5% if the effective beneficiary of the dividends is a corporation and if the shareholding is equal to or higher than 25%. The withholding tax rate is 10% for other dividends.
- (jj) Withholding tax is not imposed if the recipient is the beneficial owner of the interest and if the interest is beneficially owned by a contracting state, or a political subdivision or local authority of the contracting state.
- (kk) The 20% rate applies to certain royalties and technical services.
- (ll) The 10% rate applies if the shareholding is less than 20%.
- (mm) A 5% rate applies to royalties paid for copyrights of musical compositions and literary, dramatic or artistic works. An 8% rate applies to royalties paid for the following:
- Motion picture films
  - Films, tapes and other means of transmission or reproduction of sounds
  - Industrial, commercial or scientific equipment
  - Copyrights of scientific works
- (nn) A 5% rate applies to interest paid with respect to sales of industrial, commercial, scientific equipment, or on loans from financial institutions. A 0% rate applies to interest paid to the government or central bank of the other contracting state.
- (oo) A 5% rate applies to royalties paid for copyrights of musical compositions, and literary, dramatic or artistic works, and to amounts paid for the use of industrial, commercial or scientific equipment.
- (pp) The rate is 4% for royalties paid for copyrights of literary, dramatic, musical or artistic works (excluding motion picture films and television films or videotapes).
- (qq) The 10% rate applies if the shareholding is less than 25%.
- (rr) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly or indirectly controls at least 10% of the capital of the distributing company.
- (ss) The treaty withholding tax rate is increased to 10% in certain circumstances if the recipient is not a corporation or if the shareholding does not exceed a certain percentage.
- (tt) A 5% rate applies if the effective beneficiary of the dividends is a corporation that controls at least 25% of the capital of the distributing company.
- (uu) A 15% rate applies if the shareholding is less than 10%.
- (vv) A 0% rate applies if the beneficial owner holds at least a specified percentage of the share capital of the distributing entity and if certain other conditions are met.
- (ww) A 5% rate applies to income derived from the rendering of technical services.
- (xx) A 5% rate applies if the shareholding is less than 25%.
- (yy) The withholding tax rate is 10% if the effective beneficiary of the interest is a financial entity.
- (zz) The 0% rate applies if the dividends are received by a company that holds directly or indirectly a shareholding of at least 50% in the capital of the distributing company. A 5% rate applies if the direct shareholding is more than 25% but less than 50%. Otherwise, a 10% rate applies.
- (aaa) The withholding rate is 5% if the recipient is not subject to Dutch tax on the dividends and if the 10% rate would otherwise apply.
- (bbb) The 5% rate applies if the beneficial owner of the dividends is a company that has owned directly for the six-month period ending on the date on which entitlement to the dividends is determined at least 50% of the voting shares of the distributing company. The 7.5% rate applies if the beneficial owner of the dividends is a company that has owned directly for the period of six months ending on the date on which entitlement to the dividends is determined at least 25% of the voting shares of the distributing company.
- (ccc) Certain interest payments are not subject to withholding tax.
- (ddd) Tax treaty provisions do not apply if the dividend, interest or royalties paid by a Panamanian resident are sourced in Spain or in a country that has not entered into a tax treaty with Spain and if such income has not been effectively taxed in Panama.
- (eee) The 0% rate applies if the beneficial owner of the dividends is a capital company that directly controls at least 80% of the capital of the distributing company and if certain conditions are satisfied. The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that directly controls at least 40% of the capital of the distributing company.

- (fff) A 10% rate applies to interest paid with respect to sales of industrial equipment or publicly traded bonds.
- (ggg) A 20% rate applies to royalties paid with respect to films, television or radio. A 10% rate applies to royalties derived in preferred areas of activities.
- (hhh) A 0% rate applies to royalties paid for copyrights of literary, dramatic, musical or artistic works (excluding motion picture films and television films or videotapes).
- (iii) The withholding tax rate is 5% if the effective beneficiary of the dividends is a company that has invested at least ECU100,000 in the share capital of the payer and if the dividends are exempt from tax in the other contracting state. The withholding tax rate is 10% if only one of these requirements is met. The withholding tax rate is 15% for other dividends.
- (jjj) No withholding tax is imposed on interest paid to and beneficially owned by financial institutions with respect to long-term (seven years or more) loans and certain other debts.
- (kkk) A 0% rate applies if the beneficial owner of the dividends is a company that directly controls at least 25% of the capital of the distributing company.
- (lll) A most-favored-nation clause applies.
- (mmm) The 5% rate applies to royalties paid for the use of copyrights of literary, artistic or scientific works, including cinematographic films or films or tapes used for radio or television broadcasting, but excluding computer software. The 10% rate applies to royalties paid for the use of patents, trademarks, designs or models, plans, secret formulas or processes and computer software, for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- (nnn) The 5% rate applies if the distributing company is a stock-listed real estate investment company and if the beneficial owner of the dividends directly or indirectly controls less than 10% of the capital of the distributing company.
- (ooo) A 0% rate applies to interest paid to financial institutions for long-term (seven years or more) loans.
- (ppp) A 0% rate applies if certain conditions are met.
- (qqq) A limitation-of-benefits clause in the treaty may apply.
- (rrr) A 5% rate applies to loans over seven years.
- (sss) A 5% rate applies to certain dividend distributions.
- (ttt) A 10% rate applies to interest derived from loans granted by banks or in connection with sales on credit of merchandise or equipment.
- (uuu) Spain honors the double tax treaty with the former USSR with respect to Belarus, Kyrgyzstan, Tajikistan, Turkmenistan and Ukraine.
- (vvv) A 5% rate applies if the beneficial owner of the dividends is a corporation that holds directly at least 10% of the entity paying the dividends.
- (www) The 0% rate applies if the beneficial owner of the dividends is a capital company that directly controls at least 75% of the capital of the distributing company.
- (xxx) The 5% rate applies to royalties paid for copyrights of literary, artistic or scientific works.
- (yyy) A 4.95% rate applies to interest paid to financial institutions.
- (zzz) The 0% rate applies if the beneficial owner of the dividends is a company that directly controls at least 10% of the capital of the distributing company.
- (aaaa) The 0% rate applies to dividends paid to a company that controls, directly or indirectly, at least 10% in the equity of the distributing company, provided that the recipient of the dividends is the beneficial owner. The 15% rate applies to dividends paid out of income (including capital gains) derived directly or indirectly from immovable property by an investment vehicle that distributes most of this income annually and whose income from such immovable property is exempt from tax. The 10% rate applies in all other cases.
- (bbbb) The 20% rate applies to EU residents in jurisdictions with which an exchange of information agreement is in place.
- (cccc) The 7.5% applies if the beneficial owner of the dividends is a company that directly controls at least 10% of the capital of the distributing company.
- (dddd) The 7.5% rate applies if the beneficial owner of the royalties is a capital company.
- (eeee) The 0% rate applies if the beneficial owner of the dividends is a company that directly controls at least 20% of the capital of the distributing company.



- (ffff) The 5% applies if the beneficial owner of the dividends is company that directly controls at least 25% of the capital of the distributing company.
- (gggg) The 5% rate applies to companies, other than partnerships, that own directly at least 10% of the subsidiary. A 15% rate applies in other cases.
- (hhhh) The 0% rate applies if the dividends paid to a company the capital of which is wholly or partly divided into shares and that directly controls at least 10% of the capital of the distributing company or if the dividends paid to a pension fund.
- (iiii) The 4.9% applies to interest paid on loans of any kind granted by banks or other financial institutions, including investment banks, savings banks and insurance companies, as well as to interest paid on bonds and other debt instruments that are traded regularly and substantially on a recognized stock exchange. The 10% rate applies in all other cases.
- (jjjj) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% (1% if the company is substantially and regularly traded on a stock exchange of Spain or Qatar) of the capital of the company paying the dividends or is a public body holding at least 5% of the stock in the company paying the dividends.
- (kkkk) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds at least 25% of the capital of the company paying the dividends. The 5% rate applies in all other cases.

Spain is in the process of negotiation, ratification or signature of its tax treaties with Azerbaijan, Bahrain, Belarus, Cape Verde, Montenegro, Namibia, Peru, Syria and Ukraine. Spain is negotiating agreements on the exchange of tax information with Bermuda, the Cayman Islands, the Cook Islands, Guernsey, the Isle of Man, Jersey, Macau, Monaco, St. Lucia and St. Vincent, and the Grenadines.

Spain has agreements on the exchange of tax information with Andorra, Aruba, Bahamas, Curaçao, San Marino and Sint Maarten.

The agreement between Spain and the United States for the improvement of international tax compliance and the implementation of the Foreign Account Tax Compliance Act entered into force on 1 July 2014.

A new tax treaty with the United States is pending ratification after negotiation and signature.

Spain is renegotiating its tax treaties with Austria, Belgium, Finland, India, Romania and the United States.

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*This chapter reflects amendments contained in the new Inland Revenue Act. These amendments are effective from 1 April 2018, unless specified otherwise.*

## A. At a glance

Corporate Income Tax Rate (%)	28 (a)
Capital Gains Tax Rate (%)	10 (b)
Branch Tax Rate (%)	28 (a)
Withholding Tax (%)	
Dividends	14 (c)
Interest	5/14 (d)
Royalties from Patents, Know-how, etc.	14 (e)
Management Fees	14
Technical Fees and Service Fees	14
Insurance Premium Payments	14
Payments to Nonresident Ship Owners	14

Telecommunication Services Routed through Apparatus Established in Sri Lanka	14
Sales of Gems Sold at Auction Conducted by Gem and Jewelry Authority	14
Branch Remittance Tax	14
Net Operating Losses (Years)	
Carryback	0
Carryforward	6 (f)

- (a) This is the standard rate. For other rates, see Section B.
- (b) Capital gains tax is reimposed in Sri Lanka, effective from 1 April 2018.
- (c) This tax, which is a final tax, is imposed on dividends paid to residents and nonresidents.
- (d) The 5% withholding tax applies to interest paid on deposits. Companies can claim the 5% withholding tax as a credit against their annual income tax liability. The 14% withholding tax must be deducted and remitted to the Inland Revenue Department when making payments of interest to persons outside Sri Lanka on loans granted by companies, partnerships or other bodies of persons outside Sri Lanka other than foreign banks or financial institutions.
- (e) Withholding tax at a rate of 14% must be deducted and remitted to the Inland Revenue Department when making payments of royalties to persons outside Sri Lanka.
- (f) See *Relief for losses* in Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies resident in Sri Lanka are subject to income tax on their worldwide income. Nonresident companies are subject to tax on their profits and income derived from Sri Lankan sources. A company is considered to be a resident company if its registered or principal office is in Sri Lanka or if the control and management of its business are exercised in Sri Lanka.

**Rates of corporate income tax.** The standard rate of corporate income tax is 28%.

A 14% rate of corporate income tax applies to profits and income derived from the following:

- Agriculture
- Export of goods and deemed exports
- Export of services (includes front-end services to clients abroad and logistics services, such as bonded warehouses, and multi-country consolidation in Sri Lanka)
- Education
- Entrepôt trade
- Promotion of tourism
- Information technology
- Unit trusts
- Charitable institutions and pension funds

A 40% rate of corporate income tax applies to profits and income derived from the businesses of tobacco, liquor, and betting and gaming.

**Tax incentives.** Tax holidays are not available.

Tax incentives are provided through enhanced capital allowances for new companies in addition to the normal capital allowances.

The following are the enhanced capital allowances:

- An enhanced capital allowance of 200% is granted for investment exceeding USD3 million in depreciable assets other than intangible assets in the Northern Province.

- An enhanced capital allowance of 100% is granted for investment exceeding USD3 million but less than USD100 million in depreciable assets other than intangible assets in other provinces.
- An enhanced capital allowance of 150% is granted for investment exceeding USD100 million in depreciable assets other than intangible assets in other provinces.
- An enhanced capital allowance of 150% is granted for investment exceeding USD250 million in assets or shares of a state-owned company.

The enhanced capital allowance must be claimed in the year of assessment of the investment.

Any unrelieved loss arising from the enhanced capital allowance must be claimed within 10 years. This period is extended to 25 years if the investment exceeds USD1 billion.

The following temporary concessions apply for the three years of assessment after the effective date (1 April 2018) of the new Inland Revenue Act:

- An enhanced capital allowance of 200% is granted for an investment up to USD3 million in computers, data-handling equipment, specified plant and machinery, or buildings and structures in the Northern Province.
- An enhanced capital allowance of 100% is granted for an investment up to USD3 million in computers, data-handling equipment, specified plant and machinery, or buildings and structures in other provinces.
- Gains and profits (surplus) distributed to a policyholder of a life insurance company is subject to a reduced income tax rate of 14%.
- A headquarters or regional head office, as specified by the Commissioner General of Inland Revenue, established in Sri Lanka on or after 1 October 2017 is exempt from income tax.
- A company entering into a standardized power purchase agreement regarding renewable energy on or before 10 November 2016 with the Ceylon Electricity Board is subject to a reduced income tax rate of 14%.
- R&D expenses are 100% deductible from business income.
- A company providing information technology services may claim an additional deduction in computing business income equal to 35% of the total amount of payments that are included in computing the taxable income of its employees other than company directors. The conditions for this deduction are 80% of gross income from the business of providing information technology services, at least 50 employees during the whole year and no entitlement to enhanced capital allowances. Any unrelieved losses resulting from the additional deduction may not be claimed in any succeeding years of assessment.

The following items, among others, are exempt from income tax:

- Any sums received from the President's Fund or National Defence Fund
- Prizes received as awards made by the President of Sri Lanka or by the government in recognition of an invention or research.

**Capital gains.** Capital gains tax is re-imposed on gains from the realization of investment assets (capital assets held as part of an investment). In computing capital gains, the cost of an investment

asset held as at 30 September 2017 is the market value of such asset at that time. Specific exclusions and exemptions, such as gains on sales of listed shares, are provided.

**Administration.** The normal fiscal year (year of assessment) runs from 1 April to 31 March. A company may select a different fiscal year if it obtains prior permission from the Department of Inland Revenue. Income tax is payable in four quarterly installments, which are due one and a half months after the end of each quarter. A company must file the final tax return by 30 November (self-assessment). Any balance of income tax due must be paid by 30 September following the end of the fiscal year.

If a company fails to file a return, the Assistant Commissioner can issue a Default Assessment at any time. Filing a return after a Default Assessment is issued is not considered to be a self-assessment.

The Assistant Commissioner also has the power to issue an Advance Assessment, usually in advance of the due date of the return.

The Assistant Commissioner also has the authority to revise a previously issued assessment or make an additional assessment.

For a self-assessment return, an amended or additional assessment must be filed within 30 months from the date of filing of the self-assessment return.

For any other assessments (default or advance), the amended or additional assessment must be filed within 30 months from the date on which the Assistant Commissioner issued the original assessment.

In the case of fraud, no time limit applies for the issuance of an assessment.

Separate sets of accounts must be maintained for different activities of a trade or business that are exempt or subject to tax at different tax rates.

A refund claim for a year of assessment must be claimed in writing within four years after the date of payment or, if made on the Commissioner General's initiative, within the specified time period.

The Commissioner General may make a public ruling setting out the Commissioner General's interpretation of the application of the Inland Revenue Act.

A taxpayer may apply for a private ruling setting out the Commissioner General's position with regard to a transaction entered into or proposed to be entered into by a taxpayer.

**Dividends.** The definition of a "dividend" is broadened. It now includes the following:

- A payment derived by a member from a company, whether received as a division of profits, in the course of a liquidation or reconstruction, in a reduction of capital or in a share buy-back or in other circumstances
- Capitalization of profits (bonus shares)

The definition of “dividends” excludes a payment to the extent that any of the following circumstances exists:

- It is matched by a payment made by a member to the company.
- It is debited to capital, share premium or similar account.
- It constitutes a final withholding payment.
- It is otherwise included in calculating the income of the member.

A dividend tax of 14% (also known as the Dividend Tax at Source) is withheld from dividends distributed out of profits included in taxable income. The 14% tax is the final tax on dividends paid to residents and nonresidents.

The company has no liability to dividend tax other than as a withholding tax agent.

Dividends paid by a resident company to a resident or nonresident company are not included in the taxable income of the recipient if any of the following apply:

- A withholding has been made for dividend tax.
- The dividend is exempt from income tax.
- The dividend consists of any part of the amount of dividends received by the payer from another resident company.

Dividends received from nonresident companies are exempt from income tax if the recipient has a participation of at least 10% in the value of the shares of the foreign company.

Dividends distributed out of dividends received from nonresident companies outside Sri Lanka are liable to dividend tax.

**Interest.** The following are significant aspects of the taxation of interest:

- Withholding tax at a rate of 5% is imposed on interest paid to companies on bank deposits. Companies may offset this withholding tax against their annual income tax liability.
- Withholding tax at a rate of 5% is imposed on interest paid to residents and nonresidents on corporate debt securities.
- No withholding tax is imposed on interest payments on government securities, bonds and similar instruments issued by the Central Bank of Sri Lanka.
- No withholding tax is imposed on amounts equal to interest or discounts paid to nonresident persons or to licensed commercial banks in Sri Lanka by the issuer of a sovereign bond denominated in a foreign currency issued after 1 October 2008.

**Foreign tax relief.** Foreign tax relief is available under various double tax treaties. In general, Sri Lankan tax payable (other than dividend tax) is allowed as a credit against any foreign tax computed by reference to the same income. Similar relief is available for foreign tax paid in the other treaty country.

Foreign tax credits must be calculated for each source (employment, business, investment or other source) and for each gain from the realization of investment assets. For each calculation, the credit cannot exceed the amount calculated by applying the average rate of Sri Lankan income tax to the person’s assessable foreign income.

Conditions apply for the claiming of such credit.

### C. Determination of trading income

**General.** The assessment is based on financial statements prepared in accordance with generally accepted accounting principles.

All expenses incurred during the year in the production of income are allowable unless specifically prohibited. In addition, certain expenses that are specifically authorized are permitted as deductions. Nondeductible expenses include, but are not limited to, the following:

- Capital expenditures
- Personal and domestic expenses
- Expenditure incurred in deriving exempt amounts
- Final withholding tax payments
- Outlays or expenses for entertainment
- Payments subject to withholding tax if withholding tax has not been paid to the Inland Revenue Department

The following expenses, among others, are deductible:

- Interest expenses if money was borrowed under a debt obligation and used during the year to acquire an asset that is used in the production of income (see next paragraph)
- Repairs and improvements, whether or not capital, limited to 5% of the written-down value of buildings and 20% of the written-down value of other assets
- Research and development expenses (including capital expenditure incurred through an institution in Sri Lanka)
- Agricultural start-up expenses such as opening up land for cultivation or animal husbandry, purchase of livestock and cultivation of land

Interest expenses incurred (other than by financial institutions) on the excess of the total debt obligations under financial instruments over the statutory limit (three or four times the amount of share capital and reserves) is not deductible in the year of assessment in which they are incurred. Any unclaimed amount can be carried forward to be claimed in the next six years of assessment.

**Qualifying payments.** Companies may claim a deduction for qualifying payments, which are donations to the government and approved charities.

Donations to the government in cash are deductible in full.

Qualifying payment deductions for donations to approved charities established for the provision of institutional care for the sick and needy are limited to LKR500,000 or one-fifth of taxable income, whichever is less.

Amounts that cannot be deducted in a year of assessment as qualifying payments cannot be carried forward.

**Inventories.** Inventories are normally valued at the lower of historical cost or net realizable value. For agricultural produce, inventories are valued at subsequent sale prices. Cost is usually determined on a first-in, first-out (FIFO) formula or a weighted average cost formula.

**Provisions.** In general, no deductions are allowed for reserves or provisions. However, provisions may be deducted if the expenses provided for are paid within three years after the year of assessment.

For banks, the deductibility of a specific provision for bad debts is subject to the approval of the Commissioner General, based on the reasonableness of the provision.

**Depreciation.** Depreciation allowances are granted to the owner of the asset from the fiscal year in which the asset is first used. The allowance is computed using the straight-line method at the following rates, which are effective from 1 April 2018.

Asset	Rate (%)
Buildings	5 (a)
Plant and machinery or equipment	20
Motor vehicles	20
Furniture	20
Computer hardware	20
Intangible assets (excluding goodwill)	5/20 (b)

(a) This rate applies to buildings, structures and similar works of a permanent nature.

(b) If the intangible asset has an indefinite useful life, the rate is 20%.

Depreciation allowances are generally subject to recapture on the sale of an asset to the extent that the sales proceeds exceed the tax value after depreciation. Any amounts recaptured are subject to tax at the regular corporate tax rate. Losses on the sale of a depreciable asset may be claimed as business losses.

**Relief for losses.** Business losses can be deducted in full in determining the taxable income of a company. Any balance may be carried forward for six years of assessment.

Losses can be offset against business income or investment income, subject to restrictions.

Losses relating to reduced rates can be deducted from income taxable at the same rate or a lower rate and income from exempt activities.

Losses from exempt activities can be set off only against exempt income.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT); imposed on all goods and services supplied in, or imported into, Sri Lanka and on retail and wholesale trade, excluding essentials, other than certain exempt items including the supply and import of motor vehicles, cigarettes and liquor (effective from 25 October 2014, these items are liable to the Excise [Special Provisions] Duty, which replaces VAT at the point of import); sales of condominium units are liable to VAT, effective from 1 April 2018; liability threshold for VAT is LKR12 million per year or LKR3 million per quarter Standard rate	15%



Nature of tax	Rate
Specified goods and services, including exports and international transportation	0%
VAT on financial services (VATFS); imposed on the supply of financial services by specified institutions carrying on the business of financial services, including the provision of financial leasing facilities; unit trusts and mutual funds are exempt	15%
Economic Service Charge (ESC); imposed on turnover if the turnover exceeds LKR12,500,000 per quarter; airlines and shipping lines, dealers in lottery, unit trusts, mutual funds, distributors (as defined in ESC Act) and proceeds from the sale of foreign-currency sovereign bonds are exempt from ESC; basis of computing ESC for petroleum retailers is 1/10 of relevant turnover of petrol, diesel or kerosene; advance withholding of ESC for persons liable for the Special Commodity Levy (see below); advance ESC can be set off against actual ESC for same year of assessment (no refund); ESC can be set off against the income tax of a company in that year of assessment and carried forward for setoff in the following two years of assessment	
Standard rate	0.50%
Nation Building Levy; applies if turnover exceeds LKR12 million per year; threshold of LKR25 million per quarter for certain industries; levy is imposed on the entire amount of turnover if the amount of turnover exceeds the threshold; exemptions applicable for certain turnover	2%
Nation Building Levy on financial services; same tax base as VATFS (see above)	2%
Betting and gaming levy; annual amounts of the levy	LKR25,000 to LKR400 million
Tax imposed on gross monthly collections from bookmaking and gaming; imposed instead of all indirect taxes other than the betting and gaming levy mentioned above	10%
Telecommunication levy	
Standard rate	25%
Services provided through internet and broadband	10%
Levy for Crop Insurance Scheme; on banking, finance and insurance institutions; imposed on annual profits	1%
Debt Repayment Levy; imposed on all transactions of a commercial bank	LKR2 per each LKR10,000 of a transaction
Excise duty; on specified imports and locally manufactured products	5% to 115%
Import duty	0% to 30%

<b>Nature of tax</b>	<b>Rate</b>
Cess on specified imported items	Various
Stamp duty	
On transfers of immovable property	3%/4%
On specified instruments	Various
On receipts exceeding LKR25,000 (imposed on all transactions other than transfers of immovable property and transactions involving specified instruments)	LKR25
On local credit card usage	0%
On foreign purchases	2.5%
Port and airport development levy; imposed on declared cost, insurance and freight (CIF) value of all cargo; exports, the film industry, imports of goods for specified projects with foreign funds donations received by the government, imports of artificial limbs, crutches and similar items, and yarns and fabrics are exempt	
Standard rate	7.5%
Certain pharmaceutical products	2.5%
Casino Industry Levy	LKR1 billion
Bars and Taverns Levy	LKR250,000
Direct-to-Home Satellite Services Levy	LKR1 billion
Satellite Location Levy	LKR1 billion
Dedicated Sports Channel Levy	LKR1 billion
Special Commodity Levy	Various
Cellular Tower Levy	LKR200,000 per month
Short Message Service (SMS)	
Advertising Levy	LKR0.25 per SMS
Carbon Tax; based on engine capacity	Various
Luxury Tax on motor vehicles	
Super luxury vehicles	LKR2,000,000
Luxury vehicles	LKR1,000,000
Semi-luxury vehicles	LKR500,000
Semi-luxury vehicles (dual purpose)	LKR250,000
Reservations in Sri Lanka by online travel agents; imposed on commission	1%
Social security contributions, on employees' gross earnings	
Employees' Provident Fund (EPF); paid by Employer	12%
Employee	8%
Employers' Trust Fund; paid by employer	3%

## **E. Miscellaneous matters**

**Foreign-exchange controls.** Foreign-exchange regulations are governed by the Exchange Control Act No. 12 of 2017, effective from 20 November 2017, and other directives issued by the Central Bank of Sri Lanka. The regulations include those discussed below.

Any licensed commercial bank as an authorized dealer can open the following types of accounts in Sri Lanka:

- Inward Investment Accounts (IIAs)
- Outward Investment Accounts (OIAs)
- Capital Transaction Rupee Accounts (CTRAs)

Persons outside Sri Lanka may engage in specified capital transactions in Sri Lanka that require remittance of foreign exchange into Sri Lanka, such as the following:

- Investing
- Acquiring all classes of shares in companies not incorporated in Sri Lanka and listed on the Colombo Stock Exchange
- Granting loans through debt securities issued in foreign currency or Sri Lankan rupees by licensed, commercial banks, finance companies and specialized banks

Exclusions include the acquisition of shares of a company proposing to carry on businesses of pawn broking, coastal fishing or retail trade if the capital contributed by persons resident outside Sri Lanka is less than USD5 million. In such cases, investments are limited to 40% of the stated capital or if special approval is granted by the Board of Investment of Sri Lanka for a higher percentage.

Overseas companies registered under the Companies Act of Sri Lanka may carry on the following business in Sri Lanka:

- Any commercial trading or industrial activity provided that permission has been obtained from the government of Sri Lanka
- Any non-commercial, non-trading or non-industrial activity, such as activities carried on by a liaison office, representative office or similar office

Overseas companies cannot carry on undertakings for money lending, pawn broking or retail trade if the capital contributed by a person resident outside Sri Lanka is less than USD5 million, coastal fishing or other prohibited activities as specified in the regulations. Permissible activities are also set out in the regulations.

Overseas profits, royalties, franchise payments and similar payments may be remitted out of Sri Lanka net of tax through the IIA of the parent company through which the investments were routed.

The following capital transactions are permitted through an authorized dealer:

- Repatriation of sales proceeds of immovable property held by residents outside Sri Lanka, subject to conditions.
- For migrant transfers, an initial migration allowance of USD200,000 per individual aged 18 years and above, an annual migration allowance of USD30,000 transferable after a lapse of 12 months after utilization of the initial allowance subject to directions issued by the Central Bank of Sri Lanka and an annual allowance of USD30,000 with respect to the proceeds to a foreign national from the sale of inherited property in Sri Lanka.
- Granting of loans and advances in Sri Lanka in foreign currency or in Sri Lanka rupees to residents outside Sri Lanka. These are permitted to Sri Lankans residents outside Sri Lanka on a permanent residency visa in another country, dual citizens and Sri Lankans employed abroad (other than emigrants), subject to conditions in the regulations.

A tax-clearance certificate is required for outward remittances other than for specific remittances, which include, among others, the following:

- Remittances of sales proceeds from quoted company shares owned by nonresidents in companies in Sri Lanka
- Dividends paid to nonresidents if withholding tax on such dividends is paid
- Foreign investments made by resident companies
- Capital repayments of foreign loans obtained by resident companies
- Remittances by export companies with respect to registration of trademarks outside Sri Lanka

**Transfer pricing.** Under the Inland Revenue Act, if significant pricing discrepancies are considered “artificial,” the tax authorities may determine a commercially acceptable price for tax purposes. Profits and losses from transactions between associated undertakings are determined taking into account the arm’s-length principle.

Currently, transfer-pricing regulations apply to local transactions exceeding LKR50 million and to foreign transactions exceeding LKR100 million.

Advance pricing agreements may be entered into with the Department of Inland Revenue with regard to “international transactions.” The arm’s-length price is determined using methods prescribed for this purpose.

A permanent establishment in Sri Lanka is recognized as a distinct and separate entity from its head office and related branches in Sri Lanka.

The Commissioner General of Sri Lanka can specify safe harbor rules to simplify transfer-pricing compliance and administration.

A specific transfer-pricing penalty regime is introduced for the following:

- Failure to maintain required documents: 1% of the aggregate value of transactions with associated enterprises
- Not furnishing required documents: an amount not exceeding LKR250,000
- Nondisclosure of required information relative to transactions with associated persons: not exceeding 2% of the aggregate value of transactions with associated enterprises
- Failure to submit documents by due dates: an amount not exceeding LKR100,000
- Concealment of income: 200% of amount of additional tax

The basis for charging penalties for the types of noncompliance referred to above are 1% of aggregate transaction value of LKR250,000, 2% of aggregate transaction value of LKR100,000 and 200% of incremental tax on the transfer-pricing adjustments.

No tax exemption or benefit is provided on taxable income enhanced as a result of transfer-pricing adjustments.

**Debt-to-equity rules.** For group companies, a debt-to-equity ratio of 3:1 applies to manufacturing companies, and a 4:1 ratio applies to other types of companies. Interest paid on loans in excess of the debt-to-equity ratio is not deductible for tax purposes.

**Purchase of land by foreigners.** The purchase of land by foreign companies and companies incorporated in Sri Lanka with direct or indirect foreign shareholding exceeding 50% is prohibited, except for quoted public companies. It is proposed that the restriction on the ability of foreigners to purchase condominiums below the fourth floor be removed.

## F. Treaty withholding tax rates

The following table lists the maximum withholding tax rates under Sri Lanka's double tax treaties.

	Dividends %	Interest %	Royalties %
Australia	15	10	10
Bahrain	5/7.5/10	10	10
Bangladesh	15	15	15
Belarus	7.5/10	10	10
Belgium	15	10	10
Canada	15	15	10
China (mainland)	10	10	10
Denmark	15	10	10
Egypt	15	15	15
Finland	15	10	10
France	10	10	10/15
Germany	15	10	10
India	7.5/15	10	10
Indonesia	15	15	15
Iran	10	10	8
Italy	15	10	10/15 (a)
Japan	10	15	0/7.5 (a)
Korea (South)	10/15 (b)	10	10
Kuwait	5/10	10	20
Luxembourg	7.5/10	10	10
Malaysia	15	10	10
Mauritius	10/15 (d)	10	10
Nepal	15	10/15 (e)	15
Netherlands	10/15 (b)	10	10
Norway	15	10	10
Pakistan	15	10	20
Palestinian Authority	10	10	10
Philippines	15/25	15	15/25
Poland	10	10	10
Qatar	10	10	10
Romania	12.5	10	10
Russian Federation	10/15	10	10
Seychelles	7.5/10	10	10
Singapore	15	10	15
Sweden	15	10	10
Switzerland	10/15 (b)	10	10
Thailand	15	10/25 (c)	15
United Arab Emirates	10	10	10
United Kingdom	15	10	10
United States	15	10	5/10 (f)
Vietnam	10	10	15
Non-treaty jurisdictions (g)	14	5/14	14

- (a) The lower rate applies to royalties for copyrights and cinematographic films. The higher rate applies to other royalties.
- (b) The 10% rate applies if the recipient holds at least 25% of the payer. The 15% rate applies to other dividends.
- (c) The 10% rate applies to interest received by a financial institution. The 25% rate applies to other interest.
- (d) The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 10% of the capital of the payer. The 15% rate applies to other dividends.
- (e) The 10% rate applies to interest paid to banks. The 15% rate applies to other interest.
- (f) Rent paid for the use of tangible movable property is taxed at the rate of 5%.
- (g) See the applicable footnotes in Section A.

Sri Lanka has also entered into agreements covering international air transport with the Hong Kong SAR, Oman, Saudi Arabia and the United Arab Emirates.

# Suriname

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## A. At a glance

Corporate Income Tax Rate (%)	36
Capital Gains Tax Rate (%)	36
Branch Tax Rate (%)	36
Withholding Tax (%)	
Dividends	25
Interest	0
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	7 *

\* Losses incurred by companies during their first three years of business may be carried forward indefinitely.

## B. Taxes on corporate income and gains

**Income tax.** Income tax is levied on resident and nonresident companies. Resident companies are those incorporated under Suriname law, even if their management is located abroad, as well as companies incorporated under foreign law, but effectively managed and controlled in Suriname.

For resident companies, income tax is, in principle, levied on the aggregate amount of net income earned from all sources during the company's accounting period. In principle, nonresident companies are subject to Suriname income tax on the following specific Suriname income items:

- Income derived from a permanent establishment in Suriname
- Income derived from real estate located in Suriname and/or debt claims secured by mortgages on real estate located in Suriname

- Income derived from rights to the profit of an enterprise of which the management is located in Suriname

Nonresident companies are deemed to derive income from a permanent establishment in Suriname if they derive income from, among other activities, acting as an insurer and the exploration and exploitation of natural resources, such as oil and gas.

**Tax rates.** Resident and nonresident companies, including branches of foreign companies, are taxed at a standard effective rate of 36%.

**Tax incentives.** Tax incentives, such as tax holidays, may be granted to new business enterprises engaged in certain activities. Business enterprises engaged in, among other activities, mining and tourism may apply for several tax incentives such as accelerated depreciation and fiscal unity. A written letter of request for the granting of a tax incentive must be filed with the Suriname tax authorities.

**Capital gains.** No distinction is made between the taxation of capital gains and the taxation of other income. All income is taxed at the income tax rate of 36%.

**Administration.** The taxable amount is the profit realized in a fiscal year or calendar year.

The final tax return must be filed within six months after the end of the financial year. Any difference between the tax due based on the provisional return and the tax due based on the final return must be settled at the time the final return is filed. Companies must file a provisional tax return before 15 April of the current calendar year or within two and one-half months after the beginning of the current fiscal year. In principle, this return must show a taxable profit that is at least equal to the taxable profit shown on the most recently filed final tax return.

In principle, the tax due on this provisional tax return must be paid in four equal installments, by 15 April, 15 July, 15 October and 31 December or within two and one-half months after the beginning of the current fiscal year and subsequently by the end of every three months.

An extension of time to file the return and pay the tax later than 31 December is not granted. On request of a company, the Tax Inspector may consent to the reporting of a lower taxable profit than the taxable profit shown on the most recently filed final tax return.

The tax authorities may impose arbitrary assessments if the taxpayer fails to file a tax return. Additional assessments may be imposed if insufficient tax is levied when tax returns are filed or when arbitrary assessments are imposed. Depending on the degree of wrongdoing, a penalty of up to 100% of the additional tax due may be levied.

**Dividends.** In principle, a 25% withholding tax is imposed on dividends distributed by resident companies. Dividends distributed by resident companies to qualifying resident companies are exempt from Suriname dividend withholding tax. For this purpose, the following are qualifying resident companies:



- Investment companies conducted as limited liability companies that exclusively or almost exclusively aim to acquire, hold, manage and sell shares
- Other Suriname resident companies that continuously held the shares in the payer of the dividends from the beginning of the year from which the distributed profits derive, provided that the recipient and payer are not mutual shareholders (entities that hold shares in one another)

Withholding tax is not imposed on remittances of profits by branches to their foreign head offices.

**Participation exemption.** In principle, dividend distributions received from qualifying resident companies and qualifying non-resident companies are exempt from Suriname income tax. For dividends received from qualifying nonresident companies, the participation exemption applies if both of the following conditions are met:

- The share interest held in the nonresident company is in line with the business activities of the company receiving the dividend distribution. The share interest held in the nonresident company is regarded to be in line with the business activities of the company receiving the dividend distribution if the recipient holds at least 10% of the share capital of the payer of the dividends.
- The nonresident company is subject to tax in its country of residence.

**Foreign tax relief.** No foreign tax relief is available under domestic law. Foreign tax relief may be available under the tax treaties entered into with Indonesia and the Netherlands.

### C. Determination of taxable income

**General.** Taxable income must be calculated in accordance with “sound business practices.”

In principle, all expenses incurred with respect to the conducting of a business are deductible. However, if expenses exceed normal arm’s-length charges and are incurred directly or indirectly for the benefit of shareholders or related companies, the excess is considered to be a nondeductible profit distribution (dividend).

In principle, interest expenses are deductible for tax purposes if the interest rate is determined on an arm’s-length basis.

No thin-capitalization requirements apply in Suriname under the Suriname tax legislation.

**Inventories.** Inventories are generally valued using the historical-cost, first-in, first-out (FIFO) or weighted-average methods.

**Depreciation.** Depreciation may be calculated using the straight-line, declining-balance or other methods that are in accordance with “sound business practices.”

**Relief for losses.** Losses in a financial year may be carried forward for seven years. No carryback is available. Losses incurred by companies during their first three years of business may be carried forward indefinitely.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Sales tax in Suriname; a general consumption tax on the delivery of services by an entrepreneur as part of its business in Suriname, the delivery of goods produced in Suriname by a Suriname producer and the importation of goods into Suriname	10
Delivery and importation of goods	8
Delivery of services	8
Import duties	0 to 50

## E. Miscellaneous matters

**Foreign-exchange controls.** The currency in Suriname is the Suriname dollar (SRD).

In general a foreign-exchange permit is required for the movement of capital with respect to certain transactions including, but not limited to, the following:

- Loans issued by nonresidents of Suriname
- Real estate transactions in which one of the parties is a nonresident of Suriname
- Capital proceeds (profits and dividends)
- Incorporation of a limited liability company in accordance with the laws of Suriname if the company is located in Suriname and if one of the incorporators or shareholders is a nonresident of Suriname
- Purchase or sale of the shares of a limited liability company established in Suriname by a nonresident of Suriname

Specific guidelines for exchange control apply in the case of a petrol agreement: an agreement concluded between a state enterprise and a contractor for the survey, exploration and exploitation of petrol in specified areas of Suriname.

**Transfer pricing.** In general, intercompany charges must be determined on an arm's-length basis.

## F. Tax treaties

Suriname has entered into tax treaties with Indonesia and the Netherlands. These treaties contain provisions to avoid double taxation between Suriname and these countries regarding taxes on income.

# Swaziland

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## A. At a glance

Corporate Income Tax Rate (%)	27.5
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	27.5
Withholding Tax (%) (a)	
Dividends	15 (b)
Interest	10
Royalties from Patents, Know-how, etc.	15
Management Charges	15
Nonresident Contractors and Professionals	15 (c)
Nonresident Entertainers and Sports Persons	15
Branch Remittance Tax	15 (d)

**Net Operating Losses (Years)**

Carryback	0
Carryforward	Unlimited

- For purposes of the withholding taxes, nonresident companies are companies that are neither registered nor incorporated in Swaziland.
- This withholding tax applies to dividends paid to nonresidents. See Section B.
- This withholding tax is imposed on the payment after deduction of direct costs of materials used in construction operations.
- This tax is imposed on the deemed repatriated income of the branch of a nonresident company. However, for the branch of a company registered in Botswana, Lesotho, Mozambique, Namibia or South Africa, the rate of the tax is reduced to 12.5%.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Domestic and foreign companies are taxed on all income received or accrued from a source in Swaziland or deemed to be from a source in Swaziland.

**Rate of corporate tax.** The corporate tax rate is 27.5%.

**Administration.** The tax year runs from 1 July to 30 June. Corporate taxpayers may obtain permission to pay tax on a different fiscal year-end. Tax returns are due within 30 days after the notice given by the Commissioner of Taxes. Taxpayers unable to submit returns within 30 days must apply for an extension and submit an estimate of their income for the year.

Companies must pay provisional tax based on their estimated annual tax liability in two installments during their financial year. The installments must be paid by the end of the sixth month of the financial year and by the end of the financial year. A third (“topping-up”) payment of any balance of tax due must be made within six months after the end of the financial year.

**Dividends.** Dividends paid to resident companies are exempt from tax. A 15% withholding tax is imposed on dividends paid to nonresidents, including companies. The rate is reduced to 12.5% if the dividend is paid to a company incorporated or registered in the Southern African Customs Union (SACU; the SACU consists of Botswana, Lesotho, Namibia, South Africa and Swaziland), provided the company is not a subsidiary or branch of a company incorporated or registered outside the SACU.

**Foreign tax relief.** No specific provisions for foreign tax relief exists, except under double tax agreements.

**C. Determination of trading income**

**General.** Income tax is levied on all taxable income received by or accrued to any person from a source within Swaziland or deemed to be within Swaziland. Taxable income includes all income other than capital gains and losses and exempt income.

Expenses, other than those of a capital nature, incurred in Swaziland for the production of income may be deducted from income. Expenses incurred outside Swaziland in the production of income are deductible at the discretion of the Commissioner of Taxes.

Expenses specifically allowed include interest on business-related loans, repairs and maintenance, and bad and doubtful debts. In general, expenses that are not wholly or necessarily incurred in the production of income are not deductible.

**Inventories.** In general, inventories are valued using the last-in, first-out (LIFO), first-in, first-out (FIFO) or weighted-average methods.

**Provisions.** Provisions are not normally allowed as deductions in computing taxable income.

**Depreciation.** An annual depreciation allowance, calculated using a declining-balance method, is available for most capital expenditures. An annual depreciation allowance is also available for industrial buildings and hotels. The straight-line method may be used if prior permission is obtained from the Commissioner of Taxes.

An initial allowance of 50% is granted for investments in plant and machinery used in manufacturing, industrial buildings and hotels.

**Relief for trading losses.** Trading losses are deductible in the year sustained and may be carried forward without limitation. Losses may not be carried back.

#### D. Value-added tax

Value-added tax (VAT) is charged on the supply of goods and services in Swaziland as well as on the importation of goods and services. The VAT rates are the standard rate of 14% and a 0% rate.

#### E. Foreign-exchange controls

Foreign-exchange controls are not imposed within the Common Monetary Area, which includes Lesotho, Namibia, South Africa and Swaziland. Transactions outside this area are regulated by the Central Bank of Swaziland in cooperation with authorized dealers. Residents outside the Common Monetary Area may open non-resident accounts.

Foreign-exchange controls are imposed on imports as well as on the repatriation of capital, profits, interest, royalties, fees and income of expatriate personnel. These transactions require prior approval from the Central Bank of Swaziland, but approval is generally granted.

#### F. Treaty withholding tax rates

	Dividends	Interest	Royalties	Management fees
	%	%	%	%
Mauritius	7.5	5	7.5	0
Seychelles	7.5/10 (c)	7.5	10	10
South Africa	10/15 (a)	10	10	10
Taiwan	10	10	10	10
United Kingdom	15	0	0	0
Non-treaty jurisdictions	15 (b)	10	15	15

(a) The 10% rate applies if the shareholder holds at least 25% of the capital. The 15% rate applies in all other cases.

(b) See Section B.

(c) The 7.5% rate applies if the shareholder holds at least 25% of the capital. The 10% rate applies in all other cases.

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### A. At a glance

Corporate Income Tax Rate (%)	22
Capital Gains Tax Rate (%)	22
Branch Tax Rate (%)	22
Withholding Tax (%)	
Dividends	30 (a)
Interest	0
Royalties from Patents, Know-how, etc.	0 (b)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) This withholding tax applies to nonresidents. In general, no withholding tax is imposed on dividends paid to a foreign company that is similar to a Swedish limited liability company (*aktiebolag*) and that is not regarded as a tax-haven company. If the payer is a company listed on the stock exchange, an exemption is granted only if the recipient holds at least 10% of the voting rights of the payer for more than one year.
- (b) Royalties paid to nonresidents are not subject to withholding tax, but are taxed as Swedish-source income at the normal corporate rate of 22% of the net income. However, under most treaties, the tax rate is reduced. Sweden has enacted legislation implementing the European Union (EU) directive on interest and royalties (2003/49/EC), effective from 1 January 2004. In implementing the directive, Sweden considered the most recent amendments adopted by the European Council.

### B. Taxes on corporate income and gains

**Corporate income tax.** Income from all business activities is aggregated as one source of income — income from business. In principle, corporate income tax (CIT) is levied on all corporate income of a company incorporated in Sweden (resident corporation), except for certain domestic and foreign dividends (see *Dividends*). If a Swedish company markets abroad directly or through a branch office, the foreign profits are also subject to Swedish tax, unless a treaty provides otherwise. Nonresident corporations are subject to tax on Swedish-source income only.



**Rate of tax.** Companies pay CIT at a rate of 22%. No local income taxes are levied on corporate profits.

**Capital gains.** No separate regime exists for capital gains, but special rules apply to the calculation of the amount of capital gains and losses.

In general, capital gains on shares held for business purposes are exempt from tax (for details regarding shares held for business purposes, see *Dividends*). Effective from 1 January 2010, the participation exemption regime was expanded to cover interests in partnerships and shares held by partnerships. Corresponding losses on interests in partnerships are nondeductible. However, capital gains on interests in partnerships domiciled outside the European Economic Area (EEA) are not covered by the participation exemption.

Taxable capital gains are aggregated with other corporate business income. Capital gains are subject to tax when transactions are closed, regardless of the holding period or when payment is received.

**Administration.** A company may choose its financial year, but is assigned an income year for tax filing purposes, depending on when the financial year ends. The following table provides the assigned income years and dates of filing of the tax return.

Financial year	Assigned income year	Filing of tax return
1 February–31 January, 1 March–28 February, 1 April–31 March or 1 May–30 April	1 May–30 April	1 November
1 June–31 May or 1 July–30 June	1 July–30 June	15 December
1 August–31 July or 1 September–31 August	1 September– 31 August	1 March
1 October–30 September, 1 November–31 October, 1 December–30 November or 1 January–31 December	1 January– 31 December	1 July

A financial year may be extended for up to 18 months in certain circumstances, such as for a company's first or last financial year or if a company changes its financial year.

Advance tax payments are made in monthly installments during the year to which they relate. The final tax assessment must be issued by the Swedish Tax Agency before the 15th day of the 12th month after the end of the assigned income year. Any balance of tax due must be paid within 90 days after the final tax assessment.

**Dividends.** In general, dividends received from Swedish companies on shares held for business purposes are exempt from tax. Dividend distributions on other shares are fully taxable. Shares are deemed to be held for business purposes if they are not held as current assets and if any of the following conditions is satisfied:

- The shares are unlisted.

- The shares are listed and the recipient of the dividends owns at least 10% of the voting power of the payer for more than one year.
- The shares are held for organizational purposes (important to the business of the holder or a company in the same group as the holder).

Dividends received from foreign companies are exempt from tax if the dividends satisfy the conditions for exemption with respect to dividends on shares in Swedish companies and if the distributing foreign company is equivalent to a Swedish limited liability company (*aktiebolag*).

Shares held in a company resident in an EU member state are considered to be shares held for business purposes if both of the following conditions are satisfied:

- The company owning the shares holds 10% or more of the share capital of the payer (it is irrelevant whether the shares are held as current assets).
- The payer is listed in Council Directive 2015/121/EU (the Parent-Subsidiary Directive) and is required to pay one of the taxes listed in the directive.

Partnerships may receive tax-exempt dividends to the extent that the dividends would be exempt if received directly by the owners of the partnership interests.

However, if the distributing company is a foreign company that can deduct the dividend payment as interest or as a similar payment, the dividend is not exempt for the Swedish receiving company.

**Foreign tax relief.** Under Swedish law, a Swedish company may usually claim a credit against CIT liability for comparable taxes paid abroad. Sweden applies a so-called “overall” tax credit system. However, certain tax treaties may override internal foreign tax credit rules and instead exempt foreign-source income from Swedish tax.

### C. Determination of trading income

**General.** Corporate income tax is based on taxable business income computed according to the accrual method of accounting. Taxable business income generally includes all worldwide income earned by a corporation. The major exceptions are capital gains and dividends on shares held for business purposes (see Section B).

**Inventories.** Inventories are valued at the lower of acquisition cost or actual value. Acquisition cost is determined using the first-in, first-out (FIFO) method. An obsolescence provision of 3% is allowed when using acquisition cost to value inventories.

**Reserves.** A profit allocation reserve allows a 25% deduction of the taxable income for the financial year. Each year’s reserve must be added back to taxable income no later than six years after the year of the deduction. The oldest remaining reserve must always be reversed first. The reserve is based on net income before tax and includes any amounts from the allocation reserve that are added back to taxable income.

Tax is imposed annually on fictitious interest income with respect to the deferred tax amounts.

**Depreciation.** Equipment with a life of three years or less may be written off in the year of purchase. Machinery and equipment may be written off either on a straight-line basis at 20% of cost annually or on a declining-balance basis at 30% of the current tax value. In any one year, the same method must be used for all machinery and equipment. However, companies can switch to a different method each year. The above methods may be used only if the same depreciation method is used in the financial statements. If this condition is not satisfied, a third method, which is also based on the remaining depreciable value, is available. Under this method, companies may choose any percentage, up to a maximum of 25%. The same amortization rules that govern machinery apply to patents, trademarks, purchased goodwill and other intangible property.

Depreciation of buildings is straight-line over the building's expected life. In general, commercial buildings may be depreciated at 2% to 5% annually, factory buildings at 4% and office buildings at 2%. Buildings subject to greater wear and tear may be depreciated at higher rates.

If depreciable machinery and equipment are sold, the proceeds reduce the depreciable base for the remaining machinery and equipment.

**Relief for losses.** Losses may be carried forward indefinitely. Losses may not be carried back.

The tax law includes rules restricting the use of old tax losses of acquired companies.

In general, the possibility of offsetting the losses of an acquired company through a group contribution (see *Groups of companies*) may in certain circumstances be restricted during a five-year period. The rules also include a restriction under which the amount of losses that may be used is limited to twice the amount paid for the shares. Special restrictions also apply to the possibility of using losses with respect to mergers.

**Groups of companies.** There is no consolidated treatment whereby all companies in a group may be treated as a single taxable entity. However, rules permit income earned by companies in a corporate group to be distributed within the group through the use of group contributions, which are deductible for the paying company and taxable income for the receiving company. In general, group contributions may be made between Swedish group companies if ownership of more than 90% exists during the entire financial year. This rule applies even if a foreign parent or subsidiary is in the group structure. A Swedish permanent establishment of a foreign company resident in an EEA state is treated as a Swedish company for purposes of the group contribution rules.

In certain circumstances it is possible for Swedish companies to claim deductions of losses in foreign subsidiaries.

## D. Other significant taxes

The following table describes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on goods (including imported goods but excluding exported goods) and services, unless specifically exempt by law; based on sales price excluding VAT	
Standard tax rate	25
Rate on hotel services, food served in restaurants and foodstuffs	12
Rate on books and newspapers, entry to theaters, cultural and sports events, passenger transportation and copyrights	6
Social security contributions, on salaries, wages and the assessed value of benefits in kind; paid by employer	
General rate	31.42
Special salary tax, on earnings not included in the base for social security contributions; paid by the employer	24.26

## E. Miscellaneous matters

**Controlled foreign companies.** A Swedish company that holds or controls, directly or indirectly, at least 25% of the capital or voting rights of a foreign low-taxed entity (controlled foreign company, or CFC) is subject to current taxation in Sweden on its share of the foreign entity's worldwide profits if the ownership or control exists at the end of the Swedish company's fiscal year. Foreign entities are considered to be low-taxed if their net income is taxed at a rate of less than 12.1% (55% of the effective corporate income tax rate) on a base computed according to Swedish accounting and tax rules. However, the CFC rules do not apply to foreign entities that are resident and subject to corporate income tax in jurisdictions on the so-called "white list." If Sweden has entered into a tax treaty with a jurisdiction on the white list, an additional requirement for the exemption is that the foreign entity and its income must be eligible for treaty benefits.

**Anti-avoidance legislation.** A general anti-avoidance act applies in Sweden. The act is considered a source of insecurity to taxpayers because it limits the predictability of the tax law. Under the act, a transaction may be adjusted for tax purposes if all of the following conditions are met:

- The transaction, alone or together with other transactions, is part of a procedure that provides a substantial tax advantage to the taxpayer.
- The taxpayer, directly or indirectly, participated in the transaction or transactions.
- Taking into account all of the circumstances, the tax advantage can be considered to be the predominant reason for the procedure.
- A tax assessment based on the procedure would be in conflict with the purpose of the tax law, as it appears from the general design of the tax rules, the rules that are directly applicable or the rules that have been circumvented through the procedure.

**Transfer pricing.** The Swedish transfer-pricing regulation is based on the arm's-length principle. As a result, in general, the transfer-pricing guidelines of the Organisation for Economic Co-operation and Development (OECD) apply. The Swedish Tax Agency may adjust the income of an enterprise if its taxable income in Sweden is reduced as a result of contractual provisions that differ from those that would be agreed to by unrelated parties and if the following three additional conditions are met:

- The party to which the income is transferred is not subject to tax in Sweden.
- It is reasonably established that a community of economic interest exists between the parties.
- It is clear from the circumstances that the contractual provisions were not agreed upon for reasons other than the community of economic interest.

If the conditions under the law are met, the Swedish Tax Agency may increase the income of an enterprise by the amount of the reduction resulting from the contractual provisions that were not determined at arm's length.

Under Swedish rules, a Swedish company must have formal transfer-pricing documentation in place with respect to cross-border transactions. These requirements have been modified to follow the OECD Base Erosion and Profit Shifting (BEPS) Action 13 recommendations. The new documentation requirements apply to financial years starting after 31 March 2017 and require a Master File/Local File structure under which one Master File is prepared for the multinational enterprise group, and a Local File is prepared for each country where the group has operations. Small and medium-sized multinational enterprise groups are excluded from the obligation to prepare transfer-pricing documentation. The classification of small and medium-sized companies includes the following companies:

- Companies employing less than 250 persons
- Companies having an annual turnover below SEK450 million or a balance-sheet value below SEK400 million

In addition to the above, aggregated transactions with a counterparty that amount to less than SEK5 million per counterparty are deemed "non-essential" and do not need to be documented in the Local File.

**Debt-to-equity rules.** No thin-capitalization rules exist in Sweden. However, the Companies Act requires the compulsory liquidation of a company if more than 50% of the share capital is lost without replacement of new capital.

Effective from 1 January 2013, the earlier Swedish interest deduction limitation rules were expanded. The main rule now limits deductibility of interest expense relating to all loans between related parties. However, the main rule has two exemptions, which are the 10% rule and the "business reasons exemption."

The 10% rule provides that interest expenses are deductible if the interest income related to the loan is taxable at a rate of 10% in the hands of the beneficial owner of the interest income. To determine whether the rate is 10%, the interest income is considered on a stand-alone basis; that is, as if the interest income is the only

income recognized by the beneficial owner. In addition to satisfying the 10% test, the taxpayer must show that the predominant reason for establishing the debt relationship is not to provide the group with a substantial tax advantage. Specific rules with respect to situations in which the recipient is subject to yield tax exist.

The “business reasons exemption” provides that interest expenses are deductible if the debt relationship is predominately motivated by business reasons. If the debt relationship relates to an acquisition of shares or share-based instruments from a related company, or to an acquisition of shares or share-based instruments in a company that becomes related after the acquisition, it is also required that the acquisition be motivated predominantly by business reasons. In addition, the beneficial owner of the income must be resident in an EEA state or, under certain circumstances, a state with which Sweden has a tax treaty. The rules also provide that it should be taken into consideration whether the financing could have been made through contributions by direct or indirect shareholders or by the lender.

## F. Treaty withholding tax rates

Interest payments are not subject to withholding tax under Swedish internal law. Consequently, the table below provides treaty withholding tax rates for dividends and royalties only. However, under Swedish domestic law, no dividend withholding tax is levied on dividends paid by a Swedish company to a “foreign company,” as defined under Swedish law, if certain holding requirements are met. A “foreign company” is defined as a foreign legal entity that is subject to taxation equivalent to that of a Swedish company. In addition, a foreign legal entity qualifies as a “foreign company” if it is resident and liable to income tax in a country with which Sweden has entered into a comprehensive tax treaty and if it is eligible for the treaty benefits.

Swedish domestic law on withholding tax contains an anti-avoidance rule. Under this rule, a person or entity that holds shares to provide an illegitimate tax advantage or reduction of withholding tax for someone else is subject to withholding tax. The anti-avoidance rule may also potentially apply to situations for which an exception from withholding tax would otherwise be available.

Residence of recipient	Dividends		Royalties (a)
	Normal treaty rate	Reduced rate (b)(d)	
	%	%	%
Albania	15	5	5
Argentina	15	10	3/5/10/15 (g)
Australia	15	—	10
Austria	10	5	0/10 (h)
Bangladesh	15	10	10
Barbados	15	5	5
Belarus	10	5 (c)	3/5/10 (j)
Belgium	15	5	0
Bolivia	15	0	15
Bosnia and Herzegovina	15	5	0
Botswana	15	—	15

Residence of recipient	Dividends		Royalties (a) %
	Normal treaty rate %	Reduced rate (b)(d) %	
Brazil	25	—	25 (i)
Bulgaria	10	—	5
Canada	15	5 (c)	0/10
Chile	10	5 (c)	5/10 (k)
China (mainland)	10	5	6/10 (k)
Cyprus	15	5	0
Czech Republic (e)	10	0	0/5 (l)
Denmark	15	0	0
Egypt	20	5	14
Estonia	15	5	5/10 (k)
Faroe Islands	15	0	0
Finland	15	0	0
France	15	0	0
Gambia	15	5 (c)	5/12.5 (m)
Georgia	10	0	0
Germany	15	0	0
Greece	0	—	5
Hungary	15	5	0
Iceland	15	0	0
India	10	—	10
Indonesia	15	10	10/15 (n)
Ireland	15	5	0
Israel	15	5	-/0 (o)
Italy	15	10	5
Jamaica	22.5	10	10
Japan	10	0	0
Kazakhstan	15	5	10
Kenya	25	15	20
Korea (South)	15	10	10/15
Latvia	15	5	5/10 (k)
Lithuania	15	5	5/10 (k)
Luxembourg	15	0	0
Macedonia	15	0	0
Malaysia	15	0	8
Malta	15	0	0
Mauritius	15	0	0
Mexico	15	5 (c)	10
Montenegro (f)	15	5	0
Namibia	15	5 (c)	5/15 (m)
Netherlands	15	0	0
New Zealand	15	—	10
Nigeria	10	7.5	7.5
Norway	15	0	0
Pakistan	— (q)	15	10
Philippines	15	10	15
Poland	15	5	5
Portugal	10	0	10
Romania	10	—	5
Russian Federation	15	5	0
Serbia (f)	15	5	0
Singapore	15	10	0
Slovak Republic (e)	10	0	0/5 (l)
Slovenia (f)	15	5	0
South Africa	15	5 (c)	0

Residence of recipient	Dividends		Royalties (a)
	Normal treaty rate	Reduced rate (b)(d)	
	%	%	
Spain	15	10	10
Sri Lanka	15	—	10
Switzerland	15	0	0
Taiwan	10	—	10
Tanzania	25	15	20
Thailand	20	15	15
Trinidad and Tobago	20	10	—/0/20 (r)
Tunisia	20	15	5/15 (p)
Turkey	20	15	10
Ukraine	10	5 (c)	0/10 (m)
United Kingdom	5	0	0
United States	15	0/5	0
Venezuela	10	5	7/10 (s)
Vietnam	15	10 (c)	5/15 (m)
Zambia	15	5	10
Zimbabwe	20	15	10
Non-treaty jurisdictions	30	—	0

- (a) Royalties paid to nonresidents are not subject to withholding tax but are taxed as Swedish-source income at the normal corporate tax rate of 22%. However, under certain treaties, the tax rate may be reduced.
- (b) The reduced tax rate applies if the parent company owns at least the minimum percentage of the paying company as prescribed by the relevant treaty.
- (c) The rate of tax is further reduced if specific conditions are satisfied.
- (d) Under Swedish domestic law, dividends paid to a “foreign company” (as defined under Swedish law) are exempt from withholding tax if the shares are held for business purposes. Unlisted shares in Swedish companies are normally considered to be held for business purposes unless they are regarded as inventory. If the shares are listed, they must also be held for at least 12 months and the holding must amount to at least 10% of the voting rights. A special exemption also applies if the recipient fulfills the conditions in Article 2 of the EU Parent-Subsidiary Directive and if the holding is at least 10% of the share capital.
- (e) Sweden applies the treaty with the former Czechoslovakia to the Czech Republic and the Slovak Republic.
- (f) Sweden applies the treaty with the former Yugoslavia to Bosnia and Herzegovina, Croatia, Montenegro, Serbia and Slovenia.
- (g) The rates are 3% on news royalties, 5% for copyright (excluding films and certain other items) royalties, 10% for industrial royalties and 15% in other cases.
- (h) The higher rate applies if the Austrian company owns more than 50% of the capital of the Swedish company. The EU Interest and Royalties Directive may be more beneficial in this respect.
- (i) In practice, the domestic Swedish rate of 22% applies to all royalties because the treaty rate of 25%, which applies to trademarks, is higher and the treaty withholding tax rate of 15% for all other royalties has expired.
- (j) The rates are 3% for patent royalties, 5% for leasing royalties and 10% for other royalties.
- (k) The lower rate applies to leasing, and the higher rate applies to other royalties.
- (l) The rates are 0% for copyright royalties and 5% for other royalties.
- (m) The lower rate applies to industrial royalties.
- (n) The lower rate applies to leasing and know-how royalties.
- (o) The reduced treaty rate does not apply to mining royalties and cinematographic film royalties.
- (p) The lower rate applies to copyright royalties.
- (q) The domestic rate applies.
- (r) The 0% rate applies to copyright royalties. The domestic rate applies to mining royalties. The 20% rate applies to all other royalties.
- (s) The 10% rate applies to copyright royalties.



# Switzerland

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**A. At a glance**

Corporate Income Tax Rate (%)	12 to 24 (a)
Capital Gains Tax Rate (%)	– (b)
Branch Tax Rate (%)	12 to 24 (a)
Withholding Tax (%) (c)	
Dividends	35

Interest	0/35 (d)
Royalties from Patents, Know-how, etc.	0
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0 (e)
Carryforward	7 (e)

- (a) The rates reflect the maximum aggregate effective tax burden of ordinarily taxed companies and are composed of federal and cantonal/communal taxes. Approximately 7.8% of the rates relate to the federal tax. The rates depend on the canton and commune in which the taxable entity performs its activities. Lower rates are available for privileged companies described in Section E.
- (b) See Section B.
- (c) The withholding tax rates may be reduced under the Switzerland-European Union (EU) agreement (see Section E) and under double tax treaties (see Section F).
- (d) Withholding tax is levied on bank interest, but normally not on interest on commercial loans, including loans from foreign parents to Swiss subsidiaries.
- (e) Income of the current year may be offset against losses incurred in the preceding seven years. Losses may not be carried back (see Section C).

## B. Taxes on corporate income and gains

**Income tax.** Switzerland is a confederation of 26 cantons (states). Taxes are levied at the federal and cantonal/communal levels. As a result of this multilayered tax system, no standard tax rates exist. Under the Swiss income tax system, earnings are taxed at the corporate level and, to the extent profits are distributed as dividends, again at the shareholder's level. However, see *Dividends* for details regarding the participation exemption.

In general, a resident corporation is a corporation that is incorporated in Switzerland. In addition, a corporation incorporated in a foreign country is considered a resident of Switzerland under Swiss domestic law if it is effectively managed and controlled in Switzerland.

Resident companies are subject to corporate tax on worldwide income. Income realized by a foreign permanent establishment of a Swiss company or derived from foreign real estate is excluded from taxable income. Losses incurred by a foreign permanent establishment are deductible from taxable income. However, if a foreign permanent establishment of a Swiss company realizes profits in the seven years following the year of a loss and if the permanent establishment can offset the loss against such profits in the foreign jurisdiction, the Swiss company must add the amount of losses offset in the country of the permanent establishment to its Swiss taxable income.

A company not resident in Switzerland is subject to Swiss income tax if it has a permanent establishment in Switzerland.

*Tax Harmonization Act.* The Tax Harmonization Act (THA) sets certain minimum standards for cantonal/communal taxes. However, cantonal/communal tax rates are not harmonized under the THA.

**Rates of corporate tax.** The federal corporate income tax is levied at a flat rate of 8.5% of taxable income. Because taxes are deductible, the effective federal corporate income tax rate is approximately 7.8%.

Cantonal/communal tax rates vary widely. The cantonal/communal tax rates are usually a certain percentage (known as "multipliers")

of the relevant cantonal statutory tax rates. The total effective maximum tax burden, which consists of federal and cantonal/communal taxes, ranges from 12% to 24%, depending on the canton and commune in which the taxable entity is located.

**Tax incentives.** In Switzerland, tax incentives are granted to companies either by the cantons or by both the cantons and the federation. Except for the limitation on the duration of tax incentives to a maximum period of 10 years, the cantons are autonomous in granting cantonal/communal tax incentives to the following:

- Newly established enterprises
- Existing companies that substantially change their business if such change corresponds to the incorporation of a new enterprise

Tax incentives at the federal level require approval of the federation. Incentives at the federal level are governed by the federal law on regional policy, which is based on the following key factors:

- Establishment of new business activities in a qualifying area of economic development
- The performance by the applying company of industrial activities or services that have a close nexus to production activities
- Creation of new jobs or maintaining of jobs
- Particular economic relevance of the planned project for the area

Effective from 1 July 2016, Switzerland's Federal Council adopted revised regulations on the Swiss federal tax holiday scheme, which provide for the following main changes:

- Introduction of a maximum amount of federal tax relief in relation to the number of jobs. Production-related service providers are eligible for a federal tax holiday only if they create at least 10 new jobs within the first 5 years. No such limitation applies to industrial enterprises.
- Adjustment of the qualifying areas including new areas that are much more attractive for business than the very remote and rural areas taken into consideration before the revision.
- Enhanced transparency (the information regarding federal tax holidays granted will be published annually).

Federal and cantonal/communal tax holidays are typically subject to claw-back provisions. The claw-back clause is generally triggered if the conditions for the tax holidays are no longer met (for example, the envisaged number of jobs have not been created or have not been maintained within the relevant time frame).

**Capital gains.** Capital gains are generally taxed as ordinary business income at regular income tax rates. Different rules may apply to capital gains on real estate or to real estate companies at the cantonal/communal level.

Capital gains derived from dispositions of qualifying investments in subsidiaries qualify for the participation exemption. Under the participation exemption rules for capital gains, the parent company must sell a shareholding of at least 10% and, at the time of the disposal, it must have held the shares for at least one year (for further details regarding the participation exemption, see *Dividends*).

**Administration.** Income tax is generally assessed on the income for the current fiscal year, which corresponds to the corporation's financial year. The financial year does not need to correspond with the calendar year. Corporations are required to close their books once a year and file annual returns. This rule does not apply to the founding year. Consequently, the first fiscal year can be extended up to a maximum of nearly two years.

The cantonal deadlines for filing the corporate tax return vary, and extensions may be obtained. The federal and cantonal tax returns are generally filed together.

Corporations may pay income tax in one lump-sum payment or in installments. The deadline for the payment of federal income tax is 31 March of the year following the fiscal year. The deadline for cantonal/communal taxes is usually between 30 June and 31 December.

**Dividends.** Dividends received are taxable as ordinary income. However, under the participation exemption rules, the federal tax liability is reduced by a proportion of dividend income (as defined by the law) to the total taxable income if the recipient of dividends satisfies any of the following conditions:

- The recipient owns at least 10% of the shares of the distributing corporation.
- The recipient has a share of at least 10% of the profits and reserves of the distributing corporation.
- The recipient holds shares with a market value of at least CHF1 million.

The participation exemption also applies at the cantonal/communal level. However, participation income received by qualifying holding, domiciliary or mixed companies is directly exempt from cantonal/communal corporate income taxes (see Section E).

Swiss companies distributing dividends or proceeds from liquidation exceeding the nominal share capital and the capital contribution reserves are generally required to withhold tax at a rate of 35%. Under the Net Remittance Procedure, Swiss companies distributing qualifying dividends may apply the treaty withholding rates prospectively without making the full 35% prepayment. The Net Remittance Procedure applies to dividends distributed on "substantial participations." These are participations that qualify for an additional reduction or a full exemption from Swiss withholding tax under a comprehensive income tax treaty or under the Automatic Exchange of Information (AEI) Agreement Switzerland-EU (see Section E). To distribute dividends under the Net Remittance Procedure, companies must file an application with the Swiss Federal Tax Administration (SFTA) before distributing dividends, as well as a notification form no later than 30 days after the due date of the dividend.

However, under a revised law, which entered into force on 15 February 2017, the application of the Net Remittance Procedure remains possible even if the 30-day filing period is not met. As a result, late filing of the dividend notification forms no longer results in a denial of the notification procedure with late interest consequences.

Under the capital contribution principle, which entered into force on 1 January 2011, contributions to equity made by a shareholder on



or after 31 December 1996 can be distributed without triggering withholding tax consequences, provided certain requirements are met.

**Intercantonal tax allocation.** If a company operates in more than one canton, that is, the head office is in one canton and permanent establishments are in other cantons, its taxable earnings are allocated among the different cantons. The allocation method depends on the type of business of the company. The determination of the method is based on case law, which is governed by a constitutional guarantee against intercantonal double taxation.

**Foreign tax relief.** Income from foreign permanent establishments of a Swiss company is not taxable in Switzerland. The international allocation of profit is based on intercantonal rules, unless a tax treaty provides for a different method. For the treatment of losses of foreign permanent establishments, see *Income tax*.

### C. Determination of taxable income

**General.** The net profit shown in commercial financial statements generally serves as the basis for income taxation. However, the tax authorities may require adjustments to correct for certain items such as excessive depreciation and provisions.

Federal and cantonal/communal corporate taxes paid or due are deductible for corporate income tax purposes.

**Inventories.** Any system of inventory pricing that is in accordance with accepted business practice and is used consistently by the taxpayer is presumed to be acceptable by the tax authorities.

**Provisions.** Swiss federal and cantonal regulations provide that a company may record a general tax-deductible reserve amounting to one-third of the inventory valuation.

Provisions to cover doubtful accounts receivable and expected liabilities are generally allowed for tax purposes if they are commercially justifiable.

In general, a reserve of 5% of accounts due from Swiss debtors and 10% of those due from foreign debtors is allowed, without substantiation. In addition, provisions for specific accounts may be established if economically justifiable.

**Depreciation.** Depreciation may be calculated using the declining-balance or the straight-line method. For federal tax purposes, the following are some of the maximum rates set forth in the official guidelines.

Asset	Method	
	Declining-balance (%)	Straight-line (%)
Commercial buildings	3 to 4	1.5 to 2
Industrial buildings	7 to 8	3.5 to 4
Office furniture	25	12.5
Office machines	40	20
Data-processing equipment	40	20
Machinery	30	15
Motor vehicles	40	20
Intangibles	40	20

Some cantons have particularly favorable provisions (for example, immediate or one-time depreciation).

**Relief for losses.** Income of the current year may be offset against losses incurred in the preceding seven years, to the extent that such losses have not yet been used to absorb profits of prior years. No loss carryback is allowed.

**Groups of companies.** Except for value-added tax purposes, the concept of a consolidated or group return is unknown in Swiss tax law. Each corporation is treated as a separate taxpayer and files its own return.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on deliveries of goods and services, including imports of goods and the purchase of services and (in very specific cases) of goods from foreign businesses that are not registered for VAT in Switzerland	
Standard rate	7.7
Hotel and lodging services (overnight stays only)	3.7
Preferential rate (applicable to items such as foodstuffs, farming supplies, agricultural products, medicines and newspapers)	2.5
Exports	0
Net equity tax	
Federal rate	0
Cantonal/communal rates (varies among the cantons and depends on the relevant tax status and, if applicable, the multiplier applied by the canton/commune); the cantons can provide that the corporate income tax can be credited against the cantonal/communal equity tax	0.001 to 0.525
Payroll taxes	
Social security contributions, on gross salary; paid by	
Employer	5.125
Employee	5.125
Company pension fund; rate varies by plan (compulsory and optional), gender and age of employee; paid by	
Employer (must bear at least one-half of the contribution)	3.5 to 9
Employee	3.5 to 9
Unemployment insurance, imposed on annual gross salary	
Gross salary up to CHF148,200; paid by	
Employer	1.1
Employee	1.1
Gross salary from CHF148,200 (uncapped); paid by	
Employer	Additional 0.5
Employee	Additional 0.5
Family allowance; paid on salary by employer; imposed by various cantons at different rates	0.1 to 4

Nature of tax	Rate (%)
Maternity insurance (only for some cantons)	Various
Accident insurance; rates vary depending on extent of coverage and the risk of the business; imposed on annual gross salary of up to CHF148,200	
Occupational; paid by employer; for extremely high risks, rates vary depending on various factors (for example, industrial sector of the employer)	Various
Non-occupational; employer may elect to charge all or part of these premiums to employees; for extremely high risks, rates vary depending on various factors (for example, industrial sector of the employer)	Various
Stamp duties	
One-time capital contribution tax, on Swiss shares (the rate is 0% for shares issued within the scope of qualified mergers and reorganizations, as well as for financial reorganizations, provided specific requirements are met); for incorporations and capital increases, the first CHF1 million is exempt from tax	1
Securities turnover tax; on the sale or exchange of taxable securities involving a Swiss-registered securities dealer (as defined by the law) that acts in the capacity of a broker or dealer or that trades on its own account; the onus for payment of the securities turnover tax is on the Swiss securities dealer, but it is customary that the securities turnover tax be charged to the ultimate buyer and/or seller; several types of parties are exempt, including investment fund managers and foreign companies listed on a recognized stock exchange; several types of transactions are exempt, including the brokering of foreign bonds between foreign parties and qualifying internal group transactions	
Securities issued by a Swiss party	0.15
Securities issued by a foreign party	0.3
Stamp duty, on redeemable capital insurance with single premium for Swiss policyholders	2.5

## E. Miscellaneous matters

**Domiciliary and mixed companies.** Domiciliary and mixed companies are primarily engaged in activities abroad. The profits derived by these companies from non-Swiss sources are taxed at substantially reduced rates at the cantonal/communal level. Domiciliary and mixed companies can be used for sales, financing, holding of intellectual property and other activities focusing primarily on non-Swiss markets. Relief at the federal level is available for principal companies (see *Principal companies*) with sufficient substance.

Under the THA (see Section B), for cantonal taxes, the following tax rules apply to domiciliary and mixed companies:

- Income derived from a qualifying participation (10% of the share capital, 10% of the profit and reserves or fair market value

of CHF1 million), including capital gains resulting from step-ups in the tax basis of such investments, is exempt from tax.

- Income derived from Swiss sources not described in the item above is taxed at ordinary rates (this rule applies only to mixed companies because domiciliary companies do not derive Swiss-source income).
- Income derived from non-Swiss sources is also taxed at ordinary rates. However, the tax base is substantially reduced by the application of rules that take into account the significance of administrative activities performed by the Swiss company (this depends on the intensity of its physical presence in Switzerland and the level of its economical affinity to Switzerland). As a result of these rules, approximately 10% to 30% of the non-Swiss income is subject to the ordinary cantonal/communal tax, while the remaining non-Swiss income is exempt from tax.

**Holding companies.** Holding companies may take advantage of a special status for cantonal and communal tax purposes. At the cantonal/communal level, in general, holding companies are exempt from corporate income tax (only income from Swiss real estate is ordinarily taxed). Consequently, all types of income derived from financial participations, such as dividends, interest and capital gains, are exempt at the cantonal/communal level. At the federal level, tax relief is granted with respect to qualifying dividends and capital gains (see Section B).

Currently, holding companies are prohibited from performing any commercial activities in Switzerland.

**Service companies.** For Swiss resident companies providing coordination or management services to a multinational group (technical, administrative or scientific assistance including research and promotion activities), Swiss tax law requires that a share of the profits accruing to the group be allocated to the Swiss company. Switzerland applies the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

**Principal companies.** Federal guidelines provide special rules for international profit allocation of principal companies at the federal level. A Swiss company within an international group is treated as a principal company if it assumes risks and responsibilities for certain activities, including the following:

- Purchasing
- Planning of research and development (R&D), manufacturing and distribution
- Development of marketing strategies
- Logistics
- Treasury
- Finance
- Administration

In structures involving principal companies, manufacturing is often performed outside of Switzerland by group companies or third parties on a contract manufacturing or cost-plus basis on the instruction of and for the account of the principal. The local distribution affiliates typically act as agents with the authority to conclude contracts on behalf of the principal company

(commissionaires) or as limited-risk (stripped-buy/sell) distributors because of the related risks borne by the principal.

The federal guidelines can result in an attractive combined federal and cantonal/communal effective tax rate that may be as low as approximately 5% to 10%, depending on the particular set-up and the location. In addition, depending on the substance and the location, principal companies may qualify for tax holidays of up to 10 years.

In 2014, the SFTA specified its practice and issued new interpretation guidelines to ensure a consistent taxation of Swiss principal companies for federal income tax purposes.

The new interpretation guidelines refer to the following:

- Exclusivity of distributors
- Remuneration of distributors
- Outsourcing of principal functions
- Mutual agreement procedures and advance pricing agreements (APAs)

**Debt-to-equity rules.** Under the federal thin-capitalization guidelines, which are also applied by most cantons, the minimum capitalization is calculated based on the maximum indebtedness of all of the assets. For each type of asset, only a specified percentage may be financed with debt from related parties (directly or indirectly). Consequently, the debt-to-equity ratio results from the sum of the maximum amount of indebtedness of all of the assets. The following are examples of the maximum percentages of indebtedness:

- Cash: 100%
- Accounts receivable: 85%
- Participations: 70%
- Manufacturing plants: 70%
- Intangibles: 70%

The required equity is calculated at the end of the year based on the balance sheet or on the fair market value of all assets, if higher.

For finance companies, the maximum indebtedness is 6/7 of the assets.

Interest rates may not exceed arm's-length rates (the SFTA publishes safe haven rates periodically).

In certain cantons, specific debt-to-equity rules apply to real estate companies.

**Foreign-exchange controls.** Switzerland does not impose foreign-exchange controls.

**Transfer pricing.** Switzerland does not have statutory transfer-pricing rules. Intercompany charges should be determined at arm's length. The tax authorities accept the transfer-pricing methods described by the OECD guidelines. In particular, cost-plus charges should be justified and documented with appropriate ranges of mark-ups for each individual case. For the provision of financial and management services, the cost-plus method is accepted in exceptional cases only.

Special guidelines apply concerning minimum and maximum interest on loans granted to or from shareholders or related parties.

Companies may discuss transfer-pricing issues with the tax authorities and confirm the outcome in binding rulings. In complex cases, they may apply for APAs. Rulings are more common.

Switzerland signed the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports (Base Erosion and Profit Shifting [BEPS] Action 13) on 27 January 2016. The local legislation (Act and Ordinance on the International Automatic Exchange of Country-by-Country Reporting of Multinationals) entered into force on 1 December 2017. Multinational corporations that are resident in Switzerland with a minimum consolidated turnover of more than CHF900 million are required to submit a Country-by-Country Report (CbCR) for fiscal years starting on or after 1 January 2018. The 2018 fiscal year CbCR will be exchanged with partner countries beginning in 2020. Voluntary filing is possible for Swiss ultimate parent entities for the 2016 and 2017 fiscal years.

**Reorganizations.** The Swiss Merger Law of 3 October 2003 authorizes companies to carry out tax-neutral reorganizations (mergers, demergers and transformations) if certain conditions are met, including the following:

- Liability to Swiss tax continues after the reorganization.
- Assets and liabilities are transferred and acquired at their previous value for income tax purposes.

**Tax proposal.** On 12 February 2017, Swiss voters rejected in a popular vote the federal bill on Corporate Tax Reform III as adopted by the Swiss parliament in June 2016. As a result, the Swiss Federal Council approved the cornerstones for a new tax reform (Tax Proposal 17) in June 2017.

Within the framework of Tax Proposal 17, the preferential treatment of domiciliary, mixed and holding companies will be abolished and replaced by new competitive and internationally accepted measures. In addition, the guidelines providing special rules for the international profit allocation of principal companies at the federal level, and the taxation rules applicable to Swiss finance branches will also be abolished.

Tax Proposal 17 is expected to replace the above mentioned taxation schemes with the following:

- Broad reduction of the corporate headline tax rates (12% to 14% in the most relevant cantons)
- Introduction of a Patent Box (mandatory at the cantonal level)
- Tax incentives for R&D (optional at the cantonal level)
- Step-up/transitional measures for the disclosure of built-in gains (including goodwill) on immigration to Switzerland or on a status change from a preferential tax status to ordinary taxation
- Cantonal tax relief to a maximum of 70%
- Reductions of the capital tax on a company's net equity (optional at the cantonal level; no capital tax at the federal level)

The Swiss Federal Council will issue a dispatch of legislation in the second quarter of 2018. According to the Swiss Federal

Council, the entry into force of the bill would be 2020, at the earliest.

**Anti-avoidance measures.** Switzerland has entered into more than 90 treaties for the avoidance of double taxation. These treaties generally follow the OECD model treaty. In addition, Switzerland enacted in 1962 domestic anti-avoidance measures to counter the improper use of its treaties by foreign taxpayers (commonly known as the 1962 Abuse Decree). This set of specific anti-avoidance measures were amended and interpreted by the 1999, 2001 and 2010 Abuse Circulars. In June 2017, the Swiss Federal Council further softened the importance of the 1962 Abuse Decree when it repealed the part of it related to the obvious unlawful claim of treaty benefits.

**Automatic Exchange of Information Agreement Switzerland-EU.** Article 9 of the AEI Agreement Switzerland-EU contains a measure providing that dividends paid (similar rules apply to inter-company interest payments and royalties) are not subject to tax in the country of source if the following conditions are satisfied:

- The parent company has a direct minimum holding of 25% of the capital of the payer of the dividends (subsidiary) for at least two years.
- Both the parent company and the subsidiary are subject to corporate tax without being exempted and both are in the form of a limited company.
- One company is tax resident in an EU member state and the other company is tax resident in Switzerland.
- Neither company is tax resident in a third state under a double tax treaty with that state.

The above measure is equal to the measure contained in Article 15 of the former Switzerland-EU Agreement on Savings Taxation.

The AEI Agreement Switzerland-EU entered into force on 1 January 2017. However, information begins to be automatically exchanged on 1 January 2018.

Bilateral double tax treaties between Switzerland and individual EU member states remain applicable and are not restricted by the AEI Agreement Switzerland-EU.

The AEI Agreement Switzerland-EU will be extended to other jurisdictions that join the EU in the future.

Relief from Swiss withholding tax under the AEI Agreement Switzerland-EU requires advance approval of Form 823C by the SFTA. The SFTA assesses, among other items, beneficial ownership and substance elements on its examination of Form 823C. An approval remains valid for a three-year period. Reimbursements of Swiss withholding tax on dividends paid before the completion of the two-year minimum holding period requires filing and approval of Form 70 after the completion of the two-year holding period (Denkavit-Practice; this is a reference to the European Court of Justice's decision in the Denkavit case).

## **F. Treaty withholding tax rates**

Switzerland benefits from measures equivalent to those found in the EU. Subject to fulfillment of the respective requirements, the

taxpayer may rely either on the AEI Agreement Switzerland-EU or the applicable double tax treaty.

<b>Residence of recipient</b>	<b>Dividends %</b>	<b>Interest (a) %</b>	<b>Royalties (b) %</b>
Albania	5 (d)	5 (ff)	0
Algeria	5 (o)	10	0
Argentina	10/15 (ggg)	0/12 (qqq)	0
Armenia	5 (mm)	0/10 (rrr)	0
Australia	0/5/15 (cccc)	0/10 (ffff)	0
Austria	0 (t)(gg)	0 (gg)	0
Azerbaijan	5 (jj)	0/5/10 (kk)	0
Bangladesh	10 (t)	0/10 (uu)	0
Belarus	5 (d)	0/5/8 (gggg)	0
Belgium (mmmm)	0/15 (gg)(hh)	0/10 (gg)(ll)	0
Bulgaria	0/10 (x)(gg)	0/5 (gg)(ttt)	0
Canada	0/5 (f)(xx)	0/10 (yy)	0
Chile	15	5/15 (vv)	0
China (mainland) (w)	0/5/10 (bbbb)	0/10 (dddd)	0
Colombia	0 (t)	0/10 (hhhh)	0
Côte d'Ivoire	15	15	0
Croatia	5 (d)(gg)	5 (gg)	0
Cyprus	0/15 (gg)(sss)	0 (gg)	0
Czech Republic	0/15 (gg)(vvv)	0 (gg)	0
Denmark (rr)	0 (h)(gg)	0 (gg)	0
Ecuador (qq)	15	0/10 (ll)	0
Egypt	5 (d)	0/15 (m)	0
Estonia	0/10 (dd)(gg)	0 (gg)	0
Faroe Islands (rr)	0	0	0
Finland	0 (gg)(oo)	0 (gg)	0
France	0 (e)(gg)	0 (gg)	0
Georgia	0 (oo)	0	0
Germany	0 (j)(gg)	0 (gg)	0
Ghana	5 (g)	0/10 (ll)	0
Greece	5 (d)(gg)(zz)	7 (gg)	0
Hong Kong SAR	0/10 (ppp)	0	0
Hungary	0/15 (gg)(www)	0 (gg)	0
Iceland	0/15 (nn)	0	0
India (ss)	10	0/10 (cc)	0
Indonesia	10 (d)	10	0
Iran	5 (i)	0/10 (r)	0
Ireland	0/15 (gg)(www)	0 (gg)	0
Israel	5/15 (g)	5/10 (k)	0
Italy	15 (gg)	12.5 (gg)	0
Jamaica	10 (s)	0/10 (iiii)	0
Japan	0/5/10 (ww)	0/10 (ff)	0
Kazakhstan	5 (bb)(yyy)	10	0
Korea (South)	5/15 (g)	0/5/10 (k)(iii)	0
Kuwait	15	10	0
Kyrgyzstan	5 (d)	5	0
Latvia (qq)	5 (o)(gg)	0/10 (gg)(iiii)	0
Liechtenstein	0/15 (eeee)	0	0
Lithuania	5 (o)(gg)	0/10 (gg)(iiii)	0
Luxembourg	0 (q)(gg)	0/10 (gg)	0
Macedonia	5 (d)	0/10 (cc)	0
Malaysia	5 (d)	10	0
Malta	0/15 (gg)(mmm)	0/10 (gg)(lll)	0



<b>Residence of recipient</b>	<b>Dividends %</b>	<b>Interest (a) %</b>	<b>Royalties (b) %</b>
Mexico	0 (bb)	5/10 (p)	0
Moldova	5 (d)	0/10 (ll)	0
Mongolia	5 (d)	0/10 (ll)	0
Montenegro	5 (t)	10	0
Morocco	7 (d)	10	0
Netherlands (kkkk)	0 (h)(gg)	0 (gg)	0
New Zealand	15	10	0
Norway	0 (y)	0	0
Oman	0/5/15 (g)(kkk)	0/5 (llll)	0
Pakistan	10 (ee)	10	0
Peru	10/15 (zzz)	10/15 (aaaa)	0
Philippines	10 (y)	10	0
Poland	0/15 (gg)(tt)	0/5/10 (c)(gg)	0
Portugal	5 (d)(gg)	10 (gg)(dddd)	0
Qatar	5 (pp)	0	0
Romania	0/15 (gg)(ii)	0/5 (gg)(nnn)	0
Russian Federation	0/5/15 (hhh)(ooo)	0	0
Serbia	5 (t)	10	0
Singapore	0/5/15 (aaa)	0/5 (bbb)	0
Slovak Republic	0/15 (gg)(eee)	0/5 (gg)(jjj)	0
Slovenia	0/15 (gg)(uuu)	0/5 (gg)(xxx)	0
South Africa	5 (o)	5	0
Spain	0 (gg)(hh)	0 (gg)	0
Sri Lanka	10 (d)	10 (k)	0
Sweden	0/15 (gg)(ddd)	0 (gg)	0
Taiwan	10 (t)	0/10 (n)	0
Tajikistan	5 (o)	0/10 (n)	0
Thailand	10 (y)	0/10/15 (u)	0
Trinidad and Tobago	10 (l)	10	0
Tunisia	10	10	0
Turkey	5/15 (o)	0/5/10/15 (fff)	0
Turkmenistan	5/15 (d)	10	0
Ukraine	5 (o)	0/10 (n)	0
United Arab Emirates	0/5/15 (g)(kkk)	0	0
United Kingdom (qq)	0 (h)(gg)	0 (gg)	0
United States (ccc)	5 (g)	0	0
Uruguay	5 (d)	0/10 (ll)	0
Uzbekistan	5 (o)	0/5 (r)	0
Venezuela	0 (z)	0/5 (aa)	0
Vietnam	7 (v)	0/10 (jjjj)	0
Non-treaty jurisdictions	35	0/35	0

- (a) Withholding tax is imposed only on bank interest and on interest from publicly offered bonds, debentures and other instruments of indebtedness issued by a Swiss borrower, but not on interest on commercial loans, including loans from foreign parents to Swiss subsidiaries.
- (b) Under Swiss domestic law, no withholding tax is imposed on royalties, management fees, rents, licenses and technical assistance fees and similar payments.
- (c) A 5% general rate and a 0% rate on interest paid between related parties (as defined in the double tax treaty) apply to interest paid on or after 1 July 2013. A 10% rate applies to interest paid on or before 30 June 2013.
- (d) This rate applies if the shareholding by a corporation is at least 25%. A 15% rate applies to all other dividends.

- (e) The 0% rate generally applies if the shareholding of a corporate recipient of dividends is at least 10%. The rate is increased to 15% if the shareholding of a corporate recipient is less than 10% or if the corporate recipient is controlled by persons that are not in the contracting states unless the corporate recipient demonstrates that the participation rights are not solely intended to profit from the advantages mentioned above. The 15% rate also applies to dividends paid to individuals and all other dividends.
- (f) The 5% rate applies to dividends paid to corporations with a shareholding and voting stock of at least 10% in the payer. A 15% rate applies to other dividends.
- (g) The 5% rate applies to dividends paid to corporations with a shareholding of at least 10% in the payer. A 15% rate applies to other dividends.
- (h) This rate applies to dividends paid to corporations holding at least 10% of the capital and to dividends paid to pension funds or other similar institutions providing pension schemes. A 15% rate applies to other dividends.
- (i) The 5% rate applies if the recipient of the dividends is a corporation with a shareholding of at least 15%. A 15% rate applies to other dividends.
- (j) The 0% rate generally applies if the recipient of the dividends is a corporation that has a shareholding of at least 10% and if the participation has been held for at least one year. A 15% rate applies if the recipient of the dividends is a corporation that has a shareholding of less than 10% or if the recipient of the dividends is an individual.
- (k) A rate of 5% applies to interest on bank loans.
- (l) Rate is applicable if shareholding by a corporation is at least 10%. The net treaty withholding rate is increased to 20% if shareholding is less than 10%.
- (m) A 0% rate applies to interest on bank loans.
- (n) The 0% rate applies to the following interest payments:
- Interest paid to the other contracting state in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest paid in connection with the sale on credit of merchandise by one enterprise to another enterprise
  - Interest on a loan granted by a bank or to the other contracting state or a political subdivision or a local authority thereof
- (o) The 5% rate applies if the recipient of the dividends is a corporation with a shareholding of at least 20%. The rate is increased to 15% in all other cases.
- (p) For interest paid to banks, the withholding tax rate is reduced to 5%.
- (q) The 0% rate applies to dividends paid to corporations with direct ownership of at least 10% and a holding period of two years and to dividends paid to pension funds or other similar institutions. A 5% rate applies to corporations with direct ownership of at least 10% before the two-year holding period has elapsed. A 15% rate applies in all other cases.
- (r) The 0% rate applies to the following interest payments:
- Interest paid with respect to a loan made, guaranteed or insured by the government of the other state or an instrumentality or agency thereof
  - Interest paid in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest paid in connection with the sale on credit of merchandise by one enterprise to another enterprise
  - Interest on a loan granted by a bank
- (s) This rate applies to dividends paid to corporations holding at least 10% of the voting power of the payer. A 15% rate applies to other dividends.
- (t) This rate applies if the shareholding of the recipient is at least 20%. For other dividends, the rate is 15%.
- (u) The 0% rate applies to interest on special trade credits or loans. The 10% rate applies to interest paid to banks or insurance companies. The 15% rate applies to other interest.
- (v) This rate applies if the shareholding of the recipient is at least 50%. The rate is 10% if the shareholding of the recipient is at least 25% but less than 50%. The rate is 15% for other dividends.
- (w) The China treaty does not cover the Hong Kong SAR.
- (x) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company (other than a partnership) directly owning shares representing at least 10% of the capital of the company paying the dividends for at least one year before the payment of the dividends
  - A pension fund or scheme
  - The central bank
- (y) This rate applies if the direct shareholding of the corporate recipient is at least 10%. For other dividends, the rate is 15%.
- (z) The rate is 10% if the shareholding of the recipient is less than 25%.

- (aa) The 0% rate applies to interest on certain government bonds. The 5% rate applies to other interest.
- (bb) This rate applies if the shareholding of the recipient is at least 10%. A 15% rate applies to all other dividends.
- (cc) A 0% rate applies to interest on bank loans and in certain other special cases.
- (dd) The 0% rate applies if the beneficial owner of the dividends is one of the following:
- A company (other than a partnership) that is a resident of the other state and that holds directly at least 10% of the capital in the company paying the dividends for at least one year before the payment of the dividend
  - A pension scheme
  - The central bank of the other contracting state
- (ee) The 10% rate applies to dividends paid to corporations holding participations of at least 20% in other enterprises. A 20% rate applies to other dividends.
- (ff) The 0% rate applies to the following interest payments:
- Interest paid to a contracting state or a political subdivision or local authority thereof
  - Interest paid to the central bank of the other contracting state or any institution owned by the government
  - Interest paid to a bank, insurance company, securities dealer or pension fund or scheme
- (gg) A 0% rate may apply under the Switzerland-EU agreement (see the paragraph preceding the treaty withholding tax rate table). The rates shown in the table are the treaty withholding tax rates.
- (hh) The 0% rate applies if the recipient is a company that owns directly at least 10% for a period of at least one year of the capital of the company paying the dividends or if the recipient is a pension fund or pension scheme, provided that the dividends do not result from a business activity or are paid by a related company. The 15% rate applies to other dividends.
- (ii) The 0% rate applies if the recipient is a company (other than a partnership) that owns directly at least 25% of the capital of the company paying the dividends, a governmental institution, a pension fund or a central bank authority. A 15% rate applies to other dividends.
- (jj) The 5% rate applies if the corporate recipient of the dividends holds a shareholding of at least 20% in the distributing entity and has invested at least USD200,000 in the country of the distributing entity. The treaty withholding tax rate is increased to 15% if the shareholding is less than 20%.
- (kk) The 0% rate applies to interest paid to certain government agencies or in connection with the purchase of industrial, commercial or scientific equipment on credit. The 5% rate applies to interest paid to banks or in connection with the purchase of goods on credit. The 10% rate applies to other interest.
- (ll) The 0% rate applies to the following interest payments:
- Interest paid on loans granted by a company of the other state
  - Interest paid to pension funds or pension schemes, provided that the interest does not result from a business activity or is paid by a related company
  - Interest paid to the other contracting state, one of its political subdivisions, to local authorities or to a statutory body
- A 10% rate applies to all other interest payments.
- (mm) The 5% rate applies if, at the time the dividends become due, the corporate recipient of the dividends holds a shareholding of at least 25% in the distributing entity and the value of the participation is at least CHF200,000 (or the equivalent in foreign currency). The treaty withholding tax rate is 15% if these conditions are not met.
- (nn) The 0% rate applies if the beneficial owner of the dividends is one of the following:
- A company (other than a partnership) that is a resident of the other contracting state and that holds directly at least 10% of the capital in the company paying the dividends for at least one year before the payment of the dividend
  - A pension scheme
  - The central bank of the other contracting state
- (oo) The 0% rate generally applies if the shareholding of a corporate recipient of dividends is at least 10%. The rate is increased to 10% if the shareholding of a corporate recipient is less than 10%.
- (pp) A 0% rate applies to dividends paid to the other contracting state or a political subdivision or local authority thereof, the central bank or pension funds. The 5% rate applies to dividends paid to corporate recipients if the shareholding is at least 10%. A 10% rate applies if the recipient is an individual with a shareholding of at least 10%. For other dividends, the rate is 15%.

- (qq) These treaties have been renegotiated and signed, or amending protocols to these treaties have been signed. The renegotiated treaties or amending protocols will enter into force on 1 January of the year following the year of the notifications of each contracting state. It appears that these treaties will not enter into force before 1 January 2018.
- (rr) The treaty between Denmark and Switzerland was extended to the Faroe Islands as of 22 September 2009. The extension and the revised protocol between Denmark and Switzerland entered into force in November 2010.
- (ss) On 10 October 2011, an amending protocol entered into force. The protocol did not change the withholding tax rates. However, if after the date of signing of the amending protocol, India and a third state that is an OECD member sign a convention, agreement or protocol and if under this convention, agreement or protocol, India limits its taxation at source of dividends, interest, royalties or fees for technical services to a rate lower than the rate provided for in the double tax treaty between Switzerland and India, the lower rate will also apply under the double tax treaty between Switzerland and India, effective from the date on which such convention, agreement or protocol enters into force.
- (tt) The 0% rate applies if the dividends are paid to corporations with a shareholding of at least 10% in the capital of the payer and the shareholding is held for at least two years or if the dividends are paid to pension funds or similar institutions. A 15% rate applies in all other cases.
- (uu) The 0% rate applies to interest paid to the other contracting state or certain government agencies of the contracting state or in connection with financing transactions, the purchase of industrial, commercial or scientific equipment or the construction of industrial, commercial, scientific or public facilities on credit. The 10% rate applies to all other interest.
- (vv) The 5% rate applies to interest paid on bank and insurance loans, on bonds and other securities that are traded on a stock exchange and in certain other special transactions. The 15% rate applies to all other interest payments.
- (ww) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company that has owned directly or indirectly for at least six months shares representing at least 50% of the capital or voting power of the company paying the dividends
  - A pension fund or scheme
- The 5% rate applies to corporate recipients if the direct or indirect shareholding represents at least 10% of the capital or voting power and if the participation has been held for six months. A 10% rate applies to all other dividends.
- (xx) The 0% rate applies to dividends that are paid to the Bank of Canada or qualifying pension schemes.
- (yy) The 0% rate applies to interest payments if the beneficial owner of the interest is a resident of Canada and is not related to the payer.
- (zz) The 0% rate applies if the beneficial owner of the dividends is the other contracting state, a political subdivision or a local authority of the other contracting state or a pension fund or scheme.
- (aaa) The 0% rate applies to dividends paid to the Monetary Authority of Singapore or the Government of Singapore Investment Corporation Pte Ltd. The 5% rate applies to dividends paid to a corporation (other than a partnership) holding directly at least 10% of the capital of the company paying the dividends. The 15% rate applies to other dividends.
- (bbb) The 0% rate applies to interest paid by a banking enterprise to a banking enterprise in the other contracting state or interest arising in Switzerland and paid to the Monetary Authority of Singapore. The 5% rate applies to other interest.
- (ccc) This treaty has been renegotiated and signed. The revised treaty will enter into force after each country has completed the domestic law procedures for ratification and complied with the respective provisions of the treaty.
- (ddd) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company (other than a partnership) that has owned directly or indirectly shares representing at least 10% of the capital or voting power of the company paying the dividends
  - A pension fund
- The 15% rate applies to other dividends.
- (eee) The 0% rate applies to dividends paid to a corporation with a direct shareholding of at least 10% in the capital of the payer and to dividends paid to a governmental institution, pension fund or central banking authority. A 15% rate applies to other dividends.

- (fff) The 0% rate applies to interest paid to the state or the central bank. The 5% rate applies to interest paid with respect to a loan or credit made, guaranteed or insured for the purposes of promoting export by an Eximbank or similar institution. The 10% rate applies to interest derived by a bank. A 15% rate applies in all other cases.
- (ggg) The 10% rate applies to dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends. The 15% rate applies to other dividends.
- (hhh) The 5% rate applies if the recipient of the dividends holds a shareholding of at least 20% in the distributing entity and if the value of the participation is at least CHF200,000 (or the equivalent in foreign currency). A 15% rate applies to other dividends (in specific cases the 0% rate applies; see footnote [ooo]).
- (iii) The 0% rate applies to the following interest payments:
- Interest paid with respect to a loan made, guaranteed or insured by the government of the other state or an instrumentality or agency thereof
  - Interest paid in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest paid in connection with the sale on credit of merchandise by one enterprise to another enterprise
  - Interest paid to the other contracting state
- (jjj) The 0% rate applies to the following interest payments:
- Interest paid in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest paid on bank loans
  - Interest paid to a bank, insurance company or pension fund or scheme
  - Interest paid to a contracting state, a political subdivision or local authority thereof, or a central bank
  - Interest paid between enterprises that are associated by a stake of at least 25% held for at least two years or that are both held by a third company that directly holds at least 25% of the capital of both companies for at least two years
- (kkk) A 0% rate applies to dividends paid to the other contracting state or a political subdivision or local authority thereof, the central bank or a pension fund.
- (lll) The 0% rate applies to the following interest payments:
- Interest paid in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest paid on the sale of goods between corporate entities
  - Interest paid on bank loans
- In addition, the 0% rate applies if the interest is paid between enterprises that satisfy all of the following conditions:
- They are associated by a stake of at least 10% held for at least one year or they are both held by a third company that directly holds at least 10% of the capital of both companies.
  - They are resident in a contracting state and, under any double tax agreement with any third state, none of the companies is resident in that third state.
  - They are subject to corporation tax and are not exempt from tax on interest payments.
  - They are both limited companies.
- The 10% rate applies to other interest payments.
- (mmm) The 0% rate applies if the direct shareholding of the corporate recipient is at least 10% and if the participation has been held for at least one year. For other dividends, the rate is 15%.
- (nnn) The 0% rate applies to the following interest payments:
- Interest paid to a contracting state or a political subdivision, local authority, administrative-territorial unit or export financing institution thereof
  - Interest paid between enterprises that are associated by a stake of at least 25% or that are both held by a third company that directly holds at least 25% of the capital of both companies
- (ooo) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is one of the following:
- A pension fund or scheme
  - The government of the other state, or a political subdivision or local authority thereof
  - The central bank

- (ppp) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company (other than a partnership) directly owning shares representing at least 10% of the capital of the company paying the dividends
  - A pension fund or scheme
  - The central bank
- The 10% rate applies to other dividends.
- (qqq) The 0% rate applies to interest on government bonds and in certain other special cases.
- (rrr) The 0% rate applies to the following interest payments:
- Interest paid in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest on a loan granted by a bank
- (sss) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is one of the following:
- A company (other than a partnership) that has its capital wholly or partly divided into shares and that holds directly at least 10% of the capital of the company paying the dividends during an uninterrupted period of at least one year
  - A pension fund or other similar institution providing pension schemes in which individuals may participate to secure retirement, disability and survivors' benefits, if such pension fund or other similar institution is established, recognized for tax purposes and controlled in accordance with the laws of the other contracting state
  - The government of the other contracting state, a political subdivision or local authority thereof, or the central bank of the other contracting state
- (ttt) The 0% rate applies to the following interest payments:
- Interest paid in connection with the sale on credit of equipment, merchandise or services
  - Interest paid on bank loans
  - Interest paid with respect to pension schemes
  - Interest paid to the government of the other state, a political subdivision or local authority thereof, or the central bank
  - Interest paid between companies that are associated by a direct stake of at least 10% held for at least one year or by a direct holding of a third company of at least 10% for at least one year of the capital of both companies
- The 5% rate applies to other interest payments.
- (uuu) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company (other than a partnership) that directly owns shares representing at least 25% of the capital of the company paying the dividends
  - A pension fund or scheme
- (vvv) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company (other than a partnership) that directly owns shares representing at least 10% of the capital of the company paying the dividends for an uninterrupted period of at least one year
  - A pension fund or central bank
- (www) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is either of the following:
- A company (other than a partnership) that directly owns shares representing at least 10% of the capital of the company paying the dividends
  - A pension scheme
  - The central bank
- The 15% rate applies to other dividends.
- (xxx) The 0% rate applies to the following interest payments:
- Interest paid to the government of the other state, a political subdivision or local authority thereof, or the central bank
  - Interest paid on specific bank loans of international business transactions
  - Interest paid in connection with the sale on credit of equipment, merchandise or services
  - Interest paid between companies that are associated by a direct stake of at least 25% or by a direct holding of a third company (resident in the EU or Switzerland) of at least 25% of the capital of both companies
- The 5% rate applies to other interest payments.

- (yyy) A 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is one of the following:
- A pension fund or scheme
  - The central bank
- (zzz) The 10% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is a company (other than a partnership) that holds directly at least 10% of the capital and of the voting power of the company paying the dividends. The 15% rate applies to other dividends.
- (aaaa) The 10% rate applies to the following interest payments:
- Interest paid in connection with the sale on credit of industrial, commercial or scientific equipment
  - Interest paid on bank loans
- The 15% rate applies to other interest payments.
- (bbbb) The 0% rate applies to dividends if the beneficial owner is a resident of the other contracting state and is one of the following:
- The government of the other state, or a political subdivision or local authority thereof
  - An institution or fund wholly owned by that other state as agreed by mutual agreement of the competent authorities of the contracting states
  - The central bank
- The 5% rate applies if the recipient is a company (other than a partnership) that owns directly at least 25% of the capital of the company paying the dividends. The 10% rate applies to other dividends.
- (cccc) The 0% rate applies to dividends if, in the case of Australia, the beneficial owner of the dividend is a company that owns directly no more than 10% of the voting power of the company paying the dividends or, in the case of Switzerland, owns directly no more than 10% of the capital of the company paying the dividends and if the beneficial owner is one of the following:
- A contracting state, a political subdivision or local authority thereof
  - The national bank
  - In the case of Australia, a resident of Australia deriving such dividends from the carrying on of complying superannuation activities
  - In the case of Switzerland, a pension scheme whose investment income is exempt from Swiss tax
- The 5% rate applies to dividends paid to corporations holding at least directly 10% of the voting power of the payer in the case of Australia or 10% of the capital of the payer in the case of Switzerland. A 15% rate applies to other dividends.
- (dddd) The 10% rate applies to interest payments. However, exemptions apply to, among others, the following:
- The government of the other contracting state, and several governmental bodies and institutions thereof
  - The national bank
- (eeee) The 0% rate applies to dividends if the beneficial owner of the dividends is one of the following:
- A corporation that directly holds at least 10% of the capital in the company paying the dividend for at least one year before the payment of the dividends
  - A pension scheme
  - A contracting state, political subdivision or local authority thereof
- A 15% rate applies to all other dividends.
- (ffff) The 0% rate applies to interest if the beneficial owner is a resident of the other contracting state and is in one of the following categories:
- Bodies exercising governmental functions and banks performing central bank functions
  - Financial institutions that are unrelated to and dealing independently with the payer
  - Complying Australian superannuation funds and tax-exempt Swiss pension schemes
- A 10% rate applies to other interest payments.
- (gggg) The 0% rate applies to the following interest payments:
- Interest on loans approved by the government
  - Interest income derived from sales on credit of industrial, medical or scientific equipment
  - Interest on bonds issued by a contracting state or a political subdivision or local authority thereof
- The 5% rate applies to interest on bank loans. The 8% rate applies to other interest payments.

- (hhhh) The 0% rate applies if any of the following circumstances exist:
- The beneficial owner of the interest is the contracting state or a political subdivision or local authority thereof.
  - The interest is paid in connection with the sale on credit of goods, merchandise or any equipment.
  - The interest is paid on bank loans.
- A rate of 10% applies to other interest payments.
- (iiii) The 0% rate applies to interest in connection with bonds, debentures or other similar obligations of the government or of a political subdivision or local authority thereof and in certain other special cases. The 10% rate applies to other interest payments.
- (jjjj) The 0% rate applies to interest on certain loans guaranteed, insured or financed by the contracting state. The 10% rate applies to other interest.
- (kkkk) Special rules apply to for collective-investment vehicles regarding dividend and interest payments.
- (llll) The 0% rate applies to the following interest payments:
- Interest paid in connection with the sale on credit of equipment, merchandise or services
  - Interest paid on bank loans
  - Interest paid with respect to pension schemes
  - Interest paid to the government of the other state, a political subdivision or local authority thereof, or the central bank
  - Interest paid on intercompany loans
- The 5% rate applies to other interest payments.
- (mmmm) On 19 July 2017, an amending protocol to the double tax treaty between Switzerland and Belgium entered into force. The protocol modernizes the treaty but does not change the withholding tax rates. The protocol generally applies from 1 January 2018.

At the time of writing, Switzerland had signed new double tax treaties or protocols to existing double tax treaties that provide changes to treaty withholding tax rates with Kosovo, Latvia, Pakistan and Zambia.



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## A. At a glance

Corporate Income Tax Rate (%)	17 (a)
Capital Gains Tax Rate (%)	17 (a)(b)
Branch Tax Rate (%)	17 (a)
Withholding Tax (%)	
Dividends	
Paid to Residents	0
Paid to Nonresident Corporations and Individuals	20 (c)
Interest	
Paid to Resident Corporations	10 (d)
Paid to Resident Individuals	10 (e)
Paid to Nonresident Corporations and Individuals	15/20 (f)
Royalties	
Paid to Resident Corporations and Individuals	10 (g)
Paid to Nonresident Corporations and Individuals	20
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	10

(a) For details, see Section B.

(b) Effective from 1 January 1990, income from securities transactions is not subject to regular corporate income tax. Such income is subject to alternative minimum tax. See Section B.

(c) For details and the definition of a nonresident corporation, see Section B.

(d) Payments in connection with securities issued under the Financial Asset Securitization Act or Real Estate Securitization Act and interest derived from short-term commercial paper are subject to a 10% withholding tax. In addition, they are included in the computation of the resident corporation's taxable income and are taxed at a rate of 17%.

(e) Interest arising from short-term commercial paper, asset-backed securities, bonds, structured products and repurchase agreements underlying such financial instruments is not included in the tax computation in a resident individual's tax return but is subject to a 10% withholding tax.

- (f) The applicable tax rate for interest arising from short-term commercial paper, asset-backed securities, bonds, structured products and interest arising from repurchase agreements is 15%. Other types of interest are subject to a tax rate of 20%.
- (g) The withholding of tax is not required if the licensor issues a Government Uniform Invoice (GUI).

## B. Taxes on corporate income and gains

**Corporate income tax.** A domestic profit-seeking enterprise is subject to corporate income tax on all of its income regardless of source. All profit-seeking enterprises, including subsidiaries of foreign companies that are incorporated under the Company Law of Taiwan, are considered domestic profit-seeking enterprises. A foreign profit-seeking enterprise is subject to tax only on income sourced in Taiwan.

*Place of effective management.* Taiwan introduced an act containing a place of effective management regime in July 2016. Under the act, a company is regarded as tax resident in Taiwan if it is effectively managed in Taiwan. “Effective management” refers to the situation in which the company’s critical decisions are made in Taiwan, accounting and legal records are kept in Taiwan, and major business activities are executed in Taiwan. However, this act has not yet entered into force. The Executive Yuan will decide the effective date of the act.

**Tax rates.** The taxing threshold for taxable income is TWD120,000, and the total net income exceeding TWD120,000 is subject to corporate income tax at a rate of 17%. However, the income tax payable may not exceed one-half of the taxable income minus the TWD120,000 threshold amount.

**Alternative minimum tax.** The alternative minimum tax (AMT) applies to domestic profit-seeking enterprises and foreign profit-seeking enterprises that have a fixed place of business or business agent in Taiwan, if the enterprise’s base income exceeds TWD500,000. The AMT is calculated in accordance with the following formula:

$$\text{AMT} = (\text{basic income} - \text{deduction of TWD500,000}) \times 12\%$$

Basic income equals the sum of the following items:

- Taxable income
- Tax-exempt income under the Statute for Upgrading Industries and other tax-incentive regulations
- Income from transactions in securities and futures
- Tax-exempt income of offshore banking units

If the regular income tax equals or exceeds the AMT, only the regular income tax is payable. The regular income tax equals tax payable calculated under the Income Tax Law, less tax credits. If the regular income tax is less than the AMT, the difference between regular income tax and the AMT is payable in addition to the regular income tax. The additional tax payment cannot be offset by tax credits.

**Tax incentives.** A new Statute for Industry Innovation (SII) was announced and published on 12 May 2010 to replace the old Statute for Upgrading Industries (SUI), which expired on 31 December 2009. In comparison to the SUI, the SII retains only the tax incentive for expenditure spent on research and development

(R&D) activities and offers other non-tax subsidies for various qualified activities. Under the SII, enterprises may claim up to 15% of their R&D expenditures as a credit to offset against their corporate income tax payable in the current year only or claim up to 10% of their R&D expenditures as a credit to offset against their corporate income tax payable in three years, with a maximum credit of 30% of the tax payable. The SII is effective from 1 January 2010 through 31 December 2019. The tax incentives obtained before the expiration of SUI remain effective after the expiration of SUI. Amendments were made to the SII in November 2017. Under the amendments, a venture capital limited partnership started from 2017 to 2019 that meets some requirements and obtains the regulator's approval can be treated as a pass-through entity rather than as a taxable corporate entity for 10 years from its startup.

**Capital gains.** For profit-seeking enterprises, effective from 1 January 1990, income from securities transactions is not subject to regular income tax. Such income is subject to AMT. A securities transaction tax of 0.3% or 0.1% is imposed based on the transaction value.

During the period of 1 January 2010 through 31 December 2026, trading in corporate bonds and financial bonds (as defined in the Banking Law of Taiwan) is exempt from securities transaction tax. The suspension of income tax on securities transactions applies only to securities issued and certified in accordance with the law of Taiwan. Gains derived from disposals of securities that are not issued or certified in accordance with Taiwan regulations are subject to income tax.

Gains on sales of land are subject to land value increment tax (see Section D). Gains on sales of land had been exempt from income tax. However, effective from 1 January 2016, gains on sales of land that is acquired on or after 2 January 2014 and is held for a period of less than two years before disposal or that is acquired on or after 1 January 2016 is subject to income tax. Land value increment tax continues to apply but it can be credited against the income tax payable on gains on property.

**Administration.** The tax year is normally the calendar year. Permission must be obtained to use any other period. An annual tax return must be filed during the fifth month of the year following the tax year. An extension to file a tax return is not available.

In general, the late filing penalty is 10% of the tax due. It may not exceed TWD30,000 or be less than TWD1,500. A delinquent reporting surcharge is 20% of the tax assessed by the authorities. It may not exceed TWD90,000 or be less than TWD4,500. A taxpayer that fails to pay the tax within the prescribed time limit is subject to a surcharge for delinquent payment and interest on a daily basis at the prevailing interest rate provided by the Directorate General of Postal Remittances and Savings Bank (PRSB). Underreporting of taxable income is subject to a penalty of up to two times the underpayment of tax. In the event of a failure to file the annual income tax return after expiration of the prescribed period, the tax authorities may make a provisional assessment of the amount of income and tax payable on the basis of available tax data or the profit standard of the same trade. In the event that

other tax information is subsequently obtained by the tax authorities, the taxpayer is subject to a penalty of up to three times the tax shortfall, in addition to the delinquent reporting surcharge.

During the month of September, a profit-seeking enterprise (excluding a sole proprietor, partnership, prescribed small-size enterprise or tax-exempted entity) must pay an interim tax equal to 50% of the preceding year's tax liability. Under the Income Tax Law, qualified enterprises may pay interim tax based on the income derived in the first six months of the current year. If the interim tax payment is made after 30 September but before 31 October, late payment interest accrues on a daily basis at the prevailing interest rate provided by the PRSB. If the interim payment is not made by 31 October, the tax authorities assess one month's interest at the prevailing interest rate provided by the PRSB.

**Dividends.** Effective from 1 January 2010, the dividend withholding tax rate is 20% for nonresident corporations or nonresident individuals, regardless of whether the investments are approved by the Taiwan government pursuant to the Statute for Investment by Foreign Nationals or the Statute for Investment by Overseas Chinese. Withholding tax is not imposed on dividends paid to residents.

Under an imputation system, which took effect on 1 January 1998, a 10% surtax is imposed on the undistributed profits of companies in the second year following the year in which the profits are earned. This tax is in addition to the normal corporate income tax imposed on the profits. Resident individuals who receive dividends from resident companies must include the dividends in their taxable income and are granted tax credits for the corporate income tax and the 10% surtax paid by the distributing company in Taiwan. For nonresident individuals and corporations, the tax credit is limited to 10% of the franked dividends (dividends paid out of company profits on which the 10% surtax has been imposed). Cash refunds for excess credits are granted to shareholders who are resident individuals. However, for earnings distributed on or after 1 January 2015, foreign shareholders may credit only half of the surtax paid by the companies against the dividend withholding tax.

Companies must maintain an imputation credit account and calculate the imputation credits that are allocated to shareholders. These accounts are designed to limit the credit to the amount of corporate income tax and surtax paid in Taiwan. The total tax credit available is determined by multiplying the dividends received by the ratio of total tax paid at the corporate level to accumulated retained earnings since 1998. Similar to the surtax credit, for dividends declared on or after 1 January 2015, resident shareholders can only claim half of the tax credit against their personal income tax.

Dividends received by resident companies from other resident companies are exempt from corporate income tax. However, imputation credits cannot be used by resident companies and must be passed on to individual shareholders. The tax credits are passed through to the company's individual shareholders by adding the tax credits received to the numerator of the ratio described in the preceding paragraph.

**Foreign tax relief.** A tax credit is allowed for foreign income tax paid directly by a domestic profit-seeking enterprise, but it may not exceed the additional amount of the Taiwan tax resulting from the inclusion of the foreign-source portion in the profit-seeking enterprise's total income.

### C. Determination of trading income

**General.** Income for tax purposes is computed according to Taiwan's generally accepted accounting principles, adjusted for certain provisions included in the tax code.

Necessary and ordinary expenses of a profit-seeking enterprise are deductible, provided these are adequately supported by documentation. The guidelines of Examination of Income Tax of Profit-Seeking Enterprises, promulgated by the Ministry of Finance, provide guidance for determining deductible business expenses. Transactions must conform to regular business practice; otherwise, tax authorities may assess tax based on standard profit margins derived from industry statistics.

If the income of a company consists of both taxable income and exempt income, the costs, expenses or losses, except for those that are attributable to the taxable income and exempt income in a direct, reasonable and definite way, must be allocated to taxable income and exempt income based on certain permitted methods.

**Tax exemptions.** A foreign enterprise engaging in international transportation that derives income in Taiwan is exempt from tax if Taiwan and the home country of the foreign enterprise have entered into an international transportation income tax agreement, which provides reciprocal treatment to Taiwan international transportation enterprises operating in the foreign country.

Gains on sales of land had been exempt from income tax. However, effective from 1 January 2016, gains on sales of land that is acquired on or after 2 January 2014 and is held for a period of less than two years before disposal or that is acquired on or after 1 January 2016 is subject to income tax. Land value increment tax (see Section D) continues to apply but it can be credited against the income tax payable on gains on property.

On approval from the competent authority, royalties paid to a foreign enterprise for the use of its patent rights or trademarks, or for the licensing of other special rights, may be exempt from tax if the licensed rights are used to introduce new production technology or products, improve product quality or reduce production cost. In addition, service fees received by foreign enterprises for rendering technical services in the construction of a factory for certain strategically important enterprises (SIEs) and royalties for the licensing of patents to SIEs may also be exempt from tax on approval.

A foreign-based corporate taxpayer that is engaged in international transportation, construction contracting, technical service provision, or machinery and equipment leasing may apply to use a deemed-profit-rate method (15% in general, and 10% for international transportation business) in determining its taxable income in Taiwan if it is difficult to calculate the costs and expenses arising from the conduct of the business in Taiwan.

Interest received by a foreign financial institution for offering financing facilities to its Taiwan branch offices or other financial institutions in Taiwan is exempt from tax. With the approval of the Ministry of Finance, interest received by a foreign financial institution for extending loans to legal entities in Taiwan for financing important economic construction projects is also exempt from tax.

**Inventories.** Inventories are valued for tax purposes at the lower of cost or net realizable value. In determining the cost of goods sold, specific identification, first-in, first-out (FIFO), weighted average, moving average, or any other method prescribed by the competent authority may be used. However, the use of two different cost methods in one fiscal year is not allowed.

**Provisions.** Provisions for a retirement fund approved by the authorities are deductible in amounts up to 15% of the total payroll. The applicable percentage depends on whether the fund is managed separately from the business entity and whether it conforms to the provisions of the Labor Standards Law.

Allowance for bad debts is limited to 1% of the balance of outstanding trade accounts and notes receivable (secured or unsecured) at year-end.

**Tax depreciation, depletion and amortization.** A taxpayer may claim a depreciation deduction for most property (except land) used in a trade or business. Depreciation may be computed using the straight-line, fixed percentage on diminishing book value method, working-hour method, sum-of-the-years'-digits method or production-unit method. Under the working-hour method, depreciation is computed based on the number of working hours that a depreciable asset is used in a tax year. The time periods over which an asset may be depreciated are specified by the tax authorities. The following are some of the applicable time periods.

<b>Assets</b>	<b>Years</b>
Commercial buildings	10 to 50
Industrial buildings	5 to 35
Office equipment	3 to 5
Motor vehicles and vessels	3 to 18
Plant and machinery	2 to 20

Companies may use the accelerated depreciation method if they meet certain criteria.

Depletion of assets in the form of irreplaceable resources can be computed either based on the production units or methods provided by the Table of Depletion Assets promulgated by the Ministry of Finance. This method must be applied consistently from year to year. In addition, a taxpayer may claim an amortization deduction for intangibles and organizational expenses. Business rights (for example, commercial rights for operating public utility, telephone, public transportation, shipping and air transportation businesses) and copyrights are amortized over 10 years and 15 years, respectively. Trademarks, patents and franchises must be amortized over the period prescribed by the respective laws governing the granting of these rights. Organizational and preoperating expenditures incurred during the period from the planning phase to the first year in which significant revenue is

generated from the main business activities must be expensed on occurrence.

**Relief for losses.** If certain requirements are met, companies may carry forward for up to 10 years losses that have been approved by the tax authorities and not yet expired. Loss carrybacks are not permitted.

**Groups of companies.** In general, associated or related companies in a group are taxed separately for corporate income tax purposes and may not file consolidated tax returns. However, a financial holding company that holds 90% or more of the shares of subsidiaries in Taiwan for at least 12 months may elect to file a consolidated profit-seeking enterprise income tax return under its own name.

In addition, a company that acquires 90% or more of the shares or capital of its subsidiaries through a merger, spin-off or other acquisition under the Business Merger and Acquisition Law and holds such shares for at least 12 months may elect to file a consolidated profit-seeking enterprise income tax return under its own name.

A 10% surtax on the undistributed consolidated retained earnings applies in addition to the corporate income tax on consolidated net income.

An election to file a consolidated profit-seeking enterprise return applies only to corporate income tax and, as a result, qualifying parent companies and their subsidiaries must calculate all other taxes separately.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on sales and services	5
Business tax for financial industry	1/2/5
Land value increment tax, on unearned increase in the value of land, payable by the seller at the time of ownership transfer	20 to 40
Registration fee, on original or additional capital contributions	0.025

#### E. Miscellaneous matters

**Foreign-exchange controls.** Under foreign-exchange control regulations, registered business entities or adults legally residing in Taiwan may remit out (in) unlimited funds for the import (export) of goods and services. However, prior declaration to the Central Bank of China (Taiwan) is required for the following:

- An individual who has accumulated inward or outward remittances exceeding USD5 million in a year
- A business entity with accumulated inward or outward remittances exceeding USD50 million in a year
- A single remittance by an individual exceeding USD500,000
- A single remittance by a business entity exceeding USD1 million



In addition, supporting documents, such as transaction contracts, must be submitted at the time of remittance for the Central Bank's audit purposes.

**Debt-to-equity rules.** On 26 January 2011, the President of Taiwan announced the thin-capitalization rule enacted into Article 43-2 of the Income Tax Act. On 22 June 2011, the Ministry of Finance announced the enforcement rules for the thin-capitalization rule. The enforcement rules contain a debt-to-equity ratio of 3:1 (excluding companies in the financial industries). Interest on the excess portion of loans is not deductible. The enforcement rules do not apply to enterprises satisfying any of the following conditions:

- Total net current annual operating income and non-operating income is less than TWD30 million.
- Total annual interest expenses and total interest expenses derived from intercompany loans in the current year are both less than TWD4 million.
- Before including the interest expenses in the taxable income calculation, the current year's taxable income is negative and such tax losses are not eligible for the tax loss carryforward regime under Article 39 of the Income Tax Act.

**Controlled foreign companies.** Taiwan introduced an act containing a controlled foreign company (CFC) regime in July 2016. Under the act, a nonresident company is considered a CFC if it is 50% or more directly or indirectly owned by a Taiwan resident company or individual. A resident company that holds an interest of 50% or more in a CFC is taxed on the company's share of the profits of the CFC, regardless of whether a dividend has been received by the Taiwanese company. However, this act has not yet entered into force. The Executive Yuan will decide the effective date of the act.

**Anti-avoidance legislation.** The Taiwan tax laws contain rules that deal with tax evasion and tax avoidance. The general rule is that the tax authorities may ignore transactions that constitute an abuse of the law and assess taxes with respect to each transacting party based on the economic substance of the transactions as well as on the attribution of the economic benefits. The same rule applies to sham transactions designed to conceal the economic reality of the transaction.

**Transfer pricing.** The Taiwan Transfer Pricing Examination Guidelines (the TP Guidelines) took effect on 30 December 2004. Except for immaterial amounts from related-party transactions, extensive contemporaneous documentation is required. Under the TP Guidelines, on filing the annual income tax return, a profit-seeking enterprise must have the transfer-pricing report and relevant documents prepared and ready for audit, if requested. In addition, in the event of a tax audit, a profit-seeking enterprise must provide the tax authorities with all required documents within one month of a request for such documents. The TP Guidelines provide that the tax authorities may impose a maximum penalty of 200% of the tax shortfall resulting from improper transfer prices. Amendments made to the TP Guidelines in November 2017 adopt the three-tier, transfer-pricing documentation requirement including Master File, Country-by-Country Report and Local File, in line with Action 13 of the Organisation for Economic

Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) Project. The amendments apply to the profit-seeking enterprises' income tax returns starting with the 2017 tax year.

## F. Treaty withholding tax rates

Taiwan has entered into double tax treaties with the jurisdictions listed in the table below.

Taiwan has entered into international transportation income tax agreements with Canada, the European Union, Germany, Israel, Japan, Korea (South), Luxembourg, the Macau SAR, the Netherlands, Norway, Sweden, Thailand and the United States.

The following table lists the withholding tax rates under Taiwan's double tax treaties. The rates apply only if the recipient is the beneficial owner of the income.

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Australia	10/15 (a)	10	12.5
Austria	10	10	10
Belgium	10	10	10
Canada	10/15 (e)	10	10
China (mainland)(o)	5/10 (p)	7	7
Denmark	10	10	10
France	10	10	10
Gambia	10	10	10
Germany	10	10/15 (h)	10
Hungary	10	10	10
India	12.5	10	10
Indonesia	10	10	10
Israel	10	7/10 (i)	10
Italy	10	10	10
Japan	10	10	10
Kiribati	10	10	10
Luxembourg	10/15 (b)	10/15 (j)	10
Macedonia	10	10	10
Malaysia	12.5	10	10
Netherlands	10	10	10
New Zealand	15	10	10
Paraguay	5	10	10
Poland	10	10	10
Senegal	10	15	12.5
Singapore	– (c)	– (k)	15
Slovak Republic	10	10	5/10 (n)
South Africa	5/15 (d)	10	10
Swaziland	10	10	10
Sweden	10	10	10
Switzerland	10/15 (e)	10	10
Thailand	5/10 (f)	10/15 (l)	10
United Kingdom	10	10	10
Vietnam	15	10	15
Non-treaty jurisdictions	20 (g)	15/20 (m)	20

(a) The 10% rate applies to dividends paid to a company (other than a partnership) holding directly at least 25% of the capital of the payer. The 15% rate applies in all other cases.

- (b) The 15% rate applies if the beneficial owner of the dividends is a collective-investment vehicle established in Luxembourg and treated as a body corporate for tax purposes in Luxembourg. The 10% rate applies in all other cases.
- (c) For dividends paid to Singapore residents, the withholding tax on the dividends and the corporate income tax payable on the profits of the payer may not exceed 40% of the taxable income of the payer out of which the dividends are paid.
- (d) The 5% rate applies if the beneficial owner of the dividends holds directly at least 10% of the capital of the payer. The 15% rate applies in all other cases.
- (e) The 10% rate applies to dividends paid to a company (other than a partnership) holding directly at least 20% of the capital of the payer. The 15% rate applies to other dividends.
- (f) The 5% rate applies if the beneficial owner of the dividends holds at least 25% of the capital of the payer. The 10% applies in all other cases.
- (g) The 20% rate applies to dividends paid to nonresident corporations and nonresident individuals, effective from 1 January 2010 (see Section B).
- (h) The 15% rate applies to interest on real estate investment trusts and real estate asset trusts. The 10% rate applies in all other cases.
- (i) The 7% rate applies to interest on bank loans. The 10% rate applies in all other cases.
- (j) The 15% rate applies if the beneficial owner of the interest is a collective-investment vehicle established in Luxembourg and treated as a body corporate for tax purposes in Luxembourg. The 10% rate applies in all other cases.
- (k) The Singapore treaty does not provide a preferential withholding tax rate for interest payments.
- (l) The 10% rate applies to interest received by financial institutions (including insurance companies). The 15% rate applies in all other cases.
- (m) The 15% rate applies to interest on financial instruments (see Section A).
- (n) The 5% rate applies to the royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment. The 10% rate applies in all other cases.
- (o) This treaty is not yet effective.
- (p) The 5% rate applies to dividends paid to a company (other than a partnership) holding directly at least 25% of the capital of the payer. The 10% rate applies in all other cases.

# Tanzania

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**A. At a glance**

Corporate Income Tax Rate (%)	10/25/30 (a)
Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	30
Withholding Tax (%)	
Dividends	5/10 (c)
Interest	10 (d)
Royalties	15 (e)
Management and Professional Fees (Service Fees) or Technical Services Fees for Mining, Oil or Gas	5/15 (f)
Specified Minerals or Minerals Supplied by a Resident Person in the Course of Conducting Business	5 (g)
Supply of Goods	2 (h)
Insurance Premiums	5 (i)
Rent	10 (e)
Money Transfer Commission	10 (j)
Other payments	15
Branch Remittance Tax	10 (k)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) The corporate income tax rate is 30%. The corporate income tax rate is reduced to 25% for companies newly listed on the Dar es Salaam Stock Exchange that issue at least 30% of their share capital to the public for three consecutive years from the date of listing. The corporate income tax rate is reduced from 30% to 10% for five consecutive years from the year of commencement of production for companies that have a newly established plant for assembling motor vehicles, tractors, fishing boats or outboard motors for boats and that have a performance agreement with the government of Tanzania. Companies reporting tax losses for three consecutive years must pay an alternative minimum tax at a rate of 0.3% on the annual turnover in the third loss year.
- (b) Capital gains are treated as business income for companies and are taxed at the regular corporate income tax rate of 30%.
- (c) The 10% rate applies to dividends paid by unlisted companies to residents and nonresidents. The 5% rate applies to dividends paid by companies listed on the Dar es Salaam Stock Exchange and for dividends paid by a resident company to a resident company owning 25% or more of the shares in the payer of the dividends.
- (d) This withholding tax applies to residents and nonresidents. Resident companies may credit the withholding tax against their annual corporate income tax. Interest paid by strategic investors to nonresident banks and resident financial institutions is exempt from withholding tax.
- (e) This withholding tax applies to both residents and nonresidents.
- (f) The 5% rate applies to residents, while the 15% rate applies to nonresidents. The withholding tax on management and professional fees (services fees) for resident persons is an advance tax creditable against the final income tax. The withholding tax on technical services provided to mining, oil or gas companies is a final tax. Also, see Section B.
- (g) This is a final tax.
- (h) This withholding tax applies to all supplies of goods to the government.
- (i) This withholding tax applies to nonresidents only.
- (j) This withholding tax applies to residents who pay a money transfer commission to a money transfer agent.
- (k) This withholding tax applies to branches of foreign companies. Tax is levied on an annual deemed profit repatriation basis. Special rules apply to the calculation of the base.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** A company is considered resident for tax purposes if it satisfies either of the following conditions:

- It is incorporated or formed under the laws of Tanzania.
- Its management and control of its affairs is exercised in Tanzania at any time during the year of income.

Resident companies are subject to income tax on their worldwide income. Nonresident companies are subject to income tax on their Tanzanian-source income.

**Rates of corporate tax.** Both resident and nonresident companies are subject to income tax at a rate of 30%.

The corporate income tax rate is reduced from 30% to 25% for the first three years from the date of listing for companies that are newly listed on the Dar es Salaam Stock Exchange and that issue at least 30% of their share capital to the public.

Companies operating in the Export Processing Zone (EPZ) are exempt from corporate income tax for the first 10 years. They are also exempt from withholding tax on dividends, interest and rental payments.

The corporate income tax rate is reduced from 30% to 10% for five consecutive years from the year of commencement of production for companies that have a newly established plant for assembling motor vehicles, tractors, fishing boats or outboard motors for boats and that have a performance agreement with the government of Tanzania.

**Alternative minimum tax.** Companies reporting tax losses or utilizing loss carryforwards for three consecutive years must pay an alternative minimum tax at a rate of 0.3% on the annual turnover in the third loss year.

**Capital gains.** Capital gains are treated as business income for companies and are taxed at the corporate income tax rate. Direct and indirect share transfers are subject to capital gains tax. Disposals of mineral and petroleum rights are also subject to capital gains tax.

**Administration.** A company's year of income is the calendar year. Companies may apply to the Commissioner-General for the Tanzania Revenue Authority for approval of a different year of income.

Companies must file provisional tax returns by the end of the third month of their year of income and file their final tax returns within six months after the end of the year of income. The estimated tax must be paid in four equal installments, as set forth in the provisional return. The remaining balance of tax due (the difference between the actual tax and tax paid in installments) must be paid by the due date of filing the final return. The taxpayer's estimate of taxable income may not be less than 80% of the company's taxable income as finally determined for the year of income. The Commissioner of Income Tax may allow a lower estimate if justified by the facts and circumstances of the case.

Companies may revise their provisional return and file a revised return in the 6th, 9th or 12th month of the year of income if new developments suggest an increase or decrease in income.

A penalty is imposed for a failure to file a return. The penalty equals the greater of the following:

- 2.5% of the amount of tax assessable less tax paid by the start of the period in which the return is due
- 15 currency points (1 currency point = TZS15,000)

Fraud related to a return is subject to a penalty of 50% of the tax shortfall if the statement or omission is made without reasonable excuse. The penalty is increased to 75% of the tax shortfall if the statement or omission is made knowingly or recklessly.

**Dividends.** A final withholding tax is imposed on dividends. A 10% withholding rate applies to dividends paid to residents and nonresidents. A 5% withholding tax rate applies to dividends paid by companies listed on the Dar es Salaam Stock Exchange and to dividends paid to resident companies that hold 25% or more of the shares in the payer of the dividends.

**Extractive industry.** Technical services provided by resident companies or branches to the extractive industry in mining or oil and gas are subject to a final withholding tax of 5%. For nonresident service providers, the withholding tax rate is 15%.

A special tax regime was introduced for the extractive industry, effective from 1 July 2016. Significant aspects of the regime are discussed below.

Under the regime, each separate mining operation and each separate petroleum right is treated as an independent business for corporate income tax purposes. Accounts should be prepared for each separate mining operation or each separate petroleum right.

Taxable income should be determined, and income tax should be paid for each separate mining operation and each separate petroleum right for each year of income.

Royalties paid under the Mining Act or Petroleum Act are not deductible for tax purposes.

Arrangements between separate mining and petroleum operations and the other activities of the person should reflect the arm's-length principle.

Losses are ring-fenced for each mining and petroleum operation.

### C. Determination of trading income

**General.** The audited financial statements serve as the starting point for computing taxable income. Expenses and losses are generally not deductible unless they are incurred wholly and exclusively in the production of income.

Certified financial statements must now be attached when filing a corporate income tax return.

**Inventories.** Inventories are valued at the lower of cost or net realizable value. The last-in, first-out (LIFO) method is not allowed.

**Provisions.** Provisions may not be deducted.

**Depreciation.** Depreciation computed for financial statement purposes is not deductible, but capital allowances are provided for depreciable assets, which are allocated to one of the eight classes. The following are the classes and the rates of the capital allowances.

Class	Assets	Rate
1	Computers and data handling equipment, together with peripheral devices; automobiles, buses and minibuses with a seating capacity of less than 30 passengers; goods vehicles with a load capacity of less than 7 tons; and construction and earth-moving equipment	37.5% (reducing-balance)
2	Buses with a seating capacity of 30 or more passengers; heavy general purpose or specialized trucks, trailers and trailer-mounted containers; railroad cars, locomotives and equipment; vessels, barges, tugs and similar water transportation equipment; aircraft; other self-propelling vehicles; plant and machinery used in agriculture or manufacturing; specialized public utility plant and equipment; and machinery irrigation installations and equipment	25% (reducing-balance)
3	Office furniture, fixtures and equipment; and any assets not included in another class	12.5% (reducing-balance)
4	No assets (the depreciation rules for the assets that had been in this class are discussed in the paragraphs after the table)	
5	Buildings, structures and similar works of a permanent nature used in agriculture, livestock farming or fish farming	20% (straight-line)
6	Buildings, structures and similar works of a permanent nature other than those mentioned in Class 5	5% (straight-line)
7	Intangible assets other than those in Class 4	$1/\text{useful life}$
8	Plant and machinery (including windmills, electric generators and distribution equipment) used in agriculture; electronic fiscal devices purchased by non-value-added tax registered traders; and equipment used for prospecting and exploration of minerals or petroleum	100%

Depreciable assets used in petroleum and mining operations are placed in a separate pool, which does not fall under the normal classes. The depreciation allowance with respect to mineral or petroleum operations is granted at the following rates.



Year of income	Depreciation allowance
First	20% of expenditure
Second	20% of expenditure
Third	20% of expenditure
Fourth	20% of expenditure
Fifth	20% of expenditure

Depreciable assets included in Class 4 were deleted, effective from 1 July 2016. However, the classes of depreciable assets were not renumbered when the above changes were introduced. To date, the law still provides for eight classes, despite the removal of depreciable assets that were under Class 4, and no amendment has been made with respect to the reference to Class 4 that is found under Class 7.

Plant and machinery in Categories 2 and 3 qualify for an initial capital expenditure allowance of 50% for the first year if they satisfy any of the following conditions:

- They are fixed in a hotel used for tourism services.
- They are fixed in a factory used for manufacturing.
- They are used in fish farming.

The maximum depreciable amount for a non-commercial automobile is TZS30 million.

**Relief for tax losses.** Companies may carry forward tax losses indefinitely. No carryback is allowed. Special rules for long-term contracts may apply. Loss carryforwards may offset only 70% of the profits from mineral and petroleum operations each year.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT)	18
Customs duties (imports may also be subject to VAT)	
Raw material or capital goods	0
Semifinished goods	10
Finished goods	25
Property tax; imposed by local governments on the value of real property	0.15
Skills and Development Levy; imposed on gross remuneration (excluding benefits-in-kind)	4.5
Social security; imposed on basic salary; rates depend on the respective fund; paid by	
Employer	10/15
Employee	5/10
Workers' Compensation Fund; imposed on employers' annual wage bill; employers must make monthly payments through deposits in the fund's bank account; payments must be made on the last working day of the month after the month to which the payment relates	
Private sector employers	1
Public sectors employers	0.5
Railways Development Levy; imposed on customs value on importation of goods	1.5

**E. Foreign-exchange controls**

Tanzania does not impose foreign-exchange controls on current-account transactions, but the Bank of Tanzania must be notified of foreign capital-account transactions.

**F. Treaty withholding tax rates**

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Canada	10	15	20
Denmark	10	12.5	20
Finland	10	15	20
India	10	12.5	20
Italy	10	12.5	15
Norway	10	15	20
South Africa	10	10	10
Sweden	10	15	20
Zambia	0	0	0
Non-treaty jurisdictions	10	10	15

The East African countries, which are Burundi, Kenya, Rwanda, Tanzania and Uganda, have signed a tax treaty, which has not yet been ratified.

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**A. At a glance**

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	20
Withholding Tax (%)	
Dividends	10
Interest	15*
Royalties from Patents, Know-how, etc.	15
Branch Remittance Tax	10
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

\* Certain types of interest are exempt from tax [see footnote (a) to Section F].

## B. Taxes on corporate income and gains

**Corporate income tax.** Thai resident companies are subject to corporate income tax on their worldwide income. Thai resident companies are those incorporated in Thailand. Branches of foreign corporations are subject to Thai tax on Thailand-source income only.

**Rates of corporate tax.** Thai resident companies and branches of foreign corporations are subject to corporate income tax at a flat rate of 20% on taxable profits.

Progressive corporate income tax rates of 0%, 15% and 20% apply to locally incorporated companies with paid-up capital of not more than THB5 million and revenue of not more than THB30 million per year.

**Tax incentives.** Tax incentives, which are described below, are available in Thailand for International Headquarters (IHQs), Treasury Centers (TCs) and International Trading Centers (ITCs), if relevant conditions are met.

*IHQs.* Income derived by IHQs from qualified support services and licensing fees from intellectual properties provided and/or granted to qualified overseas affiliate companies is exempt from Thai corporate income tax. Service fees and licensing fees generated from qualified local affiliate companies are subject to a reduced corporate income tax rate of 10%.

*TCs.* TCs licensed by the Bank of Thailand and operating as part of an IHQ may be eligible for corporate income tax exemption on interest income and income from qualified TC services generated from qualified overseas affiliate companies. Interest income and treasury service fees generated from qualified local affiliate companies are subject to a reduced corporate income tax rate of 10%.

*ITCs.* Income derived by ITCs from sales of goods bought from a supplier outside Thailand and sold to a customer outside Thailand (out-out trading transactions) and service fees generated from other relevant services are exempt from Thai corporate income tax.

**Capital gains.** Capital gains are treated as ordinary business income subject to income tax.

**Administration.** Corporate income tax returns, together with the audited financial statements, must be filed with the Revenue Department within 150 days after the accounting year-end. Corporate income tax payments are due on the filing date.

Mid-year (interim) tax returns must be filed with interim tax payments within two months after the end of the first half of the accounting year. Listed companies, financial institutions and companies approved by the Director-General of the Revenue Department compute their interim tax based on actual operating results for the first half-year. Other companies compute their interim tax based on one-half of the estimated annual profit. These companies do not have to submit audited or reviewed financial statements. The interim tax is creditable against the annual tax payable at the end of the year.

## **Dividends**

*Received from resident companies.* In general, one-half of dividends received by resident companies from other resident companies may be excluded from taxable income. However, the full amount of the dividends may be excluded if either of the following applies:

- The recipient is a company listed on the Stock Exchange of Thailand.
- The recipient owns at least a 25% equity interest in the distributing company, provided that the distributing company does not own a direct or indirect equity interest in the recipient company.

These rules apply if the related shares are acquired not less than three months before receiving the dividends and are not disposed of within three months after receiving the dividends.

*Received from foreign companies.* A Thai company that owns an equity interest of at least 25% in a foreign company can exclude dividends received from such foreign company from its taxable profit if, on the date of receipt of the dividend, it has held the investment for at least six months and if the profit out of which the dividends are distributed is subject to income tax in the hands of the foreign company at a rate of at least 15%.

**Foreign tax relief.** Thailand has entered into double tax treaties with 56 countries. In general, under the treaties, foreign tax relief is limited to the lower of the foreign tax and the amount of Thai tax calculated on such income.

Foreign tax payable in non-treaty countries may be credited against Thai tax, limited to the Thai tax computed on the foreign income, provided the foreign tax meets the conditions set forth in the relevant measure. If the foreign tax is not used as a credit, it may be claimed as a deduction for income tax purposes.

## **C. Determination of trading income**

**General.** Corporate income tax is based on audited financial statements, subject to certain adjustments.

In general, expenses are tax-deductible if they are incurred wholly and exclusively for the purpose of generating income. However, expenses created by means of provisions or allowances, such as those for bad debts or stock obsolescence, are not tax-deductible until they are actually used.

**Inventories.** Inventories must be valued at the lower of cost or market value. Cost may be determined using any generally accepted accounting method. After a method is adopted, a change to another method may be made only with approval of the Director-General of the Revenue Department.

**Depreciation and amortization allowance.** A company may depreciate its fixed assets under any generally accepted accounting method, provided the number of years of depreciation under the selected method is not less than the minimum prescribed period. However, after a method is adopted, it may not be changed unless prior consent has been obtained from the Director-General of the Revenue Department. The following are the minimum prescribed periods applicable to some major fixed assets.

Asset	Time period
Buildings	20 years
Furniture, fixtures, machinery, equipment and motor vehicles	5 years
Trademarks, goodwill, licenses, patents and copyrights (including software)	Over period of use (or 10 years if no period of use)
Computer hardware and operating software	3 years

**Relief for losses.** Operating losses may be carried forward for a period of five years. Loss carrybacks are not allowed.

**Groups of companies.** The Thai tax law does not include any provisions for consolidated treatment under which companies within a group may be treated as one tax entity. Each individual company must file its income tax return and pay its tax.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on goods sold, services rendered and imports	7
Specific business tax, on financial service and real estate businesses	Various

#### E. Miscellaneous matters

**Foreign-exchange controls.** On presentation of supporting documents, virtually all foreign-exchange transactions may be processed by a commercial bank.

**Transfer pricing.** Under transfer-pricing guidelines issued by the Thai Revenue Department, all sales or service transactions must be executed at an arm's-length price, and the taxpayer is required to prepare and maintain contemporaneous documentation to substantiate the price. Acceptable transfer-pricing methods include the comparable uncontrolled price method, the resale price method, the cost-plus method and other internationally accepted methods. If the taxpayer fails to prove that a transaction challenged by the tax authorities was executed on an arm's-length basis, additional tax can be assessed. Transactions between related parties are subject to particular scrutiny.

#### F. Treaty withholding tax rates

The rates in the table reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends %	Interest (a)(b) %	Royalties %
Armenia	10	15 (c)	15
Australia	10	15 (c)	15
Austria	10	15 (c)	15
Bahrain	10	15 (c)	15
Bangladesh	10	15 (c)	15
Belarus	10	15 (c)(q)	15
Belgium	10	15 (c)	15 (f)
Bulgaria	10	15 (c)(e)	15 (f)

	<b>Dividends</b>	<b>Interest (a)(b)</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Canada	10	15 (c)	15 (f)
Chile	10	15	15 (u)
China (mainland)	10	15 (c)	15
Cyprus	10	15 (c)(e)(q)	15 (r)
Czech Republic	10	15 (c)	15 (f)(g)
Denmark	10	15 (o)	15 (f)
Estonia	10	10 (c)	10 (x)
Finland	10	15 (c)	15
France	10	15 (c)(d)	15 (f)(h)
Germany	10	15 (c)(e)	15 (f)
Hong Kong SAR	10	15 (c)(m)	15 (f)(g)
Hungary	10	15 (c)	15
India	10	15 (c)	10 (cc)
Indonesia	10	15 (c)	15
Ireland	10	15 (c)(y)	15 (z)
Israel	10	15 (c)	15 (f)
Italy	10	15 (c)(e)	15 (f)
Japan	10	15 (c)	15
Korea (South)	10	15 (c)	15
Kuwait	10	15 (c)(e)(o)	15
Laos	10	15 (c)(e)	15
Luxembourg	10	15 (c)	15
Malaysia	10	15 (c)	15
Mauritius	10	15 (c)	15 (f)
Myanmar	10	10 (c)	15 (f)(v)
Nepal	10	15 (c)	15
Netherlands	10	15	15 (f)
New Zealand	10	15 (c)(m)	15 (n)
Norway	10	15 (c)(o)	15 (f)(s)
Oman	10	15 (c)(t)	15
Pakistan	10	15 (c)	15 (f)(h)
Philippines	10	15 (c)	15
Poland	10	15 (c)	15 (f)(h)
Romania	10	15 (c)	15
Russian Federation	10	15 (c)	15
Seychelles	10	15 (c)	15
Singapore	10	15 (c)	10 (bb)
Slovenia	10	15 (c)(o)	15 (k)
South Africa	10	15 (c)	15
Spain	10	15 (c)	15 (l)
Sri Lanka	10	15 (c)	15
Sweden	10	15 (c)	15
Switzerland	10	15 (i)	15 (f)(g)
Taiwan	10 (w)	15 (c)	10
Tajikistan	10	10 (c)(aa)	10 (f)
Turkey	10	15 (c)	15
Ukraine	10	15 (c)(o)	15
United Arab Emirates	10	15 (c)(e)(o)	15
United Kingdom	10	15 (c)	15 (f)
United States	10	15 (c)(j)	15 (k)
Uzbekistan	10	15 (c)(p)	15
Vietnam	10	15 (c)	15
Non-treaty jurisdictions	10	15	15



- (a) The following types of interest are exempt from tax:
- Interest paid to a financial institution wholly owned by another state
  - Interest on certain foreign-currency loans brought into Thailand between 1 May 1979 and 28 February 1990
  - Interest paid by the government or a financial institution established by a specific law of Thailand for the purpose of lending money to promote agriculture, commerce and industry
  - Interest paid by the central bank or state enterprises on loans approved by the Ministry of Finance
- (b) The rate is reduced to 10% if the interest is paid to banks, financial institutions or insurance companies of the treaty countries.
- (c) Interest paid to the government, subdivisions of contracting states or a central bank is exempt from tax.
- (d) The withholding rate is 3% for interest on loans or credits granted for at least four years with the participation of a public financing institution to a statutory body or enterprise of the other contracting state, in relation to sales of equipment, or in relation to the survey, installation or supply of industrial, commercial or scientific premises, or public works.
- (e) Interest paid to a financial institution wholly owned by the other contracting state is exempt.
- (f) The withholding rate is 5% (10% for Pakistan) for royalties for copyrights of literary, artistic or scientific works.
- (g) The withholding rate is 10% for royalties paid for patents, trademarks, designs, models, plans, or secret formulas or processes.
- (h) Royalties and similar payments paid to the other contracting state or a state-owned company for films or tapes are exempt.
- (i) Interest paid to residents of Switzerland with respect to loans guaranteed or insured under the Swiss provisions regulating the Export or Investment Risk Guarantee is exempt.
- (j) The rate is reduced to 10% for interest paid on indebtedness resulting from sales on credit of equipment, merchandise or services. Interest on debt obligations guaranteed or insured by the government is exempt.
- (k) The withholding rate is 5% (10% for Slovenia) for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, including software and motion pictures and works on films, tape or other means of reproduction for use in connection with radio or television broadcasting. The withholding rate is 8% (10% for Slovenia) for royalties for the use of, or the right to use, industrial, commercial or scientific equipment.
- (l) The withholding rate is 5% for royalties paid for the use of, or the right to use, copyrights of literary, dramatic or scientific works, excluding cinematographic films or films or tapes used for radio or television broadcasting. The withholding rate is 8% for amounts paid under financial leases for the use of, or the right to use, industrial, commercial or scientific equipment.
- (m) The rate is reduced to 10% for interest paid on indebtedness resulting from sales on credit of equipment, merchandise or services, except for sales between persons not dealing with each other at arm's length. Under the New Zealand treaty, interest derived by the government of New Zealand or its central bank from the investment of official reserves is exempt from tax.
- (n) The withholding tax rate is 10% for royalties paid for the following:
- The use of or right to use, copyrights, industrial, scientific or commercial equipment, motion picture films, films or videotapes or other recordings for use in connection with television, and tapes or other recordings used in connection with radio broadcasting
  - For the reception of, or the right to receive, visual images or sounds transmitted to the public by satellite, cable, optic fiber or similar technology
  - For the use of, or right to use, in connection with television or radio broadcasting, visual images or sounds transmitted by cable, optic fiber or similar technology
- (o) Interest on loans made, guaranteed or insured by the government, central bank, agency or body wholly owned or controlled by the government is exempt from tax.
- (p) Interest is exempt from tax if it is paid on loans made, guaranteed or insured by the contracting state or by an authorized body of the state on behalf of the state or if it is paid on other debt claims or credits guaranteed or insured on behalf of the contracting state by an authorized body of the state.
- (q) The rate is reduced to 10% for interest paid on indebtedness resulting from sales on credit of industrial, commercial, or scientific equipment or from sales on credit of merchandise between enterprises.

- (r) A withholding tax rate of 5% applies to royalties for the use of, or the right to use, copyrights of literary, dramatic, musical, artistic or scientific works, including software, cinematographic films and films or tapes used for radio or television broadcasting. A withholding tax rate of 10% applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment or for information concerning industrial, commercial or scientific experience.
- (s) The withholding tax rate is 10% for royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment.
- (t) The rate is reduced to 10% if the loan or debt claim generating the interest is guaranteed by the government, central bank, state general reserve fund, local authorities, or a body wholly owned by the government.
- (u) The withholding tax rate is 10% for royalties paid for copyrights of literary, artistic or scientific works and the right to use industrial, commercial and scientific equipment.
- (v) The withholding tax rate is 10% for royalties paid for managerial or consultancy services or for information concerning commercial, industrial, or scientific experience.
- (w) The withholding tax rate is reduced to 5% if the beneficial owner holds directly at least 25% of the dividend-paying company.
- (x) The withholding tax rate is 8% for royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment. The rate is 10% for royalties in other cases.
- (y) The rate is 10% for interest paid on indebtedness resulting from sales on credit of equipment, merchandise or services, except for sales between persons not dealing with each other at arm's length.
- (z) The withholding tax rate is 5% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, including software and motion pictures and works on films or other means of reproduction for use in connection with radio or television broadcasting. The rate is 10% for royalties for the use of, or the right to use, industrial, commercial or scientific equipment or patents.
- (aa) Interest is exempt from tax if any of the following circumstances exists:
- The interest is paid in connection with the sale on credit of merchandise or equipment.
  - This interest is paid on a loan or credit granted by a bank.
  - The interest is paid to the government including a political subdivision or local authority thereof, the central bank or a financial institution controlled by the government.
  - The interest is paid to a resident of the other contracting state in connection with a loan or credit guaranteed by the government including a political subdivision or local authority thereof, the central bank or a financial institution controlled by the government.
- (bb) The withholding rate is 5% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, including software and cinema films, or films or tape for radio or television broadcasting. The withholding rate is 8% for royalties for the use of, or the right to use, patents, trademarks, designs, models, plans, secret formulas or processes, or industrial, commercial, or scientific equipment. The withholding tax rate is 10% for other types of royalties.
- (cc) The maximum withholding tax rate for all types of royalties is 10%.

## Trinidad and Tobago

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### A. At a glance

Corporate Income Tax Rate (%)	30 (a)
Short-Term Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%) (c)	
Dividends	5/10 (d)
Interest	15 (e)
Royalties from Patents, Know-how, etc.	15 (e)
Branch Remittance Tax	5 (f)
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited

- (a) The 25% rate applies to taxable profits up to TTD1 million, while the 30% rate applies to taxable profits in excess of TTD1 million. A business levy and a green fund levy are also imposed. Companies licensed to carry on “banking business” or the “business of banking” under the Financial Institutions Act (these terms are defined identically under the act) are subject to a corporation tax rate of 35%. The rate for companies engaged in the downstream petrochemical sector and related sectors is 35%. Upstream petroleum operations are taxed under a separate regime. See Section B.
- (b) See Section B.

- (c) These withholding taxes apply to payments to nonresidents only.
- (d) The 5% rate applies to dividends paid to corporations owning 50% or more of the voting power of the distributing company. The 10% rate applies to other dividends.
- (e) Applicable to payments to companies and individuals.
- (f) Applicable to deemed remittances of profits to overseas head office.

## **B. Taxes on corporate income and gains**

**Corporation tax.** Companies resident in Trinidad and Tobago are subject to tax on their worldwide income from all sources. Relief with respect to taxation suffered on foreign-source income in an overseas jurisdiction may be available under a double tax treaty. Nonresident companies engaged in business in Trinidad and Tobago are subject to tax on income directly or indirectly accruing in or derived from Trinidad and Tobago.

**Rates of tax.** For the 2018 year of income, corporation tax is chargeable at a rate of 30%.

The Corporation Tax Act provides for a business levy to be imposed on the annual gross sales and receipts of companies, including branches of nonresident companies operating in Trinidad and Tobago. The rate of the business levy is 0.6%. The business levy is credited against the corporation tax liability. It is the final liability if the corporation tax liability is less than the business levy. Certain companies are exempt from the levy, including the following:

- Companies or statutory corporations exempt from corporation tax under any act
- Certain government corporations under the jurisdiction of the Public Utilities Commission or exempted by order of the President
- Companies subject to tax under the Petroleum Taxes Act

A company is not subject to the business levy for the first 36 months following the date of registration of its business or if its gross sales or receipts do not exceed TTD360,000 in the year of income.

The Miscellaneous Taxes Act provides for a green fund levy to be imposed on the gross sales and receipts of companies engaged in business in Trinidad and Tobago. The rate of the green fund levy is 0.3%. The green fund levy may not be credited against the corporation tax liability or claimed as a tax deduction in determining the company's taxable income.

The corporation tax rate for companies engaged in the downstream petrochemical sector and related sectors is 35%. Companies engaged in upstream petroleum operations are subject to various taxes and imposts, of which the most significant are petroleum profits tax of 50%, unemployment levy of 5% and supplemental petroleum tax at rates based on the weighted average crude oil price. Upstream petroleum companies are also subject to a different system of tax administration.

For companies licensed to carry on "banking business" or the "business of banking" under the Financial Institutions Act (these terms are defined identically under the act), a 35% rate applies, effective from the 2018 year of income.

Generally, the profits from a long-term insurance business of an assurance company that is subject to tax are the profits derived from the investment of its Statutory Fund.

The rate of corporation tax on the profits from a long-term insurance business for the 2018 year of income is 15%. However, if such profits are transferred to the shareholders' account, such transferred amounts are subject to tax at a rate of 25%.

**Capital gains.** Capital gains are generally not subject to tax. Depending on the class of asset and the nature of the company's business activities, however, the profit or loss on depreciable assets disposed of after being held for more than 12 months may require a balancing adjustment (see Section C).

Short-term capital gains are profits on the disposal of assets within 12 months of their acquisition. Although these gains are of a capital nature, they are generally subject to tax. Profits derived from the partial disposal of an asset within 12 months of acquisition are also subject to tax. For the 2018 year of income, the applicable rate is 30%.

**Administration.** The tax year is the calendar year. Tax is calculated on the profits for the accounting period that ends during the tax year. For each quarter, a company is required to pay a green fund levy installment, as well as either a corporation tax or business levy installment, whichever is greater. The quarterly payments must be made by 31 March, 30 June, 30 September and 31 December in each tax year. Quarterly payments of corporation tax are determined based on the taxable income for the preceding accounting period. Business levy and green fund levy installments are based on the actual gross sales or receipts of the company for the relevant quarter. The business levy calculation excludes income that is exempt for corporation tax purposes such as dividends received from Trinidad and Tobago resident companies, but the green fund levy calculation takes into account such income.

If the current year's profits exceed the preceding year's profits, a company must pay by 31 December the sum of the tax liability on the preceding year's taxable profits plus 80% of the increase in tax liability over the preceding year. Annual tax returns must be filed by 30 April in the year following the tax year, and any balance of tax due is payable at that time.

If the balance of tax due is not paid by the 30 April deadline, interest accrues at a rate of 20% on the outstanding amount beginning on 1 May. A grace period to 31 October is granted for the filing of the tax return. If the return is not filed by 31 October, a penalty of TTD1,000 accrues beginning 1 November for each six-month period or part of such period that the return remains outstanding.

**Dividends.** Dividends received from nonresident companies out of profits not derived from or accruing in Trinidad and Tobago are subject to tax. Dividends received by resident companies from other resident companies are tax-exempt.

Dividends paid to nonresident companies and individuals are generally subject to a withholding tax of 10%. The rate is reduced to 5% if the recipient is a corporation owning 50% or more of the voting power of the distributing company.

**Double tax relief.** Bilateral agreements have been entered into between the government of Trinidad and Tobago and the governments of certain other countries to provide relief from double taxation. These agreements assure taxpayers that their trade or investment in the other countries is free from the deterrent of double taxation. Relief from double taxation is achieved by one of the following two methods:

- Exemption or a reduced rate on certain classes of income in one of the two countries concerned.
- Credit if the income is fully or partially taxed in the two countries. The tax in the country where the income arises is allowed as a credit against the tax on the same income in the country where the recipient is resident. The credit is the lower of the Trinidad and Tobago tax or the foreign tax on the same income.

### C. Determination of taxable income

**General.** The assessment is based on financial statements prepared according to international accounting standards, subject to certain adjustments.

To be deductible, expenses must be incurred wholly and exclusively in the production of income. The deduction for business meals and entertainment expenses is limited to 75% of actual expenses. Deductions for management charges (now more broadly defined) paid to a nonresident company may not exceed 2% of the payer's total expenses, exclusive of such charges, capital allowances and expenses not allowed under the Corporation Tax Act.

Donations made under a registered deed of covenant to an approved charity that are actually paid during the year of income are deductible, up to a maximum of 15% of the total income of the company (as defined in the law).

**Inventories.** Inventory may be valued at cost or market value, whichever is lower. A method of stock valuation, once properly adopted, is binding until permission to change is obtained from the Board of Inland Revenue.

**Bad debts.** Trading debts that have become bad, and are proven to be so to the satisfaction of the Board of Inland Revenue, may be deducted in determining taxable income. In addition, doubtful debts are deductible to the extent that they have become bad during the year. If these debts are subsequently collected, they are considered to be income subject to tax in the year of recovery.

#### **Tax depreciation (capital allowances)**

*Depreciation (wear-and-tear) allowances.* Depreciation is calculated on the depreciated value of fixed assets at the beginning of each accounting year.

Industrial buildings qualify for a depreciation allowance of 10% under the declining-balance method. Buildings completed before 1 January 1995 that are used in retail or wholesale trade or as office buildings or rental properties are not entitled to any depreciation allowances, unless they are used exclusively to house plant and machinery and the amounts claimed for the depreciation allowance are reasonable.

Capital expenditure incurred on the construction of a building or structure completed on or after 1 January 1995 and capital

improvements made to buildings or structures on or after that date qualify for a 10% depreciation allowance under the declining-balance method.

Other assets are depreciated using the declining-balance method. The depreciation rates vary depending on when the assets were acquired. The following are the applicable rates for assets acquired on or after 1 January 1995.

Asset	Rate (%)
Office equipment	25
Motor vehicles	25
Computers	33.3
Plant and machinery	
Light	25
Heavy	25 or 33.3
Rigs	33.3
Aircraft (secondhand)	40

*Balancing adjustments.* Proceeds from disposals of assets are deducted from the residual value of the pool for that particular class of assets. Under the pool system, balancing charges arise if the value in the pool results in a credit balance, and balancing allowances arise only on the disposal of all of the assets in a particular class.

*Initial allowance.* A 10% initial allowance is granted on acquired industrial buildings that are used in manufacturing. Machinery and equipment used in manufacturing also qualify for an initial allowance at a rate of 90%. The rate of the initial allowance is reduced to 20% for plant and machinery used in the production of sugar, petroleum or petrochemicals or in an industry enjoying concessions under the Fiscal Incentives Act.

The initial allowance reduces the asset's value for purposes of depreciation in subsequent periods.

**Relief for losses.** Losses carried forward can be written off to the full extent of taxable profits for the tax year. The unrelieved balance can be carried forward indefinitely. No loss carryback is allowed.

**Groups of companies.** Under the provisions of the Corporation Tax Act, a company within a group of companies (surrendering company) may surrender its current year trading loss (exclusive of capital allowances) to another company (or companies) within the same group (claimant company). The claimant company may then claim a deduction with respect to the trading loss against its taxable profits.

To qualify for group relief, both the surrendering company and the claimant company must be resident in Trinidad and Tobago. Two companies are members of the same group if one is a wholly owned subsidiary of the other or both are wholly owned subsidiaries of a third company. The surrendering company and the claimant company must be members of the same group throughout the respective accounting periods of each of the companies. If the claimant company and the surrendering company do not have coterminous year-ends, the amount of the current year losses available for setoff and relief is restricted to the accounting period that is common to both the surrendering company and the claimant company.

The claimant company may claim group relief if it has used all of its available capital allowances and offset its loss brought forward from the prior year(s) of income against its current year taxable income. The amount of the trading losses that any one claimant company may claim as a deduction is limited to 25% of the tax that would have been payable by the claimant company had the relief not been granted.

Any unrelieved current year losses of the surrendering company may be carried forward indefinitely and be written off against its future taxable income.

#### D. Value-added tax

A value-added tax (VAT) applies to most products supplied and services rendered in Trinidad and Tobago. The standard rate of VAT is 12.5%. A 0% rate applies to certain items, including exports. Imports of inputs by highly capital-intensive manufacturing corporations are exempt from VAT if the corporation is declared an approved enterprise under the Fiscal Incentives Act.

Companies and other businesses are required to register for the tax if their turnover exceeds a stipulated threshold as specified in the Value Added Tax Act. The VAT threshold is TTD500,000 a year.

The Value-Added Tax Act allows the tax authorities to offset VAT refunds against any other tax liability, such as corporation tax or income tax.

#### E. Miscellaneous matters

**Foreign-exchange controls.** Trinidad and Tobago has a floating exchange-rate regime. Commercial banks and licensed foreign-exchange dealers set the exchange rate. Residents may hold foreign currencies for their own account. Profits may be repatriated without the approval of the Central Bank of Trinidad and Tobago.

**Debt-to-equity rules.** In general, no thin-capitalization rules are imposed in Trinidad and Tobago. However, if a local company pays or accrues interest on securities issued to a nonresident company and if the local company is a subsidiary of, or a fellow subsidiary in relation to, the nonresident company, the interest is treated as a distribution and may not be claimed as a deduction against the profits of the local company.

#### F. Treaty withholding tax rates

The following table lists the withholding tax rates under Trinidad and Tobago's tax treaties. If the treaty rates are higher than the rates prescribed in the domestic law, the lower domestic rates apply.

	Dividends	Interest	Royalties
	%	%	%
CARICOM treaty (f)			
Antigua and Barbuda	0	15	15
Barbados	0	15	15
Belize	0	15	15
Brazil	10/15 (h)	15	15
Dominica	0	15	15
Grenada	0	15	15



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Guyana	0	15	15
Jamaica	0	15	15
Montserrat	0	15	15
St. Kitts and Nevis	0	15	15
St. Lucia	0	15	15
St. Vincent and the Grenadines	0	15	15
Canada	5/15 (d)	10	10
China (mainland)	5/10 (c)	10	10
Denmark	10/20 (c)	15	15
France	10/15 (d)	10	10
Germany	10/20 (c)	10 (a)	10
India	10	10	10
Italy	10/20 (c)	10	5
Luxembourg	5/10 (g)	7.5/10 (e)	10
Norway	10/20 (c)	15	15
Spain	0/5/10 (i)	8	5
Sweden	10/20 (c)	10 (a)	20
Switzerland	10/20 (d)	10	10
United Kingdom	10/20 (c)	10	10
United States	10/25 (d)	15 (a)	15
Venezuela	5/10 (c)	15	10
Non-treaty jurisdictions	5/10 (b)	15	15

- (a) The rate applies to interest paid to banks and financial institutions. Interest paid to other recipients is taxed at 15%.
- (b) See footnote (d) to Section A.
- (c) The lower rate applies if the recipient is a corporation owning 25% or more of the voting power of the distributing company.
- (d) The lower rate applies if the recipient is a corporation owning 10% or more of the voting power of the distributing company.
- (e) The lower rate applies to interest paid on deposits, commercial debts and borrowings from banking enterprises.
- (f) The listed countries have ratified the Caribbean Community and Common Market (CARICOM) double tax treaty.
- (g) The lower rate applies if the recipient is a company holding directly at least 10% of the capital of the distributing company.
- (h) The lower rate applies if the recipient is a company holding directly or indirectly at least 25% of the capital of the distributing company.
- (i) The 0% rate applies if the recipient is a company holding directly at least 50% of the capital of the distributing company. The 5% rate applies if the recipient is a company holding directly at least 25% of the capital of the distributing company.

# Tunisia

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## A. At a glance

Corporate Income Tax Rate (%)	25 (a)
Capital Gains Tax Rate (%)	25 (a)
Branch Tax Rate (%)	25 (a)
Withholding Tax (%)	
Dividends	10 (b)
Interest	20 (b)(c)(d)
Royalties	15 (b)(e)
Gross Rents	5/15 (b)(f)
Management Fees	0/0.5/1.5/2.5/5/15 (b)(f)(g)
Branch Remittance Tax	10 (b)(h)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) This is the standard rate of corporate income tax. Oil service companies, banks, financial institutions (for example, insurance companies, including mutual insurance companies), telecommunication companies, car dealers, large commercial enterprises, and franchisees of foreign brands and marks are subject to corporate income tax at a rate of 35%. Handicraft, agricultural and fishing companies are subject to corporate income tax at a rate of 10%. For exporting companies that have completed their full exemption period or that have been established since 2014, benefits from exportations realized on or after 1 January 2014 are subject to corporate income tax at a rate of 10%. The corporate income tax rate is 20% for companies that float on the Tunisian stock exchange for the first five years beginning from the listing year if they open up 30% of their capital to the public. Under the 2017 Finance Act, the 20% rate is reduced to 15% for the companies that float on the Tunisian stock exchange starting from 1 January 2017. Under the 2018 Finance Act, a 20% corporate income tax also applies to companies engaged in transformation and purchasing for resale activities that have annual turnover exclusive of taxes not exceeding TND1 million and companies engaged in services activities and non-commercial professions that have annual turnover exclusive of taxes not exceeding TND500,000.

- (b) Payments to beneficiaries resident in tax havens are subject to a 25% rate.
- (c) This tax applies to payments to residents and nonresidents.
- (d) The rate is 10% for interest paid on loans made by nonresident banks.
- (e) This tax applies to payments to nonresidents. For further details, see Section B.
- (f) The applicable rate depends on the nature of the beneficiary and service.
- (g) Management fees paid to residents are subject to withholding tax at a rate of 0% if the amount does not exceed TND1,000 and if they do not represent fees. Management fees paid to residents are subject to withholding tax at a rate of 1.5% if the amount is greater than TND1,000 and if they do not represent fees (the rate is reduced to 0.5% if the amounts paid comply with the restrictive new definition of indirect exportation). If management fees paid to residents are related to fees, they are subject to withholding tax at a rate of 5% (the rate is reduced to 2.5% if the amounts paid comply with the restrictive new definition of indirect exportation). Management fees paid to nonresidents are subject to withholding tax at a rate of 15%, subject to the provisions in double tax treaties.
- (h) See Section B.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies are subject to tax on profits derived from establishments located in Tunisia and on profits that are deemed to be derived in Tunisia under double tax treaties.

Tunisian-source income that is not realized within the framework of a Tunisian establishment, such as interest and royalties, is subject only to final withholding taxes (see *Royalties*).

**Tax rates.** The standard rate of corporate income tax is 25%.

Oil service companies, banks, financial institutions (for example, insurance companies, including mutual insurance companies), telecommunication companies, car dealers, large commercial enterprises, and franchisees of foreign brands and marks are subject to corporate income tax at a rate of 35%.

For companies that have completed their full exemption period or that have been established since 2014, benefits from exportations realized on or after 1 January 2014 are subject to corporate income tax at a rate of 10%.

The corporate income tax rate is 20% for companies that float on the Tunisian stock exchange for the first five years beginning from the listing year if they open up 30% of their capital to the public. Under the 2017 Finance Act, the 20% rate is reduced to 15% for the companies that float on the Tunisian stock exchange starting from 1 January 2017.

A 20% corporate income tax applies to companies engaged in transformation and purchasing for resale activities that have annual turnover exclusive of taxes not exceeding TND1 million and companies engaged in services activities and non-commercial professions that have annual turnover exclusive of taxes not exceeding TND500,000.

The minimum corporate income tax due is 0.2% of annual local turnover inclusive of all taxes and 0.1% of taxable exportation turnover.

The 0.2% minimum corporate income tax due in 2014 may be credited against the corporate income tax due for the next five financial years, but it is not refundable. The 2015 Financial Law eliminated the possibility of deducting the 0.2% minimum tax in the fifth year.

Tax benefits, such as total or partial exemptions from some taxes and duties, may be granted to companies such as those established in a Regional Development Areas or companies incorporated during 2018 and 2019.

**Social Contribution of Solidarity.** The 2018 Financial Act introduced a new Social Contribution of Solidarity for the companies and enterprises subject to corporate income tax, as well as companies not subject to corporate income tax.

This contribution is imposed at a rate of 1% of the taxable income and profits. The amount due for companies not subject to corporate income tax is TND200.

The Social Contribution of Solidarity applies to income and profits realized on or after 1 January 2018.

**Cyclical tax on banks, financial institutions and insurance companies, including reinsurance companies.** The 2018 Finance Act introduced a cyclical tax that is imposed in on the following:

- Banks and financial institutions, as defined in Law No. 2016-48, dated 11 July 2016, except payment institutions
- Insurance companies, including reinsurance companies, undertaking their activities according to the provisions of the Insurance Code

The cyclical tax is imposed at the following rates:

- 5% of the profits serving for the calculation of the corporate income tax of which the deadline of declaration occurs during 2018, with a minimum tax of TND5,000
- 4% of the profits serving for the calculation of corporate income tax of which the deadline of declaration occurs during 2019, with a minimum tax of TND5,000

**Capital gains.** Capital gains are included in ordinary income and are taxed at the regular corporate income tax rate. For nonresident and non-established companies in Tunisia, capital gains derived from the sale of shares is subject to withholding tax at a rate of 25%, which is levied on the difference between the sales price and the acquisition price, reduced by the expenses incurred on the sale including the share premium. In all cases, the tax on capital gains may not exceed 5% of the sales price.

As an option, a tax return on capital gains may be filed.

**Administration.** The financial year is generally the calendar year.

Tax returns must be filed by the 25th day of the third month following the end of a company's financial year. Consequently, for companies using the calendar year as their financial year, tax returns are due by 25 March. For companies subject to mandatory audit, this return can be considered a temporary tax return and a definitive return must be submitted by 25 June.

Starting from the second year of their activities, companies must pay tax in three installments. Each installment is equal to 30% of the corporate income tax due for the preceding financial year. The installments are payable by companies during the first 28 days of the sixth, ninth and twelfth months following the end of the financial year. The balance of tax due must be paid when a tax bill (a document that specifies the amount of tax due and when the tax must be paid) is filed.

**Dividends.** Dividends paid to resident and nonresident individuals and nonresident entities in Tunisia are subject to a 10% withholding tax.

Profits realized in Tunisia by Tunisian establishments of foreign companies are assumed to be distributed for the benefit of the partners not resident in Tunisia and are accordingly subject to the 10% withholding tax for distributions. This withholding tax is imposed at a rate of 25% if the establishments have their head offices in tax havens.

**Royalties.** Subject to the provisions of double tax treaties, a 15% withholding tax is imposed on royalties paid to nonresidents. This tax applies to the following types of payments:

- Copyright royalties
- Payments for the use of, or the right to use, patents, trademarks, designs, models, plans, formulas, manufacturing processes and movies, including proceeds received from sales of such items
- Payments for the use of, or the right to use, industrial, commercial, agricultural, harbor or scientific equipment, except for amounts paid to charter a plane or vessel for international operations
- Payments for information concerning industrial, commercial or scientific experience
- Payments for technical or economic studies or for technical assistance

**Foreign tax relief.** Tunisia does not grant any relief for foreign taxes.

### C. Determination of trading income

**General.** Taxable income is based on financial statements prepared in accordance with generally accepted accounting principles, subject to certain adjustments.

Business expenses are generally deductible unless specifically disallowed by the tax law. Expenses that are deductible include, but are not limited to, the following:

- All types of expenses relating to production or the operation of a business, such as salaries and wages, and raw materials
- Tax depreciation (see *Tax depreciation*)
- Attendance fees paid to members of the board of directors or the supervisory board
- Interest paid to shareholders on loans if the amount of the loan does not exceed 50% of authorized capital, if the interest rate does not exceed 8% and if the share capital is fully paid up
- Donations and subsidies paid to charities and organizations established for the public good that are engaged in philanthropic, educational, scientific, social or cultural activities, up to a maximum deduction of 0.2% of gross turnover
- Amounts paid to social funds established for employees in accordance with the law
- Gifts and meal expenses, up to a maximum deduction of the lower of 1% of annual gross income or TND20,000
- Sponsorships allocated to the incorporation and the maintenance of green spaces as well as family and rural parks, within the framework of conventions concluded to this effect with the ministry in charge of the environment or the ministry in charge

of infrastructure and housing, are deductible in determining the base subject to corporate income tax, up to the threshold of TND150,000 per year

Expenses that are not deductible include, but are not limited to, the following:

- Fines, forfeitures and penalties of any kind, as well as transactions designed to avoid the application of higher penalties
- Charges on passenger cars of more than nine horsepower
- Expenses related to aircraft, pleasure craft and second homes
- Expenses amounting to over TND5,000 that are paid in cash
- Charges invoiced by persons established in tax havens

**Inventories.** Inventories are valued at cost.

**Provisions.** Doubtful debts of up to TND100 (TND500 for banks) per debtor are deductible if they were due at least one year prior to the date on which they were written off and if the company has had no further business relationship with the debtor.

The following provisions are deductible, up to a maximum deduction of 50% of taxable income:

- Reserves for doubtful debts for which recovery is being pursued in the courts
- Provisions for finished goods
- Provisions for depreciation of shares of listed companies

Banks may deduct bad debt provisions from their tax base without any limit. This deduction can result in a tax loss.

**Tax depreciation.** Under the Tunisian Tax Code, depreciation must be computed using the straight-line method. Depreciation is deductible only if it is recorded in the accounts.

Standard depreciation rates allowed in Tunisia include, but are not limited to, the following.

Asset	Rate (%)
Patents and trademarks	20
Capitalized research and development costs	20
Buildings	5
Office furniture and equipment	20
Equipment and machinery	15
Cars	20
Movable equipment	10/20
Engines	15/20/33.33
Ships	6.25
Computer hardware and software	33.33

For equipment other than transportation equipment, the depreciation rates may be increased by 50% if the equipment is used at least 16 hours a day and may be doubled if it is used 24 hours a day.

The costs of setting up a business may be amortized at a rate of 33% if the costs are very high. Otherwise, 100% of the costs may be deducted in the year of expenditure. Assets worth less than TND200 are fully deductible in the year of acquisition.

The following types of depreciation are not deductible:

- Depreciation of assets exceeding an amount of TND5,000 that are acquired for cash

- Depreciation of aircraft, pleasure craft and second homes
- Depreciation of land and ongoing businesses
- Depreciation that exceeds the maximum allowed rates
- Depreciations of passenger cars with more than nine horsepower
- Depreciation of assets acquired from persons established in tax havens

**Relief for losses.** Losses may be carried forward five years, but may not be carried back. However, losses related to depreciation may be carried forward indefinitely.

**Groups of companies.** Tunisian law provides for the fiscal integration of related parties equivalent to a consolidated filing position if certain conditions are satisfied.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax, on all transactions carried on in Tunisia, including imports	
Normal rate	19%
Other rates	7%/13%
Local tax (TCL); imposed on local turnover and exportations	
Local turnover	0.2%
Exportations	0.1%
Professional training tax, on salaries, allowances and fringe benefits paid by an employer	1%/2%
Housing tax (FOPROLOS); on salaries, allowances and fringe benefits paid by employers	1%
Social security contributions, on employee's annual salary; paid by	
Employer	16.57%
Employee	9.18%
Registration duties	
Work contracts	TND25 per contract
Business contracts	0.5% of the contract value
Company formation	TND150 per copy of the articles of association of a public limited company
All companies except joint stock companies, which include public limited companies	TND150
Joint stock companies	TND25 per page of the articles of incorporation

#### E. Foreign-exchange controls

For companies wholly or partially owned by nonresidents, the remittance of benefits, dividends, attendance fees and interest payments to nonresidents is guaranteed. Tunisian branches of foreign companies may freely remit their after-tax profits. Remittances must be made through a registered intermediary, which is generally a bank. Tunisian banks may obtain foreign loans not exceed-

ing TND10 million a year. Tunisian companies other than banks may obtain foreign loans up to TND3 million per year.

## F. Treaty withholding tax rates

	Dividends (t) %	Interest %	Royalties %
Algeria	20/30	15	15
Austria	20 (a)	10	10/15 (j)
Belgium	15	15	5/15/20 (b)(k)
Cameroon	12	15	15
Canada	15	15	15/20 (b)(l)
China (mainland)	8	10	5/10 (aa)
Czech Republic	10/15 (bb)	12	5/15 (cc)
Denmark	15	12	15
Egypt	–	10	15
Ethiopia	5	10	5
France	–	12	0/5/15/20 (b)(m)
Germany	15 (a)	10	10/15 (n)
Indonesia	12	12	15
Iran	10	10	8
Italy	15	12	5/12/16 (o)
Jordan	– (c)	– (x)	– (y)
Korea (South)	–	12	15
Kuwait	10	2.5/10 (u)	5
Lebanon	5	5	5
Luxembourg	10	10	12
Mali	0/5 (dd)	5	10
Malta	10	12	12
Mauritius	0	2.5	2.5
Morocco	– (c)	– (i)	15
Netherlands	20 (v)	10	7.5/11
Norway	20	12	5/15/20 (b)(p)
Pakistan	10	13	10
Poland	5/10 (ee)	12	12
Portugal	15	15	10
Qatar	0	– (x)	5
Romania	12	10	12
Saudi Arabia	5	5	5
Senegal	– (c)	15	–
Serbia	10	10	10
South Africa	10	5/12 (z)	10/12
Spain	15 (d)	10	10
Sudan	0/5 (dd)	10	5
Syria	0	10	18
Sweden	20 (e)	12	5/15 (q)
Switzerland	10	10	10
Turkey	15 (f)	10	10
United Arab Emirates	0	2.5/10 (u)	7.5
United Kingdom	20 (g)	10/12 (s)	15
United States	20 (h)	15	10/15 (r)
Yemen	0	10	7.5
Non-treaty jurisdictions	10	20 (u)	15 (w)(ff)

(a) The rate is 10% if the recipient is a company that holds at least 25% of the capital of the payer.

(b) Tunisia applies a 15% rate instead of the highest rate.

(c) Dividends are taxed at the domestic rate of the country from which the dividends originate.



- (d) The rate is 5% if the beneficial owner of the dividends is a company that holds directly at least 50% of the capital of the payer.
- (e) The rate is 15% if the recipient is a company that owns at least 25% of the capital of the payer.
- (f) The rate is 12% if the recipient is a company that owns at least 25% of the capital of the payer.
- (g) The rate is 12% if the beneficial owner is a company that controls directly at least 25% of the voting power of the payer.
- (h) The rate is 14% if the recipient is a company that owns at least 25% of the capital of the payer.
- (i) Taxed at the domestic rate of the country of domicile of the recipient.
- (j) The 10% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, but not including cinematographic and television films. The 15% rate applies to royalties paid for the use of or right to use the following:
- Technical and economic studies
  - Cinematographic and television films
  - Patents, trademarks, designs and models, plans, and secret formulas and processes
  - Industrial, commercial and scientific equipment
  - Information concerning agricultural, industrial, commercial or scientific experience
- (k) The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works. The 15% rate applies to royalties or other amounts paid for the use of or right to use the following:
- Patents, designs and models, plans, and secret formulas and processes
  - Information relating to industrial, commercial or scientific experience
  - Technical and economic studies
  - Technical assistance relating to the use of the items mentioned above
- The 20% rate applies to royalties or other amounts paid for the use of or right to use trademarks, cinematographic and television films, and agricultural, industrial, harbor, commercial or scientific equipment.
- (l) The 20% rate applies to royalties paid for the use of or right to use trademarks, cinematographic and television films or videotapes for television, and industrial, harbor, commercial or scientific equipment. The 15% rate applies to other royalties.
- (m) The 0% rate applies to amounts paid to a public body of the other contracting state for the use of cinematographic films or radio and television broadcasts. The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, but not including cinematographic and television films. The 15% rate applies to royalties or other amounts paid for the use of the following:
- Patents, designs and models, plans, and secret formulas and processes
  - Information relating to industrial, commercial or scientific experience
  - Technical and economic studies
- The 20% rate applies to royalties or other amounts paid for the use of or right to use trademarks, cinematographic and television films, and agricultural, industrial, harbor, commercial or scientific equipment.
- (n) The 10% rate applies to royalties or other amounts paid for the use of or right to use the following:
- Copyrights of literary, scientific or artistic works, but not including cinematographic and television films
  - Information concerning agricultural, industrial, commercial or scientific experience
  - Economic and technical studies
- The 15% rate applies to royalties paid to use patents, trademarks, designs and models, plans, secret formulas and processes, and cinematographic and television films.
- (o) The 5% rate applies to royalties relating to literary, scientific or artistic works. The 16% rate applies to royalties relating to trademarks, cinematographic and television films, or industrial, commercial or scientific equipment. The 12% rate applies to other royalties.
- (p) The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, but not including cinematographic and television films. The 15% rate applies to royalties or other amounts paid for the use of patents, designs and models, plans, and secret formulas and processes; information relating to industrial, commercial or scientific experience; or technical or economic studies. The 20% rate applies to royalties or other amounts paid for the use of or the right to use trademarks; cinematographic and television films; and agricultural, industrial, harbor, commercial or scientific equipment.

- (q) The 5% rate applies to royalties paid for the use of or right to use copyrights of literary, scientific or artistic works, not including motion picture and television films. The 15% rate applies to other royalties.
- (r) The 10% rate applies to royalties paid for the use of or the right to use industrial, commercial or scientific equipment, or to remuneration for the performance of accessory technical assistance for the use of property or rights described above, to the extent such technical assistance is performed in the contracting state where the payment for the property or right has its source. The 15% rate applies to royalties or other amounts paid for the use of or right to use copyrights of literary, artistic and scientific works, including cinematographic and television films and videotapes used in television broadcasts; patents, trademarks, designs and models, plans, and secret formulas and processes; and information relating to industrial, commercial or scientific experience.
- (s) The 10% rate applies if the beneficial owner of the interest is a bank or other financial institution. The 12% rate applies to other interest.
- (t) Under Tunisian domestic law, dividends are not subject to tax. Consequently, withholding tax is not imposed on dividends paid from Tunisia to other countries.
- (u) A 10% rate applies to interest paid to banks.
- (v) The rate is 0% if the beneficiary of the dividends owns at least 10% of the payer.
- (w) For further details, see Section B.
- (x) Interest is taxed at the domestic rate of the country from which the interest originates.
- (y) Royalties are taxed at the domestic rate of the country from which the royalties originate.
- (z) The 5% rate applies to interest paid to banks.
- (aa) The 5% rate applies to payments for technical and economic studies as well as for technical assistance.
- (bb) The 10% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the payer.
- (cc) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, scientific or artistic works including cinematographic and television films. The 15% rate applies to royalties or other amounts paid for the following:
- The use of patents, designs and models, plans, and secret formulas and processes
  - Information relating to industrial, commercial or scientific experience
  - Technical or economic studies
  - Technical assistance
  - The use of, or the right to use, trademarks and industrial, commercial or scientific equipment
- (dd) Dividends are exempt from tax if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer.
- (ee) The 10% rate applies if the beneficial owner of the dividends is a company that holds directly at least 25% of the capital of the payer.
- (ff) This rate is 25% if the beneficiary is resident in a jurisdiction listed as a tax-haven country in a decree. The tax-haven list includes the following jurisdictions.
- |                          |                  |                                   |
|--------------------------|------------------|-----------------------------------|
| Anguilla                 | Dominica         | St. Kitts and Nevis               |
| Antigua and Barbuda      | Gibraltar        | St. Lucia                         |
| Aruba                    | Grenada          | St. Martin                        |
| Barbados                 | Guernsey         | St. Vincent and the<br>Grenadines |
| Belize                   | Jersey           | Samoa                             |
| Bermuda                  | Liberia          | Sint Maarten                      |
| British Virgin Islands   | Marshall Islands | Samoa                             |
| Cayman Islands           | Montserrat       | Turks and Caicos Islands          |
| Curaçao                  | Nauru            | Uruguay                           |
| Cook Islands             | Niue             | Vanuatu                           |
| Costa Rica               | Panama           |                                   |
| Delaware (United States) | Philippines      |                                   |

# Turkey

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*This chapter reflects changes in the Omnibus Law, which was passed on 28 November 2017. The new law contains substantial tax changes. Because of these changes, readers should obtain professional advice before engaging in transactions.*

**A. At a glance\***

Corporate Income Tax Rate (%)	22
Capital Gains Tax Rate (%)	22
Branch Tax Rate (%)	22
Withholding Tax (%)	
Dividends	15
Interest	
From Repurchase (REPO) Agreements	15
From Deposit Accounts	10/12/13/15/18
From Loans	0/10
From Turkish Government Bonds and Bills and Private Sector Bonds	0/10
From Private Sector Bonds	
Issued in Turkey	0/10
Issued Abroad	0/3/7/10
Royalties from Patents, Know-how, etc.	20
Professional Fees	
Petroleum-Exploration Activities	5
Other Activities	20
Progress Billings on Long-Term Construction and Repair Contracts	3
Payments on Financial Leases	1
Real Estate Rental Payments	20
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

\* The rates in the table are for illustrative purposes only. For detailed information, please contact EY in Turkey.

**B. Taxes on corporate income and gains**

**Corporate income tax.** Companies whose legal or business headquarters (as stated in their articles of association) are located in Turkey or whose operations are centered and managed in Turkey are subject to corporation tax on their worldwide income. In Turkish tax legislation, they are described as full liability taxpayers; they are also known as resident companies.

Taxable income of limited liability taxpayers (nonresident companies or taxpayers other than full liability taxpayers) is comprised of the following:

- Professional fees obtained in Turkey
- Profits from commercial, agricultural and industrial enterprises in Turkey (if they have an establishment or a permanent representative in Turkey)
- Income arising from rental of real estate, rights and movable property in Turkey

- Income obtained in Turkey from various types of securities
- Other income and revenue obtained in Turkey

**Rates of corporate tax.** The effective corporate tax rate is 22% for the 2018, 2019 and 2020 tax years. However, incentive programs provide for reduced corporate tax rates for income from the investments supported (see *Tax incentives*).

**Tax incentives.** Incentive regulations provide for a wide range of incentive and support elements for certain investments with incentive certificates, including reduced corporate tax rates, government support for interest on loans, government support for employees' and employers' shares of social security premiums, government support for income tax for wages, value-added tax (VAT) and customs duty exemptions, VAT refund support and allocation of treasury-owned lots.

The incentive and support elements vary according to the type, sector, subject, size and place of the investment.

Fifty percent of the following types of income with respect to inventions resulting from research, development, innovation and software development activities performed in Turkey are exempt from corporate tax under certain conditions:

- Income derived from leasing.
- Income derived from transfers or sales.
- Income derived from marketing through mass production in Turkey. Based on the Communiqué for the incentive, this refers to the sales of an item that is mass produced in Turkey and that has a license or beneficial model certificate. The Turkish Patent Institute grants a license under an examination system. It grants a beneficial model certificate as a result of a research report.
- Income pertaining to a license or beneficial model certificate for an invention that is included in the income obtained from the sale of the products produced in Turkey through the use of this invention in the production process.

In addition, the leasing, transfer and sale of intangible assets pertaining to a license or beneficial model certificate for an invention is exempt from VAT if the invention is produced as a result of research and development (R&D), innovation and software activities.

For the assessment of the corporate tax base, taxpayers can deduct 50% of the interest amount calculated over the capital increases in cash in capital companies and the part of the capital covered by cash in newly incorporated companies (this deduction does not apply to entities operating in the finance, banking and insurance industries as well as to state economic enterprises).

The following is the calculation of the deduction:

Deduction = Increased capital cash amount x Central Bank of the Republic of Turkey interest rate x Period (Months) x Discount rate

For purposes of the above calculation, the Central Bank of the Republic of Turkey interest rate equals the latest weighted annual average interest rate applicable to commercial loans extended by banks in Turkish lira announced by the Central Bank of the Republic of Turkey for the year of deduction. "Period (Months)"

refers to the period from the capital increase to the last day of the financial year.

The incentive amount should be separately stated on the corporate tax return. The calculated amount may be deducted from the tax base if certain conditions are fulfilled. The incentive amount that cannot be utilized because of insufficient taxable income can be carried forward to following tax years without any time limitation.

### Participation exemption

*Dividend income derived from Turkish (resident) participations.* Turkish tax law provides a participation exemption for dividends derived by companies from Turkish (resident) participations. Dividends qualifying for the participation exemption are fully exempt from corporate tax.

To qualify for the participation exemption, a Turkish resident company need only hold a participation in another Turkish resident company.

*Dividend income derived from foreign (nonresident) participations.* The Turkish tax law also provides a participation exemption for dividends derived by companies from foreign participations. Dividends qualifying for the participation exemption are fully exempt from corporate tax.

To qualify for the participation exemption for dividends derived from foreign participations, all of the following conditions must be satisfied:

- The Turkish company must have owned at least 10% of the paid-in capital of the foreign company for an uninterrupted period of at least one year as of the date of receiving the dividend.
- The foreign company must be a limited or joint stock company.
- The foreign company must be subject to corporate tax at an effective rate of at least 15% (for corporations whose principal activity is the procurement of finance, including financial leasing, insurance or investment in marketable securities, the rate must be at least the rate of corporation tax in Turkey, which is 22%).
- The dividends must be transferred to Turkey by the due date of filing of the annual corporate tax return (25 April).

The effective corporate tax is determined in accordance with the following formula:

$$\text{Effective corporate tax rate} = \frac{\text{Corporate tax}}{\text{Distributable corporate income} + \text{corporate tax}}$$

Special participation exemption rules apply to companies established in foreign countries whose principal purpose is construction, repair, assembly and technical services. If, under the laws of a foreign country, the establishment of a corporation is necessary to undertake these activities, dividends repatriated by the foreign subsidiary to the Turkish parent company qualify for the participation exemption, regardless of whether the conditions described above for the participation exemption are satisfied.

The participation exemption also applies to income derived from permanent establishments (PEs) and permanent representatives resident abroad if the following conditions are met:

- The PE or permanent representative is subject to corporate tax at an effective rate of at least 15% in the country where the PE or permanent representative is located. For PEs whose principal activities are the procurement of finance, including financial leasing, or investment in marketable securities and insurance, the rate must be at least the rate of corporation tax in Turkey, which is 22%.
- Income derived from foreign PEs must be transferred to Turkey by the due date of filing of the annual corporate tax return (25 April).

A participation exemption also applies to capital gains. For details, see *General* in Section C.

**International holding companies.** A special regime applies to international holding companies.

International holding companies may benefit from the participation exemption with respect to dividends derived from foreign participations if they satisfy the conditions applicable to other entities (see *Participation exemption*). They also may benefit from the participation exemption with respect to capital gains, but different conditions apply. Turkish international holding companies benefit from the participation exemption with respect to capital gains if foreign participations account for at least 75% of the non-cash assets of the international holding company and if the international holding company has held a shareholding of 10% or more in the foreign limited or joint stock company for at least two years.

Dividends distributed by international holding companies to non-resident companies out of profits derived from their foreign participations are subject to a withholding tax rate equal to one-half of the general withholding tax rate on dividends. As a result, the withholding tax rate is 7.5%.

**Capital gains.** Capital gains derived by all companies, including branches of foreign companies, are included in ordinary income and are subject to corporation tax. Capital gains are generally computed by subtracting the cost of the asset, including the related expenses paid by the seller, from the selling price.

Capital gains derived from sales of depreciable fixed assets are not taxable to the extent the gains are reinvested in new fixed assets. However, the amount of gains used to acquire new assets is subtracted from the depreciable cost of the new asset. Capital gains that will be used for reinvestment are transferred to a special reserve account. If the special reserve is not used to finance the purchase of similar new assets in the following three years, the balance in the reserve is included in taxable income.

Capital gains derived from sales of resident companies' shares by nonresident companies without a permanent establishment in Turkey are subject to corporation tax. In computing these gains, changes in exchange rates are not taken into account.

Seventy-five percent of capital gains derived by corporate taxpayers from the disposal of shares owned for at least two years

qualify for corporate tax exemption if the gains for which exemption is claimed are recorded as a special fund under the shareholder's equity account in the balance sheet until the end of the fifth year following the year of sale.

**Administration.** Companies file tax returns based on their financial accounting year.

Tax returns must be submitted to the relevant tax office by the 25th day of the 4th month after the end of the accounting period. The return must be accompanied by the balance sheet, income statement and other required documents.

Corporation tax due must be paid by the end of the fourth month following the end of the accounting period.

Companies must make quarterly payments of advance corporation tax during the tax year. These payments are each equal to 22% of the taxable income for the quarter. Companies could be subject to a reduced rate of corporation tax in accordance with their investments' incentive certificates. The advance tax may be offset against the tax shown on the annual corporation tax return.

If advance corporation tax exceeds the final tax payable, the excess amount can be offset against the company's other tax liabilities or it can be refunded.

**Dividends.** Dividends received by resident companies from other resident companies are not subject to corporation tax.

Dividends received from foreign companies are included in taxable income. However, certain dividends received from foreign companies may qualify for exemption from corporation tax under the participation exemption or the international holding regime (see *Participation exemption* and *International holding companies*).

Withholding tax at a rate of 15% is imposed on dividends paid by resident corporations to the following recipients:

- Resident individuals
- Resident recipients who are not subject to corporation tax and income tax, or are exempt from such taxes
- Nonresident individuals
- Nonresident corporations (excluding those receiving dividends through a PE or permanent representative in Turkey)
- Nonresident recipients who are exempt from corporation tax and income tax

A branch remittance tax is imposed at a rate of 15% on profits remitted by nonresident corporations that have a PE or permanent representative in Turkey to their headquarters.

**Foreign tax relief.** Corporation tax and similar taxes paid abroad on income that is derived abroad and that is included in the Turkish accounts may be offset against the corporation tax that is assessed on such income in Turkey.

In cases in which the controlled foreign company (CFC) rules are applied, the taxes similar to income and corporation taxes that the foreign affiliate has paid can be set off against the corporation tax that is calculated on the basis of the earnings of the foreign company.



Resident companies that have a direct or indirect participation in shares or voting rights of 25% or more in foreign subsidiaries can claim a tax credit for the corporate or income tax paid by foreign subsidiaries in their jurisdictions on profits out of which dividend distributions were paid to the resident companies. The credit is limited to the tax in Turkey that is attributable to the dividend distributions. As a result, the credit applies only to dividends that do not qualify for the participation exemption.

Amounts that are set off against the taxes that are assessed in Turkey on the income derived from the foreign countries may not exceed the tax amount that would be calculated by applying the local corporation tax rate (22%) to such earnings.

Foreign taxes that cannot be offset against the corporate tax in Turkey because of insufficient corporate income may be carried forward for a period of three years. The tax credit can also be offset against advance tax payments.

### C. Determination of trading income

**General.** The corporate tax base is determined by deducting expenses from the revenue of an enterprise. However, the following items are not subject to corporation tax:

- Revenue derived by corporations, including nonresident companies, from participations in the capital of other corporations that are subject to full corporate taxation, excluding shares of profits from participation certificates of investment funds and stocks in investment partnerships
- Proceeds derived by corporations from the sale of their preferred shares, and profits derived by joint stock companies from the sale of their shares at the time of the establishment of the company and from the sale of their shares at a price exceeding the par value of the shares when they are increasing their capital
- Seventy-five percent of profits derived from disposals of shares, preferred shares, preemptive rights, bonus shares or real estate owned for at least two years if the profit is placed in a reserve account and not distributed for five years

Corporation tax exemptions are available under the participation exemption and the international holding regime (see Section B). In addition, the following corporate tax exemptions apply to Turkish and foreign investment funds and companies:

- Profits derived by mutual funds (excluding foreign-exchange funds) and trusts from transactions involving their operating portfolio
- Profits derived by risk capital investment funds or companies from transactions involving their operating portfolio
- Profits derived by real estate investment funds or companies from transactions involving their operating portfolio
- Profits derived by designated private pension investment funds

All business-related expenses are deductible, with the following exceptions:

- Interest on shareholders' equity or on advances from shareholders.
- Reserves set aside from profits (except technical reserves of insurance companies and doubtful debts from debtors against whom legal proceedings have been instituted).

- Corporation tax and all monetary and tax penalties and interest imposed on such tax.
- Discounts or other losses arising from selling the corporation's own securities for less than par value.
- For nonresident companies, commissions, interest and other charges paid to headquarters or other offices outside Turkey on purchases or sales made on their behalf, as well as allocated charges to contribute to losses or expenses of headquarters or branches outside Turkey. However, charges are deductible if they are made in accordance with allocations keys that are in compliance with the arm's-length principle and if they are related to the generation and maintenance of business income in Turkey.
- Interest, foreign-exchange differences or comparable expenses that are calculated or paid on disguised capital (see *Debt-to-equity rules* in Section E).
- Disguised profit distribution through improper transfer pricing (see *Transfer pricing* in Section E).

For enterprises (except loan institutions, financial organizations, financial leasing, factoring and financing companies) whose current liabilities exceed their equities, the portion determined by the Council of Ministers that does not exceed 10% of the total expenses and costs incurred as interest, commissions, maturity differences, delay interest, dividends, exchange-rate differences and similar items relating to liabilities (except financing expenses added to investment costs) used within the enterprise may not be deducted from corporate profit. However, the amount exceeding this percentage is deductible.

**Provisions.** Tax-deductible provisions include provisions for bad debts, for abandoned claims and for insurance technical reserves.

**Tax depreciation.** Assets that are used in a company for more than one year and that are subject to wear and tear are depreciated.

The useful life concept is used for the depreciation of fixed assets. The Ministry of Finance has issued Communiqués, which set forth the useful lives of different types of fixed assets. The following are examples of the useful lives for various fixed assets.

Asset	Useful life (years)
Buildings	50
Office furniture, office equipment and automobiles	5
Computers	4
Computer software and cellular phones	3

The taxpayers may select the straight-line method or the declining-balance method to calculate depreciation. A company may change from the declining-balance method to the straight-line method (but the reverse change is not permitted) at any time during the useful life of a fixed asset. A company may exercise this option on an asset-by-asset basis.

Fixed assets can be depreciated beginning in the year of capitalization (the year in which an asset becomes ready to use). For fixed assets that are purchased as ready to use, the depreciation begins in the year of the acquisition of the fixed asset. For fixed assets that need to be constructed or assembled, the depreciation

begins in the year in which the construction or assembly is completed and the assets become ready to use.

In general, an asset qualifies for full-year depreciation in the year of capitalization, regardless of the date of capitalization. For example, even if a fixed asset is capitalized in the last month of the accounting year, full-year depreciation is calculated. The only exception to this general rule is for passenger cars. Depreciation for passenger cars begins in the month in which the cars are purchased. For example, if a passenger car that was purchased for TRY1,000 is depreciated using a straight-line depreciation rate of 20%, the regular depreciation for a full year is TRY200. Under the applicable rules, if such an automobile is acquired in November, tax-deductible depreciation for the year of acquisition is calculated as follows:

$$\frac{2 \text{ months}}{12 \text{ months}} \times \text{TRY}200 = \text{TRY}33.33$$

The balance of the regular depreciation for the year of acquisition is deductible in the last year of depreciation of the asset, together with the regular depreciation for the last year.

**Investment allowance.** Effective from 1 January 2006, the investment allowance was abolished. However, companies can carry forward investment allowance amounts due on or before 31 December 2005.

**Research and development and design expenditures.** One hundred percent of R&D and design expenditures may be deducted from the tax base if certain conditions are fulfilled. This is an incentive that is granted in addition to the ordinary depreciation expense recognition of capitalized R&D and design expenditures. The incentive covers the following expenses:

- Raw materials and supplies' expenses
- Personnel expenses
- General expenses
- Payments for benefits and services provided by outsourcing companies
- Taxes, duties and fees
- Depreciation and depletion
- Financial expenses

Companies that are not able to deduct R&D and design expenditures because of insufficient taxable income may deduct the unused amount in the following years.

In addition, to support R&D and design activities, the Turkish Scientific and Technological Research Institution (TUBITAK) may provide monetary aid to companies with respect to their R&D and design activities under certain conditions. The related law also provides various types of incentives such as R&D and design deductions, wage income withholding exemptions, social security premium support, stamp duty exemption and capital aid for technological enterprises.

**Relief for losses.** In general, losses may be carried forward for five years. Losses cannot be carried back. An order of priority applies

for the use of losses and exemptions to offset taxable income for the year. Past years' losses are used after exemptions that apply even in the event of a loss. After the losses are used, the other exemptions that apply in profitable years are administered (investment allowance, R&D and design deduction, tax-deductible donations and others).

Resident companies may deduct the losses incurred in business activities performed abroad if the foreign losses are approved by auditors authorized under the laws of the relevant jurisdiction. Foreign losses from foreign activities cannot be deducted if income arising from such activities is exempt from corporation tax in Turkey.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax; imposed on goods delivered and services rendered, including imported goods and services, communications, conveyances by pipeline and certain leases; exports are exempt	
General rate	18
Rates on other items	1/8
Local withholding taxes, on amounts paid to nonresident corporations	Various
Banking and insurance transactions tax; imposed on all types of payments received by banking and insurance companies with respect to all types of transactions, except financial leasing transactions	
Interbank deposit accounts	1
REPO transactions	1
Sale of government bonds and treasury bills	1
Cambio transactions	0
Other payments	1/5
Special consumption tax; imposed on the delivery, importation or the initial acquisition of certain goods	
Petroleum products, solvents and similar goods (fixed amount per measurement unit depending on the type of goods)	Various
Cars	3 to 160
Buses	1
Midibuses and minibuses	4/9
Planes	0.5
Sailboats	0/8
Beverages (minimum fixed amount per measurement unit depending on the kind of goods)	0 to 63
Tobacco products; tax equals fixed amount plus variable amount; variable amount cannot be less than minimum fixed amount per measurement unit, which depends on the kind of goods	65.25
Luxury goods	3/6.7/20/25

Nature of tax	Rate (%)
Social security contributions; imposed on salaries of Turkish citizens; premiums are paid within monthly upper and lower limits and are calculated as a percentage of gross salary; from 1 January 2017 through 31 December 2017, the monthly lower limit is TRY1,777.50 and the upper limit is TRY13,331.40	
Employer	20.5
Employee	14
Unemployment insurance contributions; paid on same base as social security contributions	
Employer	2
Employee	1

## E. Miscellaneous matters

**Foreign-exchange controls.** Turkey has a liberal foreign-exchange regime, which allows local foreign-exchange accounts.

Law No. 4875 guarantees the remittance of profits. The company's bank may transfer profits, provided the company subsequently submits to the bank its approved tax statement and its tax accrual and payment slips. This law also guarantees the remittance of the proceeds from the liquidation of an investment.

Fees and royalties from management agreements, technical services agreements and license contracts may be remitted abroad, and applicable withholding tax must be paid.

Foreign investment partnerships and funds may invest in Turkish securities and freely remit dividends, interest, profits and capital.

Turkish resident companies may grant loans to related parties residing abroad.

**Transfer pricing.** The Turkish Corporate Tax Code contains transfer-pricing regulations, which include the arm's-length principle and the requirement for documentation of all related-party transactions. The arm's-length principle applies to all transactions carried out by taxpayers with related parties. Under Turkish transfer-pricing rules, the traditional and transactional transfer-pricing methods recommended in the Organisation for Economic Co-operation and Development (OECD) model guidelines are acceptable. The main methods that can be applied by the taxpayers in the determination of the arm's-length price are the following:

- Comparable uncontrolled price method
- Cost-plus method
- Resale price method
- Profit-split method
- Transactional net margin method

It is possible to enter into advance-pricing agreements with the tax authorities.

Transfer-pricing rules apply to both domestic and foreign related-party transactions. Commercial transactions conducted by companies resident in low-tax jurisdictions (tax havens) are considered to be related-party transactions.

The Ministry of Finance has issued Communiqués clarifying the transfer-pricing rules and documentation requirements. Under these Communiqués, taxpayers must prepare annual transfer-pricing forms, reports and other documentation. If the documentation requirements relating to transfer pricing are completely fulfilled on time, the tax-loss penalty is applied with a 50% discount for taxes not accrued at all or accrued deficiently in the past with respect to the profits distributed in a disguised manner.

Cases in which the relationship is established through direct or indirect shareholding are deemed to be within the scope of disguised profit distributions if the percentage of the shareholding, voting rights or dividend rights is at least 10%. Parties that do not have a shareholding relationship are also deemed to be related parties if the percentage of voting or dividend rights is 10%, directly or indirectly. These percentages are taken into account collectively for related parties.

**Debt-to-equity rules.** Under the new thin-capitalization rules, a “related party” is a person holding, directly or indirectly, at least 10% of the shares or voting rights of the other party.

Borrowings from related parties that exceed a debt-to-equity ratio of 3:1 are considered to be disguised capital. For borrowings from related parties that are banks or financial institutions, half of the borrowings are taken into consideration in performing the calculation for disguised capital. Total borrowings from all related parties are treated collectively.

The equity at the beginning of the taxpayer’s fiscal year applies for thin-capitalization purposes. Interest paid or accounted for and foreign-exchange differences related to disguised capital are regarded as nondeductible expenses in determining the corporate tax base. Interest related to disguised capital is treated as a dividend distribution and is subject to dividend withholding tax.

**Controlled foreign companies.** The controlled foreign company (CFC) rules apply if resident individuals and corporate taxpayers jointly or severally have a direct or indirect participation of 50% or more in the shares, dividend rights or voting rights in a foreign company that meets all of the following conditions:

- Twenty-five percent or more of the foreign company’s gross income is of a passive nature (portfolio investment income). If the business activities of the company are not commensurate with the capital, organization or the work force of the company, income derived from commercial, agricultural or independent personal services may be regarded to be of a passive nature.
- The foreign company is subject to effective corporate taxation at a rate of less than 10%.
- The gross revenue of the foreign company exceeds TRY 100,000 (approximately USD 33,500).

If the foreign company falls within the scope of the Turkish CFC measures, Turkish resident taxpayers declare corporate income of the foreign company attributable to them. In the event of a dividend distribution by the foreign company, the recipient of the dividend is taxed only to the extent that the amount has not been taxed in accordance with the CFC rules.

**Anti-avoidance measures.** Turkish resident taxpayers are subject to a 30% withholding tax on all payments made in cash or on account that relate to transactions with companies resident in countries that the Council of Ministers considers to be in harmful tax competition. The Council of Ministers has not yet identified these countries. The principal, interest or profit contributions corresponding to debts to financial institutions established outside Turkey and payments to insurance and reinsurance companies established outside Turkey are not subject to the 30% withholding tax. The Council of Ministers has the authority to reduce the withholding tax rate to 0% for transactions that are considered to be performed at arm's length.

The payments taxed in accordance with the rules described in the preceding paragraph are not subject to further corporate tax or income tax.

The Turkish tax law includes anti-abuse rules. The principal rule is the substance-over-form rule, which is contained in Article 3 of the Tax Procedural Law.

**Mergers and acquisitions.** Mergers, acquisitions and demergers may be tax-free if the transaction involves two resident companies and if the assets are transferred at book value.

## F. Treaty withholding tax rates

The table below shows the maximum withholding rates for dividends, interest and royalties provided under Turkey's double tax treaties.

To benefit from the advantageous rates under the double tax treaties, additional conditions may be required (for example, the recipient is required to be the beneficial owner of the related gain). Readers should obtain detailed information regarding the treaties before engaging in transactions.

	Dividends %	Interest %	Royalties %
Albania	5/15 (a)	10 (oo)	10
Algeria	12	10 (oo)	10
Australia	5/15 (mm)	10 (oo)	10
Austria	5/15 (a)	5/10/15 (oo)	10
Azerbaijan	12	10 (oo)	10
Bahrain	10/15 (c)	10	10
Bangladesh	10	10 (oo)	10
Belarus	10/15 (c)	10	10
Belgium	5/10 (d)	15 (oo)	10
Bosnia and Herzegovina	5/15 (a)	10 (oo)	10
Brazil	10/15 (c)	15 (gg)	10/15 (hh)
Bulgaria	10/15 (c)	10 (oo)	10
Canada	15/20 (g)	15 (oo)	10
China (mainland)	10	10 (oo)	10
Croatia	10	10	10
Czech Republic	10	10 (oo)	10
Denmark	15/20 (e)	15 (oo)	10
Egypt	5/15 (a)	10 (oo)	10
Estonia	10	10 (oo)	5/10 (f)
Ethiopia	10	10 (oo)	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Finland (ee)	5/15 (a)	5/10/15 (ii)(oo)	10
France	15/20 (g)	15 (oo)	10
Georgia	10	10	10
Germany (ff)	5/15 (a)	10 (oo)	10
Greece	15	12 (oo)	10
Hungary	10/15 (c)	10 (oo)	10
India	15	10/15 (h)(oo)	15
Indonesia	10/15 (c)	10 (oo)	10
Iran	15/20 (e)	10 (oo)	10
Ireland	5/10/15 (aa)	10/15 (bb)	10
Israel	10	10 (oo)	10
Italy	15	15	10
Japan	10/15 (c)	10/15 (i)(oo)	10
Jordan	10/15 (c)	10 (oo)	12
Kazakhstan	10	10 (oo)	10
Korea (South) (nn)	15/20 (e)	10/15 (j)(oo)	10
Kosovo	5/15 (a)	10 (oo)	10
Kuwait	10	10	10
Kyrgyzstan	10	10 (oo)	10
Latvia	10	10 (oo)	5/10 (f)
Lebanon	10/15 (o)	10 (oo)	10
Lithuania	10	10 (oo)	5/10 (f)
Luxembourg	10/20 (l)	10/15 (m)	10
Macedonia	5/10 (n)	10 (oo)	10
Malaysia	10/15 (c)	15 (oo)	10
Malta	10/15 (c)	10 (oo)	10
Mexico	5/15 (a)	10/15 (oo)	10
Moldova	10/15 (c)	10 (oo)	10
Mongolia	10	10 (oo)	10
Morocco	7/10 (k)	10 (oo)	10
Netherlands	5/10 (p)	10/15 (m)(oo)	10
New Zealand	5/15 (a)	10/15 (t)(oo)	10
Northern Cyprus	15/20 (e)	10 (oo)	10
Norway	5/15 (q)	5/10/15 (jj)	10
Oman	10/15 (o)	10 (cc)	10
Pakistan	10/15 (c)	10 (oo)	10
Philippines	10/15 (c)	10 (oo)	10/15 (qq)
Poland	10/15 (c)	10 (oo)	10
Portugal	5/15 (z)	10/15 (m)	10
Qatar	10/15 (c)	10 (oo)	10
Romania	15	10 (oo)	10
Russian Federation	10	10 (oo)	10
Saudi Arabia	5/10 (b)	10	10
Serbia and Montenegro	5/15 (a)	10 (oo)	10
Singapore	10/15 (c)	7.5/10 (r)	10
Slovak Republic	5/10 (n)	10 (oo)	10
Slovenia	10	10 (oo)	10
South Africa	10/15 (c)	10	10
Spain	5/15 (s)	10/15 (t)	10
Sudan	10	10 (oo)	10
Sweden	15/20 (e)	15 (oo)	10
Switzerland	5/15 (kk)	5/10 (ll)	10
Syria	10	10 (oo)	10/15 (u)
Tajikistan	10	10 (oo)	10



	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Thailand	10/15 (c)	10/15 (v)	15
Tunisia	12/15 (w)	10 (oo)	10
Turkmenistan	10	10 (oo)	10
Ukraine	10/15 (c)	10 (oo)	10
United Arab Emirates	5/10/12 (x)	10 (oo)	10
United Kingdom	15/20 (e)	15	10
United States	15/20 (g)	10/15 (y)	5/10 (f)
Uzbekistan	10	10 (oo)	10
Yemen	10	10 (cc)	10
Non-treaty jurisdictions	15	— (pp)	20

- (a) The 5% rate applies if the recipient owns more than 25% of the payer of the dividends. The 15% rate applies to other dividends.
- (b) The 5% rate applies if the recipient owns more than 20% of the payer of the dividends or if the recipient is the central bank or an entity that is wholly owned by the government. The 10% rate applies to other dividends.
- (c) The 10% rate applies if the recipient owns more than 25% of the payer of the dividends. The 15% rate applies to other dividends.
- (d) The 5% rate applies to dividends distributed by Belgian companies. The 10% rate applies to dividends distributed by Turkish companies.
- (e) The 15% rate applies if the recipient owns more than 25% of the payer of the dividends. The 20% rate applies to other dividends.
- (f) The 5% rate applies to royalties paid for the use of industrial, commercial or scientific equipment. The 10% rate applies to other royalties.
- (g) The 15% rate applies if the recipient owns more than 10% of the payer of the dividends. The 20% rate applies to other dividends.
- (h) The 10% rate applies to interest on loans granted by banks and financial institutions. The 15% rate applies to other interest payments.
- (i) The 10% rate applies to interest on loans granted by financial institutions. The 15% rate applies to other interest payments.
- (j) The 10% rate applies to interest paid with respect to a loan or other debt claim with a term exceeding two years. The 15% rate applies to other interest payments.
- (k) The 7% rate applies if the recipient owns more than 25% of the payer of the dividends. The 10% rate applies to other dividends.
- (l) For Luxembourg recipients, the 10% rate applies if the recipient owns more than 25% of the payer of the dividends and the 20% rate applies to other dividends. For Turkish recipients, these rates are applied as 5% and 20%, respectively.
- (m) The 10% rate applies to interest on loans with a term exceeding two years. The 15% rate applies to other interest payments.
- (n) The 5% rate applies if the recipient owns more than 25% of the payer of the dividends. The 10% rate applies to other dividends.
- (o) The 10% rate applies if the recipient owns more than 15% of the payer of the dividends. The 15% rate applies to other dividends.
- (p) The 5% rate applies to dividends distributed by Dutch companies. The 10% rate applies to dividends distributed by Turkish companies if dividends received by Dutch resident companies from Turkish resident companies are not subject to tax in the Netherlands.
- (q) The rate is 5% of the gross amount of the dividends if either of the following circumstances exists:
  - The beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 20% of the capital of the company paying the dividends and the dividends are exempt from tax in the other state.
  - The dividends are derived by the government pension fund in the case of Norway or by the government social security fund in the case of Turkey.
- (r) The 7.5% rate applies to interest on loans paid by financial institutions. The 10% rate applies to other interest payments.
- (s) The 5% rate applies to dividends to the extent they are paid out of profits that have been subject to tax as specified in the tax treaty and if the recipient owns more than 25% of the payer of the dividends. The 15% rate applies to other dividends.
- (t) The 10% rate applies to interest on loans granted by banks. The 15% rate applies to other interest payments.

- (u) The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films and recordings for radio and television. The 15% rate applies to royalties paid for patents, trademarks, designs or models, plans, secret formulas or processes, or for information concerning industrial, commercial or scientific experience.
- (v) The 10% rate applies to interest on loans granted by banks, financial institutions and insurance companies. The 15% rate applies to other interest payments.
- (w) The 12% rate applies if the recipient owns more than 25% of the payer of the dividends. The 15% rate applies to other dividends.
- (x) The 5% rate applies if the recipient of the dividends is the government, a public institution wholly owned by the government or a political subdivision or local authority of the other contracting state. The 10% rate applies if the recipient owns more than 25% of the payer of the dividends. The 12% rate applies to other dividends.
- (y) The 10% rate applies to interest derived from loans granted by financial institutions, such as banks, savings institutions or insurance companies. The 15% rate applies to other interest payments.
- (z) The 5% rate applies if the recipient owns more than 25% of the payer of the dividends for an uninterrupted period of at least two years. The 15% rate applies to other dividends.
- (aa) For Irish recipients, the 5% rate applies if the dividends are paid out of the profits that have been subject to tax in Turkey and if the recipient owns more than 25% of the voting rights of the payer of the dividends. The 10% rate applies if the recipient owns more than 25% of the voting rights of the payer of the dividends, and the 15% rate applies to other dividends. For Turkish recipients, these rates are applied as 5%, 5% and 15%, respectively.
- (bb) The 10% rate applies to interest received by financial institutions or paid with respect to loans or other debt claims with a term exceeding two years. The 15% rate applies to other interest payments.
- (cc) Interest paid to the government and central bank is exempt.
- (dd) A new treaty between Turkey and Norway was signed on 15 January 2010. This new treaty is effective from 1 January 2012. Under the new treaty, the dividend withholding tax rate may be reduced to 5%. The withholding tax rate for interest ranges from 5% to 10%. The withholding tax on royalties is 10% if certain conditions are satisfied.
- (ee) A new treaty between Turkey and Finland, which was signed on 6 October 2009, is effective from 1 January 2013.
- (ff) A treaty between Turkey and Germany, which was re-signed by the countries on 19 September 2011, is effective retroactively from 1 January 2011.
- (gg) Interest paid from Turkey to the government of Brazil, the Central Bank of Brazil or the National Bank for Economic and Social Development (BNDES) is exempt from Turkish tax. Interest paid from Brazil to the government of Turkey, the Central Bank of Turkey (Turkiye Cumhuriyet Merkez Bankasi) or the Turkish Export/Import Bank (Eximbank) is exempt from tax.
- (hh) The tax rate is 15% of the gross amount of the royalties arising from the use of, or the right to use, trademarks. The rate is 10% of the gross amount of royalties in all other cases.
- (ii) The rate is 5% of the gross amount of interest with respect to a loan or credit made, guaranteed or insured for the purpose of promoting exports by the Finnish Export Credit (FINNVERA) or similar Turkish public entities that have the objective of promoting exports. The rate is 10% of the gross amount of interest derived by banks. The rate is 15% of the gross amount of interest in all other cases.
- (jj) The rate is 5% of the gross amount of the following types of interest:
- Interest paid to the government pension fund or the Norwegian Guarantee Institute for Export Credits (Eksportfinans ASA) if the interest is wholly or mainly passed on to the government of Norway under the 108 Agreement between Eksportfinans ASA and the government of Norway
  - Interest paid to the Turkish social security fund or the Turkish Eximbank
- The rate is 10% for interest paid to banks. The rate is 15% in all other cases.
- (kk) For Swiss recipients, the rate is 5% if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 20% of the capital of the company paying the dividends and if relief from Swiss tax is granted for such dividends through an abatement of the profits tax in a proportion corresponding to the ratio between the earnings from participations and total profits or through equivalent relief. The rate is 15% in all other cases for Swiss recipients. For Turkish recipients, the rate is 5% if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 20% of the capital of the company paying the dividends. The rate is 15% in all other cases for Turkish recipients.

- (ll) The rate is 5% for interest paid with respect to a loan or credit made, guaranteed or insured for the purpose of promoting exports by an Eximbank or a similar institution that has the objective of promoting exports. The rate is 10% in all other cases.
- (mm) For Australian recipients, the 5% rate applies if the beneficial owner of the dividends is a company that owns directly more than 25% of the capital of the company and if the dividends are paid out of profits that have been subject to corporation tax in Turkey. The 15% rate applies to other dividends paid to Australian recipients. For Turkish recipients, the 5% rate applies if the beneficial owner of the dividends is a company that owns directly more than 10% of the voting power of the company. The 15% rate applies to other dividends paid to Turkish recipients.
- (nn) A new treaty between Turkey and Korea (South) is under negotiation.
- (oo) Please consult the treaty for further details because exemptions may be provided for interest on loans obtained from certain institutions, such as central banks and governments of the contracting states or their subdivisions.
- (pp) Various rates apply.
- (qq) The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, patents, trademarks, designs or models, plans, secret formulas or processes, or from the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 15% rate applies to royalties paid for the use of or the right to use, cinematographic films and films or tapes for television or radio broadcasting.

Turkey has ratified income tax treaties with Côte d'Ivoire, Gambia, Somalia and Vietnam, but these treaties have not yet entered into force.

A new tax treaty between Turkey and Qatar, which would replace the 2001 treaty between the countries, was signed on 18 December 2016 and ratified by Qatar on 8 March 2017.

Turkey has initialed tax treaties with Burkina Faso (22 September 2017), Burundi (9 December 2016), Cameroon (11 July 2014), Chad (10 April 2015), Gabon (3 September 2015), the Hong Kong Special Administrative Region (SAR) (12 August 2016), Kenya (15 July 2016), the Palestinian Authority (15 November 2012), Senegal (10 July 2015) and Uganda (12 July 2016).

On 22 January 2016, Turkey and Turkmenistan initialed a new income tax treaty, which would replace the 1995 treaty between the countries.

Turkey is negotiating tax treaties with Ghana, Iraq, Liberia, Mali, Mozambique, Niger, Nigeria, Rwanda and Tanzania.

Turkey is engaged in negotiations with Korea (South) for a new income tax treaty, which would replace the 1986 treaty between the countries.

On 9 March 2017, Turkey has ratified a protocol to the double tax treaty with South Africa.

Turkey has signed protocols to amend the current double tax treaties with Kuwait (14 September 2017) and Ukraine (9 October 2017).

Turkey has initialed a protocol to the tax treaty with Uzbekistan.

The Turkish Council of Ministers ratified the Foreign Account Tax Compliance Act (FATCA) agreement between Turkey and the United States, signed on 29 July 2015, through Decree No. 2016/9229, which was published in the *Official Gazette* of 5 October 2016. However, this agreement has not yet entered into force.

Turkey has signed Exchange of Information Agreements Relating to Tax Matters with Bermuda, Gibraltar, Guernsey, the Isle of Man and Jersey. The Exchange of Information Agreement Relating to Tax Matters with Bermuda and Jersey entered into force as of September 2013. On 7 October 2017, the Exchange of Information Agreement between the Isle of Man and Turkey entered into force. The agreement generally applies from 7 October 2017 for criminal tax matters. For other tax matters, it applies in Turkey from 1 January 2013 and in the Isle of Man from 1 April 2013. On 6 October 2017, the Exchange of Information Agreement between Turkey and Guernsey entered into force. The agreement generally applies from 6 October 2017. The Exchange of Information agreement with Gibraltar was ratified by Turkey on 28 September 2017. Negotiations are continuing on such agreements with the Bahamas and Barbados.

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting was signed by Turkey on 7 June 2017.

On 3 October 2017, the Mexican Senate approved the investment protection agreement between Turkey and Mexico, which was signed on 17 December 2013. On 14 March 2017, the Council of Ministers of Mozambique approved the investment protection agreement between Turkey and Mozambique, which was signed on 24 January 2017. Turkey has ratified investment protection agreements with Colombia, Guatemala and Pakistan. Turkey has signed investment protection agreements with Cameroon, Gambia, Guinea, Kenya, Ukraine and Vietnam. Negotiations regarding investment protection agreements are continuing with Angola and Guinea.

# Uganda

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## A. At a glance

Corporate Income Tax Rate (%)	30 (a)
Capital Gains Tax Rate (%)	30 (b)
Branch Tax Rate (%)	30 (a)
Withholding Tax (%)	
Dividends	15 (c)(d)
Interest	15 (c)(e)
Royalties from Patents, Know-how, etc.	15 (f)
Management Fees	15 (f)
Reinsurance Premiums	10 (f)
Professional Fees	
Residents	6 (g)
Nonresidents	15 (h)
Payments by Government Entities, etc.	6 (i)
Payments for Natural Resources	15 (f)
Payments by purchasers of assets from nonresidents	10
Payments of winnings from sports or pool betting	15
Income Derived from Transmission of Messages by Equipment Located in Uganda	5 (f)
Shipping Income	2
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0 (j)
Carryforward	Unlimited

- (a) For mining companies, the tax rate ranges from 25% to 45%, depending on the profitability of the mine. However, the tax rate applicable to a mining licensee is 30%.
- (b) Applicable to capital gains on business assets, shares in private limited liability companies and commercial buildings.
- (c) Applicable to residents and nonresidents (see Section B for further details).
- (d) The rate is 10% for dividends paid by companies listed on the stock exchange to individuals.

- (e) The rate is 20% for interest paid on government securities.
- (f) Applicable to nonresidents.
- (g) This withholding tax is imposed on resident professionals who are not exempt from withholding tax.
- (h) A 10% withholding tax is imposed on nonresident contractors who derive income from providing services to licensees in the mining and petroleum sectors.
- (i) This withholding tax is imposed on payments in excess of UGX1 million to any person in Uganda who is not exempt from withholding tax for goods and services supplied to, or under a contract with, the government, a local authority, an urban authority, a company controlled by the government of Uganda or any person designated in a notice by the Minister.
- (j) In general, loss carrybacks are not allowed. However, for long-term construction contracts that result in a loss in the final year, a loss carryback for an unlimited number of years is allowed.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident companies are subject to tax on their worldwide income, but tax credits are granted for taxes paid on foreign-source income (see *Foreign tax relief*). Nonresident companies are subject to tax on income derived from sources in Uganda.

A company is resident in Uganda if any of the following applies:

- It is incorporated in Uganda.
- The management and control of its affairs are exercised in Uganda during the tax year.
- During the tax year, it performs the majority of its operations in Uganda.

**Rates of corporate tax.** The regular corporate income tax rate is 30%. For mining companies, the tax rate ranges from 25% to 45%, depending on the profitability of the mine, but a 30% rate applies to mining licensees. Oil and gas exploration and production entities are taxed at the normal rate of 30%.

Rental income earned in Uganda is taxed separately from other income and taxed at a rate of 30% for companies. It is no longer consolidated with other income.

**Capital gains.** Capital gains on business assets, shares and commercial buildings are subject to tax at a rate of 30%.

**Administration.** Companies must file provisional income tax returns within six months after the beginning of the accounting period. This return includes an estimate of the income that will be earned by the company during the accounting period. The tax liability shown in the provisional return must be paid in two equal installments, which are due 6 months and 12 months after the beginning of the accounting period. A final tax return must be filed within six months after the end of the accounting period, and any balance of tax due must be paid when this return is filed. A taxpayer with an annual turnover of UGX500 million must submit audited financial statements prepared by an accountant registered by the Institute of Certified Public Accountants of Uganda with the taxpayer's return.

Penalties are imposed if the final tax liability for the year exceeds the tax liability shown in the provisional return by more than 10%. However, the penalty for underestimating provisional tax does not apply to companies engaged in agricultural, plantation or horticultural farming.

Effective from 1 July 2016, the Tax Procedure Code Act regulates all procedural aspects relating to income tax, value-added tax and excise duty, and any other taxes that could be added by the Minister of Finance by statutory instrument. The provisions of the act replace the provisions in the various tax laws that dealt with procedures.

**Dividends.** Dividends paid to residents and nonresidents are subject to withholding tax at a general rate of 15%. However, the withholding tax does not apply if the recipient of the dividends is a resident company that controls at least 25% of the voting power in the payer. The withholding tax rate is 10% for dividends paid by companies listed on the stock exchange to individuals. The withholding tax on dividends paid to nonresidents and to resident individuals is considered a final tax.

**Interest.** Interest paid to residents and nonresidents is subject to a withholding tax at a rate of 15%. The withholding tax rate for interest paid on government securities is 20%. The withholding tax on interest does not apply if either of the following circumstances exist:

- The recipient is a financial institution (except with respect to interest from government securities).
- The interest is paid by a natural person to a resident.

The withholding tax for interest paid on government securities is considered a final tax. Interest paid by resident companies to nonresident financial institutions with respect to debentures is exempt from tax.

**Other withholding taxes.** Royalties, rent, natural resource payments and management fees paid to nonresidents are subject to a 15% final withholding tax. Reinsurance premiums are subject to a 10% final withholding tax. A 10% withholding tax is imposed on nonresident contractors who derive fees from the provision of services to licensees in the mining and petroleum sectors.

A resident person who purchases an asset from a nonresident person must withhold a 10% tax from the gross payment for the asset.

**Foreign tax relief.** A foreign tax credit is granted for foreign tax paid on foreign-source income taxable in Uganda. The credit is limited to the equivalent of the Uganda tax on such income.

### C. Determination of trading income

**General.** Taxable income is the income reported in the companies' financial statements, subject to certain adjustments. Expenses are deductible to the extent that they are incurred in the production of taxable income.

**Inventories.** For tax purposes, inventory is valued at the lower of cost or market value.

**Provisions.** Only financial institutions and insurance companies may deduct specific provisions for bad debts.

Bad trade debts may be deducted when they are written off if all reasonable steps have been taken to recover the debt without success.

**Tax depreciation.** Depreciation charged in companies' financial statements is not deductible for tax purposes, but capital allowances are granted at specified depreciation rates ranging from 20% to 40%.

Capital expenditure on buildings that are designated as industrial buildings, excluding the cost of the land, qualifies for an annual industrial building allowance of 5%. Commercial buildings constructed on or after 1 July 2001 qualify for a straight-line commercial building deduction of 5%. Wear-and-tear allowances (tax depreciation), calculated using the declining-balance method, are granted for plant and machinery at the following rates.

Class	Assets	Rate (%)
I	Computers and data handling equipment	40
II	Automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicles designed to carry or pull loads of less than 7 tons, and construction and earth-moving equipment	35
III	Buses with a seating capacity of 30 or more passengers, goods vehicles designed to carry or pull loads of more than 7 tons, specialized trucks, tractors, trailers and trailer-mounted containers, and plant and machinery used in farming, manufacturing or mining operations	30
IV	Railroad cars, locomotives, equipment vessels, barges, tugs and similar water transportation equipment, aircraft, specialized public utility plant, equipment and machinery, office furniture, fixtures and equipment, and depreciable assets not included in another class	20

The initial allowance is reinstated, effective from 1 July 2017, at a rate of 50% of the cost base, with respect to eligible property placed into service for the first time outside a radius of 50 kilometers from the boundaries of Kampala.

The initial allowance is also reinstated, effective from 1 July 2017, at a rate of 20% of the cost base, with respect to new industrial buildings placed into use for the first time during the year of income.

**Relief for losses.** Losses may be carried forward for an indefinite period of time to offset future profits.

In general, loss carrybacks are not allowed. However, for long-term construction contracts that result in a loss in the final year, a loss carryback for an unlimited number of years is allowed.

**Groups of companies.** No provisions exist for filing consolidated returns or for relieving losses within a group.



## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	18
Social security contributions to the National Social Security Fund (NSSF), on salaries; the contributions are not tax deductible; paid by Employer	10
Employee	5

## E. Miscellaneous matters

**Foreign-exchange controls.** The foreign-exchange market is now fully liberalized. A company can freely transfer foreign exchange into and out of Uganda without restriction, provided that the transfer is through a bank and complies with anti-money laundering regulations. A company can prepare financial statements in foreign currency if it obtains approval from the tax authorities.

**Transfer pricing.** Transfer-pricing regulations apply to a controlled transaction (transaction between associates) if a person who is party to the transaction is located in and is subject to tax in Uganda, and the other person who is party to the transaction is located in or outside Uganda. The minimum threshold for transactions between associates who are both located in Uganda is UGX500 million (approximately USD200,000); no minimum threshold applies to cross-border transactions. The regulations require a person to record in writing sufficient information and analysis to verify that a controlled transaction is consistent with the arm's-length principle.

For an income year, this documentation must be in place before the due date for the filing of the income tax return for that year.

**Thin-capitalization rules.** The debt-to-equity ratio for the thin-capitalization restriction is now 1.5:1.

## F. Treaty withholding tax rates

The table below lists treaty withholding tax rates. Tax treaty provisions that lower Ugandan tax or provide exemptions from Ugandan tax for nonresident persons apply only if the nonresident is a resident of the state that has a tax treaty with Uganda and if at least 50% of the underlying ownership of the nonresident person is held by an individual or individuals who are themselves tax residents of that state.

	Dividends %	Interest %	Royalties %
Belgium	5/15 (a)	10	10
Denmark	10/15 (b)	10	10
India	10	10	10
Italy	15	15	10
Mauritius	10	10	10
Netherlands	0/5/15 (c)	10	10
Norway	10/15 (b)	10	10
South Africa	10/15 (b)	10	10
United Kingdom	15	15	15
Non-treaty jurisdictions	15	15	15

- (a) The 5% rate applies if the recipient owns at least 10% of the company paying the dividends. The 15% rate applies to other dividends.
- (b) The 10% rate applies if the recipient is a company resident in the other contracting state that owns at least 25% of the capital of the payer. The 15% rate applies to other dividends.
- (c) The 0% rate applies if the recipient holds at least 50% of the capital of the company paying the dividends. The 5% rate applies if the recipient holds less than 50% of the capital of the company paying the dividends. The 15% rate applies if the beneficial owner of the dividends is not a tax resident of the Netherlands.

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*The information in this chapter is current as of 1 November 2017. Because further changes to the tax law are possible, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	18 (a)
Capital Gains Tax Rate (%)	18
Branch Tax Rate (%)	18
Withholding Tax (%)	
Dividends	15
Interest	0/5/15 (b)(c)

Royalties	15
Freight	6
Advertising	20 (d)
Income from Discount Bonds	18 (e)
Insurance	0/4/12 (d)(f)
Other Ukrainian-Source Income	15
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	Unlimited (g)

- (a) Special tax rates exist for insurance and lottery companies.
- (b) The following interest is exempt from withholding tax:
- Interest and income (discounts) received by nonresidents from state securities, municipal bonds or debt securities if these instruments are secured by state or municipal guarantees
  - Other income from state securities, paid by the Ministry of Finance of Ukraine
  - Interest payments to nonresidents on loans received by the state or to a municipal budget if they are reflected in the state or municipal budget or in the budget of the National Bank of Ukraine
  - Interest on loans obtained by business entities if fulfillment of these loans is secured by state or municipal guarantees
- (c) A temporary withholding tax exemption is available for interest paid to non-resident lenders on loans financed through the issuance of debt securities (interest on loan participation notes) on a stock exchange outside Ukraine. The following conditions apply:
- If the loan is obtained before 2017, the exemption applies if qualifying debt securities are listed on any foreign stock exchange.
  - If the loan is obtained in 2017 or 2018, the exemption applies if qualifying debt securities are listed on a recognized stock exchange (currently, the list contains 21 stock exchanges in various jurisdictions, including the New York Stock Exchange, London Stock Exchange, Deutsche Boerse AG, Japan Exchange Group, Inc. and Singapore Exchange).
  - For all loans, the exemption applies only if the foreign interest recipient is not resident in a low-tax or non-transparent jurisdiction (see *Transfer pricing* in Section E for more details).
- A reduced 5% withholding tax rate will apply to interest from loans obtained from 2019 onward, subject to similar conditions.
- (d) In essence, the tax on advertising services and insurance payments is not a withholding tax, because the tax applicable to fees paid to nonresidents for advertising services and the tax on insurance payments is not withheld from the payments remitted to the nonresident recipient, but is paid at the expense of the Ukrainian company making the payments (that is, the economic burden of paying the tax is borne by the Ukrainian party).
- (e) The tax base is calculated as the difference between the nominal value of the discount bonds and the acquisition value (purchase price) of the bonds on the primary or secondary stock market. Exemptions apply (see footnote [b] above).
- (f) The 0% rate applies to the following:
- Insurance and reinsurance payments to financially reliable nonresidents
  - Insurance payments with respect to civil aviation passenger transportation
  - Insurance payments to nonresident individuals under mandatory insurance agreements
  - Insurance payments under Green Card insurance agreements (mandatory third-party liability insurance for car owners of states participating in the Green Card system)
  - Reinsurance payments with respect to mandatory civil liability insurance of nuclear facility operators
- The 4% rate applies to insurance payments to nonresidents under insurance agreements covering risks outside Ukraine (subject to exceptions). The standard 12% rate applies in all other cases.
- (g) Exceptions apply (see Section C).

## B. Taxes on corporate income and gains

**Corporate profit tax.** Ukrainian legal entities (except for non-profit organizations) are subject to corporate profit tax (CPT) on their worldwide income and gains. Foreign legal entities (except for organizations with diplomatic privileges or immunities) are

subject to CPT if they receive Ukrainian-source income. CPT also applies to permanent establishments of nonresidents receiving income from Ukrainian sources or performing agency services or certain other services for the benefit of nonresidents.

**Rates of tax.** The CPT rate is 18%.

Tax holidays are available until 2021 for certain qualifying low-turnover companies. CPT payers incorporated as a result of corporate reorganization or companies engaged in certain business activities (e.g., financial and insurance businesses, extractive industries, most types of cross-border activities) are not eligible for this CPT exemption. Notably, taxpayers enjoying the CPT exemption are still obliged to pay advance CPT on dividends (see *Dividends* section) and regular CPT for the period when dividends are accrued and paid.

Temporary tax incentives (including CPT exemption) are introduced for the aircraft industry until 2024, and certain conditions apply.

**Capital gains.** Capital gains are included in the pretax financial result and generally taxed at the regular CPT rate.

Special tax rules apply to capital gains derived from trading in securities. Profits from trading in securities are included in taxable profit. Losses from trading in securities, including losses on security revaluations, can be carried forward indefinitely to offset future income from such trading.

**Administration.** Under the general rule, taxpayers must report CPT quarterly on a cumulative basis. Annual CPT reporting is available for the following taxpayers:

- Newly incorporated companies
- Agricultural producers
- Companies with annual income, net of indirect taxes, of less than UAH20 million (approximately USD755,000)

Taxpayers that file only an annual return must submit it by within 60 days after the year-end. If a taxpayer files tax returns quarterly, both quarterly tax returns and the final annual tax return must be submitted within 40 days after the quarter or the year-end. Tax is payable within 10 days after the deadline for submitting the tax return.

**Dividends.** A company distributing dividends to its shareholders must pay an 18% advance corporate profit tax (ACPT) on the positive difference between the amount of dividends and taxable profit for the reporting year for which dividends are paid, provided that the tax liability for the year is settled (if unsettled, ACPT is levied on the whole amount of dividends). The tax is paid either before or at the moment of the dividend distribution. The ACPT is paid at the expense of the dividend payer and does not decrease the amount of dividends due to shareholders. In general, ACPT can be offset against the CPT liability of the taxpayer in the current period and subsequent periods.

Exemption from ACPT on dividends applies to the following dividends:

- Dividends paid to individuals
- Dividends paid by joint investment vehicles

- Dividends paid to shareholders of the taxpayer's parent company, up to the amount of dividends received by the parent company from third companies
- Dividends paid to companies whose profits are exempt from tax, up to the amount of such exempt profits in the period for which dividends are paid

Dividends distributed to nonresidents are subject to withholding tax at a rate of 15%, unless an applicable double tax treaty provides otherwise.

Ukrainian CPT payers do not include in their taxable profit dividends received from other Ukrainian CPT (except for collective investment vehicles and companies whose profits are exempt from tax, up to the amount of such exempt profits) and single taxpayers.

Notably, beginning in 2017, the term "dividends" covers any monetary payment made by a legal entity to its shareholders in relation to the distribution of part or all of its net profit.

**Foreign tax relief.** Ukrainian companies may credit foreign tax paid with respect to foreign-source profits against Ukrainian tax imposed on the same income, up to the amount of such Ukrainian tax. The credit is granted only if the taxpayer submits a written confirmation from the tax authorities of the foreign country that certifies payment of the foreign tax.

### C. Determination of taxable profit

**General.** Taxable profit is defined as the financial result before tax, determined under Ukrainian accounting standards or under International Financial Reporting Standards, subject to several adjustments. Add-back adjustments increasing the financial result for tax purposes include the following:

- Thirty percent of the cost of goods, fixed assets, works and services purchased from nonresidents registered in low-tax and non-transparent jurisdictions, or from nonprofit organizations if the amount of purchase from nonprofit organizations exceeds 25 minimum salaries (approximately USD3,200). This limitation does not apply if the taxpayer substantiates the arm's-length level of the expenses by preparing transfer-pricing documentation.
- Royalties paid to nonresidents exceeding the sum of royalty income and 4% of the taxpayer's net sales income for the preceding reporting year (excluding value-added tax [VAT] and excise tax). The limitation does not apply if the taxpayer substantiates the arm's-length level of the royalties by preparing transfer-pricing documentation. In some cases, royalties are added back in full.
- Transfer-pricing adjustments.
- Provisions and allowances accrued in financial accounting (except for salary and payroll tax provisions).
- Funds or cost of goods, works or services provided to nonprofit organizations in an amount exceeding 4% of taxpayer's taxable profit for the preceding year.
- Non-repayable financial aid provided to entities (other than registered nonprofit organizations and individuals) that are not CPT payers or are CPT exempt.

- Penalties under civil law contracts paid to non-CPT payers (except for individuals) or to CPT payers that enjoy CPT exemption.
- Impairment of fixed assets and intangible assets.
- Losses from participation in the equity of other companies.

Industry-specific adjustments apply for banks and financial institutions and agricultural producers.

Tax-loss carryforwards decrease the pretax financial result for CPT purposes.

If a taxpayer's income does not exceed UAH20 million (USD755,000), the taxpayer may opt not to make any adjustments to the financial result before tax for CPT purposes.

**Depreciation.** For purposes of tax depreciation, fixed assets are defined as assets that are designated for use in a taxpayer's business activity for more than one year and that have a value exceeding UAH6,000 (approximately USD220). The Tax Code provides for 16 groups of tangible fixed assets, 6 groups of non-tangible fixed assets and 5 methods of tax depreciation. Similar to financial accounting, tax depreciation is accrued per each item.

The list of depreciation methods is in line with methods stipulated for financial accounting, except for the unit-of-production method, which may not be used. The following are the methods:

- Straight-line
- Declining-balance
- Accelerated declining-balance
- Sum-of-the-years' digits

Depreciation of an asset is accrued on a monthly basis throughout the useful life cycle of the asset. The following table shows the minimum allowable term of the useful lives of assets.

Group	Assets	Minimum term of useful life Years
2	Capital expenditure on land improvements, not related to construction	15
3	Buildings	20
	Facilities	15
	Transmission devices	10
4	Machinery and equipment	5
	Electronic and computer equipment	2
5	Transport facilities	5
6	Tools, appliances and equipment (furniture)	4
7	Animals	6
8	Perennial plants	10
9	Other fixed assets	12
12	Temporary facilities	5
14	Returnable containers	6
15	Rental objects	5
16	Long-term biological assets	7

Assets of Group 1 (land plots) and Group 13 (natural resources), as well as goodwill and non-production fixed assets and intangibles, are not subject to depreciation.

The minimum term of useful life is not determined for the assets of Group 10 (library holdings) and Group 11 (tangible assets of small value).

Taxpayers should use the longer of the tax accounting or financial accounting depreciation terms.

Starting 1 January 2017, taxpayers are allowed to depreciate under a straight-line method qualifying fixed assets of Group 4 over a minimal two-year period if these assets were purchased after 1 January 2017 and put into operations before 31 December 2018. The right to use this tax incentive may be transferred upon reorganization.

**Relief for losses.** In general, the Tax Code allows the unlimited carryforward of losses. However, it is advisable to monitor further developments in the tax laws as ad hoc restrictions and adverse interpretations of the law are possible.

The law does not allow tax losses to be carried back (that is, offsetting the tax loss of the current year against the taxable profit of previous years to reduce tax payments). However, for taxpayers that determine tax payable based on quarterly tax returns, the carryback of a tax loss within a year may be technically possible because tax returns are completed cumulatively.

**Groups of companies.** The Ukrainian tax law does not provide for the grouping of different legal entities.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT)	
Standard rate	20
Import and supply of pharmaceuticals (exemptions apply)	7
Exports of goods and certain services	0
Excise tax	Various
Customs duties	Various
Environmental tax	Various
Rent tax	Various
Property tax	Various

## E. Miscellaneous matters

**Foreign-exchange controls.** The Ukrainian currency is the hryvnia (UAH). The official exchange rate of the hryvnia against the US dollar can be found at the National Bank of Ukraine (NBU) web site ([www.bank.gov.ua](http://www.bank.gov.ua)); the retail exchange rate may differ from the official exchange rate. A wide variety of controls are imposed with respect to the use, circulation and transfer of foreign currency within Ukraine and abroad. These controls, which affect almost all international business transactions, include the following:

- In general, transactions between Ukrainian residents and cash settlements within Ukraine may not be carried out in foreign currency.



- All statutory accounting and tax reporting, as well as tax payments, must be in Ukrainian currency.
- Wages and salaries paid to Ukrainian citizens must be in Ukrainian currency.
- Ukrainian currency may be used to purchase foreign currency.
- Ukrainian enterprises must obtain an individual license (permission) from the NBU to engage in certain business transactions, including the opening of bank accounts abroad and investing abroad.
- Ukrainian enterprises must collect their foreign currency proceeds for goods (except intellectual property), works or transportation and insurance services supplied by them within 180 days from the date of exportation or supply. Foreign currency prepayments for all goods, works or services must not exceed 180 days.
- Fifty percent of Ukrainian residents' foreign currency proceeds are subject to mandatory sale on the Ukrainian interbank currency market (exceptions apply). The NBU sets the percentage of mandatory sale on an ad hoc basis and, as a result, the percentage could change.
- Several temporary restrictions are imposed on cross-border payments in foreign currency.

**Debt-to-equity ratios and other restrictions on the deductibility of interest.** If a taxpayer's debt to a nonresident related party is at least 3.5 times (10 times for financial and leasing companies) the amount of its equity, interest payable to nonresident related parties by such taxpayer may be deductible in an amount of up to 50% of the sum of its financial result before taxation, financial expenses and financial accounting depreciation for the reporting year. The remaining interest, annually reduced by 5%, may be carried forward indefinitely, subject to the same limitation.

**Transfer pricing.** Transfer pricing (TP) rules have been effective in Ukraine since 2013. Ukrainian TP regulations are frequently changed. The most recent changes were made at the end of 2016 (effective from 1 January 2017).

Under the TP rules, controlled transactions include the following:

- Transactions with nonresident related parties.
- Transactions with nonresidents registered in low-tax jurisdictions and in jurisdictions with which Ukraine has not entered into treaties on exchange of information. The government approves the list of such jurisdictions.
- Commission sales of goods and services through nonresident commissioners.
- Transactions involving goods and services between related parties through unrelated intermediaries that do not undertake significant functions, do not use significant assets and do not assume significant risks.
- Transactions with nonresidents that do not pay corporate profit tax, or are exempt from this tax and/or are not tax residents of the country where they are registered as legal entities. The government shall approve the list of legal forms of such nonresidents of such countries.

The above-mentioned transactions are controlled if both of the following circumstances exist:

- The annual income of the taxpayer exceeds UAH150 million (approximately USD5,665,000).
- The amount of such annual transactions with each entity exceeds UAH10 million (approximately USD378,000).

The Tax Code provides for the following five methods for determining the arm's-length price for controlled transactions:

- Compared uncontrolled price (the preferred method)
- Resale price
- Cost-plus
- Transactional net margin
- Profit-split

Specific profit-level indicators are assigned to each TP method.

Special rules apply to exports or imports of quoted goods.

Taxpayers that perform controlled transactions must file a TP Report (report on controlled transactions) by 1 October of the year following the reporting year. TP documentation must be submitted within 30 calendar days after the date of receipt of the request. The statute of limitations for TP purposes is currently seven years.

## F. Treaty withholding tax rates

Ukraine honors the double tax treaties of the former USSR, except for treaties that have been superseded by new treaties concluded directly by Ukraine or renounced by the other party to the treaty. Ukraine is not a member of the Organisation for Economic Co-operation and Development (OECD). As a result, the Ukrainian tax authorities are not bound by the commentary of the OECD model convention. The rates in the table below reflect the lower of the treaty rate and the rate under domestic tax law for dividends, interest and royalties paid from Ukraine to residents of treaty countries. Exceptions or conditions may apply, depending on the terms of the particular treaty.

A beneficial ownership test must be met to apply reduced withholding tax rates under the majority of the double tax treaties.

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Algeria	5/15 (d)	0/10 (e)	10
Armenia	5/15 (d)	0/10 (e)	0
Austria	5/10 (d)	0/2/5 (h)	0/5 (k)
Azerbaijan	10	0/10 (e)	10
Belarus	15	10	15
Belgium	5/15 (d)	0/2/10 (h)(aa)	0/10 (k)(aa)
Brazil	10/15 (d)(ee)	0/15 (ff)	15
Bulgaria	5/15 (d)	0/10 (e)	10
Canada	5/15 (d)(pp)	0/10 (e)(nn)	0/10 (f)
China (mainland) (bb)	5/10 (d)	0/10 (e)	10
Croatia	5/10 (d)	0/10 (e)	10
Cyprus	5/15 (xx)	0/2 (e)	5/10 (yy)
Czech Republic	5/15 (d)	0/5 (e)	10
Denmark	5/15 (d)	0/10 (e)(oo)	0/10 (g)
Egypt	12	0/12 (e)	12
Estonia	5/15 (d)	0/10 (e)	10
Finland	0/5/15 (m)	0/5/10 (n)	0/5/10 (l)
France	0/5/15 (a)	0/2/10 (j)	0/10 (r)

	<b>Dividends</b> %	<b>Interest</b> %	<b>Royalties</b> %
Georgia	5/10 (d)	0/10 (e)	10
Germany	5/10 (d)	0/2/5 (h)	0/5 (k)
Greece	5/10 (d)	0/10 (e)	10
Hungary	5/15 (d)	0/10 (e)	5
Iceland	5/15 (d)	0/10 (jj)	10
India	10/15 (d)	0/10 (e)	10
Indonesia	10/15 (d)(qq)	0/10 (e)	10
Iran	10	0/10 (e)	10
Ireland	5/15 (d)	0/5/10 (aaa)	5/10 (yy)
Israel	5/10/15 (d)(z)	0/5/10 (dd)	10
Italy	5/15 (d)	0/10 (e)	7
Japan	15	0/10 (e)	0/10 (ww)
Jordan	10/15 (d)(ii)	0/10 (hh)(ii)	10 (ii)
Kazakhstan	5/15 (d)(pp)	0/10 (e)	10
Korea (South)	5/15 (d)	0/5 (e)	5
Kuwait	0/5 (cc)	0	10
Kyrgyzstan	5/15 (d)	0/10 (e)	10
Latvia	5/15 (d)	0/10 (e)	10
Lebanon	5/15 (d)	0/10 (e)	10
Libya	5/15 (d)	10	10
Lithuania	5/15 (d)	0/10 (e)	10
Luxembourg	5/15 (d)	5/10 (ccc)	5/10 (ddd)
Macedonia	5/15 (d)	0/10 (e)	10
Malaysia	15	0/15 (e)	10/15 (c)
Malta	5/15 (d)	0/10 (e)	10
Mexico	5/15 (d)	0/10 (zz)	10
Moldova	5/15 (d)	0/10 (e)	10
Mongolia	10	0/10 (rr)	10
Morocco	10 (ee)	0/10 (e)	10
Netherlands	0/5/15 (i)	0/2/10 (j)	0/10 (k)
Norway	5/15 (d)	0/10 (e)(kk)	5/10 (x)
Pakistan	10/15 (tt)	0/10 (uu)	10
Poland	5/15 (d)	0/10 (e)	10
Portugal	10/15 (q)	0/10 (e)(ll)	10
Romania	10/15 (d)	0/10 (e)	10/15 (s)
Russian Federation	5/15 (o)	0/10 (e)	10
Saudi Arabia	5/15 (d)	10	10
Singapore	0/5/15 (ss)	0/10 (e)	7.5
Slovak Republic	10	10	10
Slovenia	5/15 (d)	5	5/10 (gg)
South Africa	5/15 (d)	0/10 (e)(ll)	10
Spain	15	0	0/5 (b)
Sweden	0/5/10 (d)(t)	0/10 (u)	0/10 (v)
Switzerland	5/15 (d)	0/10 (p)	0/10 (k)
Syria	10	0/10 (e)	15
Tajikistan	10	0/10 (e)	10
Thailand	10/15 (d)	0/10/15 (w)	15
Turkey	10/15 (d)	0/10 (e)	10
Turkmenistan	10	0/10 (e)	10
United Arab Emirates	0/5/15 (y)	0/3 (e)	0/10 (k)
United Kingdom	5/10 (d)(mm)	0	0
United States	5/15 (d)	0	10
Uzbekistan	10	0/10 (e)	10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Vietnam	10	0/10 (e)	10
Yugoslavia (vv)	5/10 (d)	0/10 (e)	10
Non-treaty jurisdictions	15	0/15 (bbb)	15

- (a) The 0% rate applies to dividends paid to one or more companies that are the beneficial owners of these dividends and if either of the following conditions is satisfied:
- The recipient company or companies hold directly or indirectly at least 50% of the capital of the company paying the dividends, and the total amount of their investments in the paying company is not less than 5 million French francs.
  - The investments of the recipient companies in the company paying the dividends are guaranteed or insured by the other state, the central bank of such state or a person acting on behalf of such state.
- The 5% rate applies to dividends paid to companies that own at least 20% of the capital of a Ukrainian resident payer or 10% of the capital of a French resident payer. The 15% rate applies to other dividends.
- (b) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights for literary, dramatic, musical or artistic works. The higher rate applies to other royalties.
- (c) The 10% rate applies to the following:
- Payments for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes
  - Payments for copyrights of scientific works; payments for the use of, or the right to use, industrial, commercial or scientific equipment
  - Payments for information concerning industrial, commercial or scientific experience
- The 15% rate applies to payments for the use of, or the right to use, cinematographic films, or tapes for radio or television broadcasting, and to payments for copyrights of literary or artistic works.
- (d) The lower rate applies to dividends paid to companies that are the beneficial owners of such dividends and own a minimum percentage of the capital of the payer (under the treaties, this percentage ranges from 10% to 50%). The higher rate applies to other dividends. Additional conditions may apply.
- (e) The 0% rate may apply to interest paid to or, in some cases, by government institutions of the contracting states. In some cases, the 0% rate also applies to the following:
- Interest paid to entities authorized by government institutions
  - Interest on debt claims that are warranted, insured or directly or indirectly financed by the state or a financial institution wholly owned by the state
- Specific institutions are named in some treaties. The higher rate applies to other interest (additional beneficial ownership requirements may apply).
- (f) The 0% rate applies to payments for the use of, or the right to use, computer software. The 10% rate applies to other royalties.
- (g) The 0% rate applies to payments for the use of, or right to use, secret formulas or processes, or for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- (h) The 0% rate applies to interest paid to the state or an agency owned or controlled by the state and to interest paid to a resident of a contracting state with respect to a loan or other debt claim or credit granted, guaranteed or insured by public entities owned or controlled by the state. The 2% rate applies to interest on loans from banks or financial institutions and to interest with respect to sales on credit of merchandise or services between enterprises or sales of industrial, commercial or scientific equipment. The higher rate applies to other interest.
- (i) The 0% rate applies to dividends paid to companies (other than partnerships) that hold directly at least 50% of the capital of the payer of the dividends and have made an investment in the capital of the payer of at least USD300,000 or the equivalent in the currencies of the contracting states. The 0% rate also applies to dividends paid to companies whose investment in the capital of the payer is guaranteed or insured by government institutions or an agency or instrumentality owned or controlled by the government. The 5% rate applies to dividends paid to companies owning at least 20% of the payer. The 15% rate applies to other dividends.

- (j) The 0% rate applies to interest paid to the state or an agency owned or controlled by the state and to interest paid to a resident of a contracting state with respect to a loan or other debt claim or credit granted, guaranteed or insured by public entities owned or controlled by the state. The 2% rate applies to the following:
- Interest paid on loans granted by banks or other financial institutions of the other state, including investment banks, savings banks and insurance companies
  - Interest paid with respect to the sale on credit of industrial, commercial or scientific equipment, or with respect to the sale or furnishing on credit of goods or merchandise or services by an enterprise to another enterprise
- The 10% rate applies to other interest.
- (k) The 0% rate applies to payments for the use of, or the right to use, copyrights of scientific works, patents, trademarks, designs or models, plans, and secret formulas or processes, as well as to information concerning industrial, commercial or scientific experience. The higher rate applies to other royalties.
- (l) The 0% rate applies to royalties paid for the use of, or the right to use, computer software, patents, designs or models, or plans. The 5% rate applies to royalties paid for the use of, or right to use, secret formulas or processes, as well as for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works including cinematographic films, and films or tapes for television or radio broadcasting, or trademarks.
- (m) The 0% rate applies to dividends paid by a company resident in Ukraine to a company that is resident in Finland and that is the beneficial owner of the dividends if either of the following circumstances exists:
- The Finnish Guarantee Board has issued an investment guarantee for dividends paid or for the capital invested on which the dividends are paid.
  - The recipient of the dividends has made an investment of at least USD1 million in the capital of the payer and holds at least 50% of the equity capital of the company paying the dividends.
- The 0% rate is allowed with respect to dividends paid for any tax year within the period for which the above-mentioned guarantee is in force or, if no such guarantee is made, with respect to dividends paid for the first three years following the year in which the investment is made. The 5% rate applies to dividends paid to companies owning at least 20% of the capital of the payer. The 15% rate applies to other dividends.
- (n) The 0% rate applies if the interest is paid to the State of Finland, or a local authority or a statutory body thereof, the Bank of Finland, the Finnish Fund for Industrial Co-operation Ltd (FINNFUND) or the Finnish Export Credit Ltd or any similar institution. The 0% rate also applies to interest paid to a resident of Finland on a loan guaranteed by any of the bodies mentioned in the preceding sentence or by the Finnish Guarantee Board and paid to a resident of Finland. The 5% rate applies to interest related to commercial credit. The 10% rate applies to other interest.
- (o) The 5% rate applies to dividends paid to companies that have invested at least USD50,000 in the capital of the payer or an equivalent amount in the currencies of the contracting states. The 15% rate applies to other dividends.
- (p) The 0% rate applies to the following types of interest:
- Interest paid to government institutions
  - Interest on loans granted by banks
  - Interest paid with respect to sales on credit of merchandise, or industrial, commercial or scientific equipment
- The 10% rate applies to other interest.
- (q) The 10% rate applies to dividends paid to the beneficial owner if, for an uninterrupted period of two years before the payment of the dividend, the beneficial owner owned directly at least 25% of the capital stock of the company paying the dividends. The higher rate applies to other interest.
- (r) The 0% rate applies to payments for the use of, or the right to use, software, patents, trademarks, designs or models, plans, or secret formulas or processes, or for information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- (s) The 10% rate applies to royalties paid for the use of, or the right to use, patents, trademarks, designs or models, secret formulas or processes, as well as for information concerning industrial, commercial or scientific experience. The 15% rate applies to other royalties.
- (t) The 0% rate applies if the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the voting power of the payer of the dividends and if at least 50% of the voting power of the

company that is the beneficial owner of the dividends is held by residents of the beneficial owner's contracting state.

- (u) The 0% rate applies to the following:
  - Interest paid on loans provided, guaranteed or insured by a government of a state where the beneficial owner of the interest is located, or interest on loans made, guaranteed or insured on behalf of such government by an authority thereof that is so entrusted
  - Interest with respect to indebtedness arising on sales on credit by enterprises of merchandise or industrial, commercial or scientific equipment to an enterprise of another contracting state, unless the sale or indebtedness is between related persons

The 10% rate applies to other interest payments.
- (v) The 0% rate applies to royalties paid for patents concerning industrial and manufacturing know-how or processes, agriculture, pharmaceuticals, computers, software, building constructions, secret formulas or processes, as well as for information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- (w) The 0% rate applies to interest derived by the government, a political subdivision or a local authority, central bank of a contracting state or other financial institution established and owned by the government to promote trade and investment, as well as to interest paid to residents of a contracting state with respect to debt-claims guaranteed or insured by the government, a local authority thereof, the central bank or other financial institution established and owned by the government to promote trade and investment. The 10% rate applies to interest paid on loans granted by banks or other financial institutions, including investment banks, savings banks and insurance companies. The 15% rate applies to other interest payments.
- (x) The 5% rate applies to royalties paid for the use of, or the right to use, patents, plans, secret formulas or processes, as well as for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.
- (y) The 0% rate applies to dividends paid to the government, a political subdivision or local authority, central bank or other state financial institution. The 5% rate applies to dividends paid to companies owning at least 10% of the capital of the payer.
- (z) Notwithstanding the provisions allowing the 5% reduced rate (see footnote [d]), the 10% rate applies if the beneficial owner of the dividends is a company that holds directly at least 10% of the capital of the company paying the dividends and if the dividend payer is a resident of Israel and the dividends are paid out of profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israeli company tax.
- (aa) A discrepancy exists between the Ukrainian and English texts of the Belgium treaty with respect to the withholding tax rates for interest and royalties. In the Ukrainian version, the highest treaty rate is 5%, while in the English version, it is 10%. The English version prevails in accordance with Paragraph (e) of the protocol to the treaty.
- (bb) The treaty does not apply to the Hong Kong Special Administrative Region (SAR).
- (cc) The 0% rate applies to dividends paid to the government, a political subdivision or local authority, the central bank or other state financial institution. The 5% rate applies to all other dividends.
- (dd) The 0% rate applies to interest paid on loans granted by the government of a contracting state, including its political subdivisions and local authorities, the central bank or financial instrumentalities of that government. The 5% rate applies to interest paid on loans granted by banks. The 10% rate applies to all other interest payments.
- (ee) If a resident of a contracting state has a permanent establishment in the other state, such permanent establishment may be subject to a withholding tax under the law of that other state. However, this tax may not exceed 10% of the amount of the profits of that permanent establishment after payment of the corporate tax on the profits.
- (ff) Interest arising in a contracting state and paid to the government of the other contracting state, political subdivisions thereof or agencies (including financial institutions) wholly owned by that government or a political subdivision is exempt from tax in the state where the income arises, unless the rule mentioned in the following sentence applies. Interest on securities, bonds or debentures issued by the government of a contracting state, political subdivisions thereof or agencies (including financial institutions) wholly owned by that government or political subdivision thereof is taxable only in that state.

- (gg) The 5% rate applies to royalties paid for the use of, or right to use, scientific works, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience. The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary or artistic works, including cinematographic films, and tapes for television or radio broadcasting.
- (hh) Interest derived by the government of the contracting state including local authorities thereof, a political subdivision, the central bank or any financial institution controlled by such government, the capital of which is wholly owned by the government of the contracting state, is exempt from tax.
- (ii) The treaty rates do not apply to residents of a contracting state who perform their activity outside of this state if the income and profits of such persons are exempt from tax or are taxed at a substantially lower rate in such state.
- (jj) The 0% rate applies if interest is received and actually held by the government or a political subdivision. Interest paid to and held by a resident of one contracting state is exempt from tax in the other contracting state if it is paid with respect to a loan made, guaranteed or insured or with respect to any other debt claim or credit, if the loan, debt claim or credit is guaranteed or insured on behalf of the first-mentioned state or by an authorized organ.
- (kk) The 0% rate also applies if the interest is paid by a purchaser to a seller with respect to commercial credit resulting from deferred payments for goods, merchandise, equipment or services, unless the sale or indebtedness is between associated persons.
- (ll) The 0% rate also applies to interest paid to an institution (including a financial institution) with respect to a loan made under an agreement between the governments of the contracting states.
- (mm) The reduced rates apply if the beneficial owner of the dividends is subject to tax with respect to such dividends.
- (nn) The 0% rate also applies to interest arising in a contracting state and paid to a resident of the other contracting state that was established and operated exclusively to administer or provide benefits under one or more pension, retirement or other employee benefits plans if the following conditions are satisfied:
- The recipient is the beneficial owner of the interest and is generally exempt from tax in the other state.
  - The interest is not derived from the carrying on of a trade or a business or from a related person.
- (oo) The 0% rate also applies to interest paid with respect to indebtedness incurred in connection with the sale on credit of industrial, commercial or scientific equipment by an enterprise that is resident of one contracting state to an enterprise resident in the other contracting state, unless the sale or indebtedness is between associated enterprises.
- (pp) Tax imposed on the earnings of a company attributable to a permanent establishment in a contracting state in addition to the tax that would be chargeable on the earnings of a company that is a national of that state may not exceed 5% of the amount of such earnings.
- (qq) If a resident of a contracting state has a permanent establishment in the other state, such permanent establishment may be subject to a withholding tax under the law of that other state. However, this tax may not exceed 10% of the amount of the profits of that permanent establishment after payment of the corporate tax on the profits. This measure does not affect provisions contained in production-sharing contracts and contracts of work (or any other similar contracts) relating to the oil and gas sector or other mining sector entered into by the government of Indonesia, its instrumentalities, its relevant state oil and gas company or any other entities of the government of Indonesia, with a person that is a resident of the other contracting state.
- (rr) The 0% rate applies to the interest paid with respect to bonds, debentures or similar obligations of the government, political subdivisions, local authorities or the central bank.
- (ss) The 0% rate applies to dividends if the beneficial owner of the dividends is the government, the central bank, or other government institutions or statutory bodies. The 5% rate applies to dividends if the beneficial owner is a company (other than a partnership) that holds directly at least 20% of the capital of the payer. The 15% rate applies to other dividends.
- (tt) The 10% rate applies to dividends paid to the beneficial owner of the dividends if the beneficial owner owns directly at least 25% of the capital stock of the company paying the dividends. The 15% rate applies to other dividends.

- (uu) The 0% rate applies to interest received and belonging to the government, political subdivisions, local authorities or the central bank.
- (vv) The double tax treaty with Yugoslavia applies to Serbia and Montenegro.
- (ww) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films and films or tapes for radio or television broadcasting. The 10% rate applies to the royalties for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, or industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.
- (xx) The 5% rate applies to dividends paid to the beneficial owner of the dividends if such owner holds at least 20% of the capital of the company paying the dividends or has invested in the acquisition of the shares or other rights of the company the equivalent of at least EUR100,000. The 15% rate applies in all other cases.
- (yy) The 5% rate applies to royalties with respect to copyrights of scientific works, patents, trademarks, secret formulas, processes or information concerning industrial, commercial or scientific experience. The 10% rate applies in other cases.
- (zz) The 0% rate applies to the following types of interest:
- Interest paid to or by the state, political subdivision or central bank
  - Interest arising and paid with respect to a loan granted for a term over three years that is guaranteed or insured or to a credit granted for a term over three years that is guaranteed or insured by the authorized state institutions
- The 10% rate applies in other cases. The procedure for application of these restrictions will be set by the competent authorities of Mexico and Ukraine.
- (aaa) The 0% rate applies to interest if any of the following circumstances exist:
- The beneficial owner of the interest is the government or an agency authorized by the government.
  - The interest is paid with respect to loans made, guaranteed or issued by or on behalf of the government or an agency authorized by the government.
  - The interest is paid with respect to debt claims that are warranted, insured, or directly or indirectly financed by the government or an agency authorized by the government.
- The 5% rate applies to interest paid in connection with the sale on credit of industrial, commercial or scientific equipment, or in connection with loans granted by banks. The 10% rate applies in all other cases if the recipient of the interest is resident in either treaty state and is the beneficial owner of the interest.
- (bbb) See footnotes (b) and (c) in Section A.
- (ccc) The 5% rate applies to interest paid on loans granted by banks and other financial institutions (including investment banks and savings banks). The 10% rate applies to all other interest payments.
- (ddd) The 5% rate applies to royalties paid for the use of, or the right to use, patents, trademarks, designs or models, plans, secret formulas or processes, as well as for information (know-how) concerning industrial, commercial or scientific experience. The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works including cinematographic films, and films or tapes for television or radio broadcasting.

Ukraine has ratified a double tax treaty with Cuba, but this treaty is pending.

Ukraine has signed a double tax treaty with Malaysia, but this treaty has not yet been ratified.

Ukraine has signed amending protocols to the double tax treaties with Turkey and the United Kingdom. Official texts of protocols have not yet been published and are still pending ratification. However, the Ukrainian Ministry of Finance has already announced that under the Ukraine-United Kingdom protocol, the withholding tax rates for dividends, interest and royalties are increased. Reportedly, the Ukraine-Turkey protocol does not change tax rates.



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The Ukrainian government authorized the Minister of Finance to sign a double tax treaty with Sri Lanka.

The Ukrainian government approved and signed amending protocols to the double tax treaties with Austria and Cyprus, raising the rates overall and introducing additional conditions for obtaining the treaty benefits, and submitted the protocols for ratification to the Ukrainian parliament.

The Ukrainian Ministry of Finance announced negotiations on amendments to the Ukraine-Switzerland tax treaty.

Ukraine announced its intention to sign the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) by the end of 2017, but it has not yet signed the MLI.

Ukraine is negotiating double tax treaties with Guinea, New Zealand, Qatar and Tunisia.

Ukraine is negotiating an amendment to its double tax treaty with Belgium.

# United Arab Emirates

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**A. At a glance**

Corporate Income Tax Rate (%)	0*
Capital Gains Tax Rate (%)	0*
Branch Tax Rate (%)	0*
Withholding Tax (%)	0*

\* No taxes are imposed by the federal government of the United Arab Emirates. See Section B for further information.

## B. Taxes on corporate income and gains

**Corporate income tax.** Although no federal taxation currently exists in the United Arab Emirates (UAE), each of the individual Emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain) has issued corporate tax decrees that theoretically apply to all businesses established in the UAE. However, in practice, these laws have not been applied. Taxes are currently imposed at the Emirate level only on oil and gas producing companies in accordance with specific government concession agreements, and on branches of foreign banks under specific tax decrees or regulations or in accordance with agreements with the Rulers of the Emirates in which the branches operate.

The preceding paragraph describes how the practice has evolved in the UAE at the level of the individual Emirates. No general exemption is contained in the Emirates' tax decrees. Persons investing in the Emirates should be aware of the risk that the tax decrees may be more generally applied in the Emirates in the future and of the remote risk that they may be applied retroactively. They should also bear in mind the potential introduction of federal-level taxation in the medium to long term.

In August 2015, the UAE Ministry of Finance (MoF) announced the potential introduction of corporate tax in the UAE. No further details have been provided with respect to the proposed tax rate or timeline. The MoF stated that after an announcement has been made that the draft law has been finalized, it will be at least 12 months before businesses will be required to fulfill their UAE corporate tax obligations. This will allow businesses to prepare for the implementation of the corporate tax.

**Tax incentives.** Several of the Emirates have free zones that offer tax and business incentives aimed at making the UAE a global financial and commercial center. The incentives usually include tax exemptions for a guaranteed period, the possibility of 100% foreign ownership, absence of customs duty within the free zone and a "one-stop shop" for administrative services. The free zones include, but are not limited to, the Dubai Airport Free Zone (DAFZ), Dubai International Financial Centre (DIFC) (typically for financial services), Dubai Internet City (DIC), Dubai Media City (DMC), Dubai Multi Commodities Centre (DMCC), Dubai South (DS), Jebel Ali Free Zone (JAFZ), and Abu Dhabi General Markets (ADGM; typically for financial services). Approximately 20 free zones are located in the Emirate of Dubai alone.

## C. Customs duties

The UAE is a member of the Gulf Cooperation Council (GCC), together with Bahrain, Kuwait, Oman, Qatar and Saudi Arabia. On 22 December 2002, the GCC member states approved regulations for the implementation of the GCC Customs Law, which unifies customs procedures in all GCC customs administrations and establishes a unified GCC customs union. All GCC member states have enacted the GCC Customs Law. However, the practical implementation of the law is not always consistent.

The UAE is a member of the World Trade Organization. Unlike some of the other GCC member states, the UAE has not signed any free-trade agreements as a stand-alone partner. However, the

GCC is a partner with respect to several free-trade agreements, some bilateral and some with other trading blocs.

Under the GCC Customs Law, most foreign imports are subject to customs duty of 5% of the Cost, Insurance and Freight (CIF) invoice value of the imported goods, except tobacco and alcohol (which generally attract higher rates), and the items on the exemption list (which generally attract lower or zero rates). This import duty is levied at the first point of entry to the GCC. No export duty is imposed on goods leaving the GCC.

In general, goods do not incur customs duty on import into, and on transfers within, a UAE free zone, and no export duty is imposed on goods removed from a UAE free zone. However, if the goods leave the free zone for a destination within the GCC, customs duty is levied on the import at the first point of entry into the GCC.

#### **D. Value-added tax**

A GCC value-added tax (VAT) framework agreement has broadly been accepted and agreed on by GCC Finance Ministry representatives and was announced in December 2015.

The UAE MoF has issued Landmark Federal Law No. (7) of 2017 for Tax Procedures, which sets the foundations for the planned UAE tax system, regulating the administration and collection of taxes and clearly defining the role of the Federal Tax Authority.

The UAE MoF has also issued Federal Law No. 8 of 2017 on VAT, and related Executive Regulations are expected to be released before the VAT law comes into effect. Article 85 of Federal Law No. 8 of 2017 on VAT provides that the law is effective from 1 January 2018.

#### **E. Excise tax**

In line with the GCC unified agreement on excise tax, the UAE implemented an excise tax, effective from 1 October 2017. The tax is imposed on certain carbonated drinks at a rate of 50% and on energy drinks, tobacco and tobacco products at a rate of 100%.

#### **F. Foreign-exchange controls**

Neither the federal government of the UAE nor the individual Emirates impose foreign-exchange controls.

#### **G. Tax treaties**

The UAE has tax treaties currently in force with the following jurisdictions.

Albania	India	Poland
Algeria	Indonesia	Portugal
Andorra	Ireland	Romania
Armenia	Italy	Russian Federation
Austria	Japan	(limited)
Azerbaijan	Jordan	Serbia
Bangladesh	Kazakhstan	Seychelles
Belarus	Kenya	Singapore
Belgium	Korea (South)	Slovak Republic

Bosnia and Herzegovina	Kyrgyzstan	Slovenia
Brunei Darussalam	Latvia	South Africa
Bulgaria	Lebanon	Spain
Canada	Liechtenstein	Sri Lanka
China (mainland)	Lithuania	Sudan
Cyprus	Luxembourg	Switzerland
Czech Republic	Macedonia	Syria
Egypt	Malaysia	Tajikistan
Estonia	Malta	Thailand
Fiji	Mauritius	Tunisia
Finland	Mexico	Turkey
France	Montenegro	Turkmenistan
Georgia	Morocco	Ukraine
Germany	Mozambique	United Kingdom
Greece	Netherlands	Uruguay
Guinea	New Zealand	Uzbekistan
Hong Kong SAR	Pakistan	Venezuela
Hungary	Panama	Vietnam
	Philippines	Yemen

In addition, treaties with the following jurisdictions are in various stages of negotiation, renegotiation, signature, ratification, translation or entry into force.

Argentina	Ethiopia	Moldova
Barbados	Gambia	Nepal
Belize	Guernsey	Nigeria
Benin	Jersey	Palestinian Authority
Chad	Kosovo	Paraguay
Comoros	Libya	Peru
Croatia	Malawi	Senegal
Ecuador	Maldives	Uganda
Equatorial Guinea	Mauritania	

# United Kingdom

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UK mobile phone numbers are not preceded by a city code. When dialing these numbers from within the United Kingdom, a zero must be added as a prefix.

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*In June 2016, the UK public voted to leave the European Union (EU). Article 50, which allows a member state to leave within two years, was triggered on 29 March 2017, and the United Kingdom is currently expected to exit the EU in March 2019 unless agreed otherwise with the other EU member states. An agreement on transitional arrangements may be reached. It is suggested that this will cover the period of March 2019 through December 2020. Until the United Kingdom leaves the EU, and during any transition period, it will benefit from and be subject to its EU rights and obligations.*

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**A. At a glance**

Corporate Income Tax Rate (%)	19 (a)(b)(c)
Capital Gains Tax Rate (%)	19 (d)
Branch Tax Rate (%)	19
Withholding Tax (%)	
Dividends	0
Interest	20 (e)(f)
Royalties	20 (e)
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	1
Carryforward	Unlimited (g)

- (a) The rate of corporation tax is 19% for both large and small companies. Legislation has been enacted to decrease the rate of corporation tax to 17%, effective from 1 April 2020. The main rate of corporation tax for ring-fence profits (that is, profits from oil extraction and oil rights in the United Kingdom and the UK continental shelf) is 30% (small profits rate of 19%). The rates for ring-fence profits are not scheduled to change.
- (b) The small profits rate of 19% for ring-fence profits applies in certain circumstances if taxable profits are below GBP300,000. This benefit is phased out for taxable profits from GBP300,000 to GBP1,500,000. These limits are reduced if associated companies exist.
- (c) An additional 8% surcharge is levied on the profits of banks in excess of GBP25 million (before the offset of losses carried forward).
- (d) Capital gains are subject to tax at the normal corporation tax rate. See Section B for details concerning the taxation of capital gains derived by non-residents.

- (e) This tax applies to payments to nonresidents and non-corporate residents.
- (f) A 45% rate applies to compound interest received from the UK tax authorities in certain cases.
- (g) The amount of annual profits that can be relieved by losses carried forward is limited to 50% from 1 April 2017, subject to an allowance of GBP5 million per group.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Companies that are resident in the United Kingdom are subject to corporation tax on their worldwide profits, but several exemptions have the effect of focusing corporation tax on UK-related activities. Tax is imposed on the total amount of income earned from all sources in the company's accounting period, including any chargeable capital gains. However, a company can elect to exempt non-UK branch income and losses from UK corporation tax, subject to transitional rules that govern entry into the regime. This election is irrevocable and takes effect from the accounting period after the one in which the election is made.

Nonresident companies are generally subject to UK corporation tax only if they carry on a trade in the United Kingdom through a permanent establishment (however, such companies should also consider any potential diverted profits tax issues; see Section E). A permanent establishment arises either from a fixed place of business in the United Kingdom through which the nonresident company carries on its business, or from an agent exercising authority to do business in the United Kingdom on behalf of the nonresident company. The amount of profit attributable to a permanent establishment is computed in accordance with the separate enterprise principle. However, from 2016, a corporation tax charge is also imposed for nonresidents disposing of UK land in the course of a property dealing or development trade. Companies are now subject to UK corporation tax with respect to trading profits arising from the sale of UK land, regardless of the existence of a UK permanent establishment and regardless of the residence of the entity.

A company is resident in the United Kingdom if it is incorporated in the United Kingdom or if the central management and control of the company is exercised there. However, companies regarded as resident under domestic law, but as nonresident under the tie-breaker clause of a double tax treaty, are regarded as nonresident for all corporation tax purposes.

**Rates of corporation tax.** The main rate of corporation tax for both large and small companies is 19%, effective from the financial year beginning 1 April 2017. The rate will be reduced to 17%, effective from the financial year beginning 1 April 2020. The rate is 30% for companies with ring-fence profits (that is, profits from oil extraction and oil rights in the United Kingdom and the UK continental shelf). If an accounting period does not coincide with the financial year, the profits for the accounting period are time-apportioned and the appropriate rate is applied to each part.

For ring-fence profits, a company may claim the small profits rate of corporation tax, which is 19%, if its taxable profits for an accounting period are less than GBP300,000. For the financial year beginning 1 April 2015, the effective marginal rate for companies with ring-fence profits between GBP300,000 and GBP1,500,000 is 32.75%. These limits are divided by one plus the number of

associates if a company has associated companies (subsidiaries or fellow subsidiaries), regardless of whether they are in or outside the United Kingdom.

An additional 8% surcharge is levied on the profits of banks in excess of GBP25 million (before the offset of losses carried forward), effective from 1 January 2016.

A special rate of corporation tax of 45% applies on restitution interest, which is compound interest received from the UK tax authorities on the repayment of tax (either by agreement or an order of a court) originally collected in breach of law, which applies to awards determined on or after 21 October 2015.

**Capital gains.** Gains on chargeable assets are subject to corporation tax at the corporation tax rate. For UK tax purposes, a capital gain is usually the excess of the sale proceeds over the original cost plus any subsequent qualifying capital expenditure incurred on the chargeable asset being disposed of. If chargeable assets acquired before 31 March 1982 are disposed of, only the portion of the gain after that date is usually taxable. An allowance is available for inflation up to 1 January 2018; the amount of the reduction is based on the increase in the retail price index. This indexation allowance may be used only to eliminate a gain; it may not be used to create or increase an allowable loss.

The Substantial Shareholdings Exemption (SSE) broadly exempts from UK tax any capital gain on disposals made by trading companies or trading groups with substantial shareholdings (at least 10%) in other trading companies or groups. The following three sets of conditions must be satisfied:

- The substantial shareholding requirement
- Conditions relating to the “investing” company or group
- Conditions relating to the “investee” company or subgroup

Before 1 April 2017, broadly both the investing company and the investee company were required to be a trading company, group or subgroup for 12 months before the disposal and immediately afterward.

For disposals after 1 April 2017, the investing company trading requirement is removed and the requirement for the investee company to be trading post-disposal is significantly reduced in scope. Also, the period over which the 12-month substantial shareholding requirement must be satisfied is lengthened from two years to six years. For disposals after 1 April 2017, a new exemption is introduced for share disposals by companies owned by Qualifying Institutional Investors (QIIs) that has no investee or investing company trading requirement and an additional substantial shareholding threshold of GBP20 million.

Tax on capital gains is not generally levied on nonresidents; consequently, no tax is currently levied on a gain on the sale of shares in a UK subsidiary by the foreign nonresident parent company. However, gains on the sale of assets situated in and used in a trade carried on by a permanent establishment in the United Kingdom are subject to corporation tax at the corporation tax rate. The UK government is also proposing that from 1 April 2019, UK tax will be chargeable on gains derived by nonresidents on the direct or indirect disposal of all types of UK immov-

able property. This will apply regardless of the nature of the property or the residence of the disposing entity.

Currently, capital gains tax at a rate of 28% may be charged on the disposal of residential property by companies (both UK and non-UK resident) worth over GBP500,000 that is within the Annual Tax on Enveloped Dwellings (ATED) charge. The ATED charge is an annual charge levied on companies, both UK and non-UK resident, holding residential property worth over GBP500,000 (see Section D for the rates of the ATED). The ATED and the ATED-related capital gains tax charge are designed to prevent tax avoidance through the wrapping of residential property in corporate or other “envelopes.” Several reliefs are available to reduce the impact of this tax on genuine business transactions. In addition, from 6 April 2015, capital gains tax at a rate of 20% may instead be charged on the disposal of residential property by non-UK resident closely held companies if the disposal is not subject to the 28% ATED-related capital gains tax charge mentioned above.

Special provisions permit the deferral of the capital gains charge on qualifying business assets if the sales proceeds are reinvested. There are numerous other special rules relating to capital gains.

Capital losses are offset against capital gains of the same accounting period and, if an excess exists, they may be carried forward indefinitely (to be set off against chargeable gains of future accounting periods), but may not be carried back. Capital losses may not be used to reduce trading profits.

**Administration.** Tax returns, accounts and computations must be filed within 12 months after the end of the accounting period.

Large companies must make quarterly installment payments of their corporation tax. The first installment is due six months and thirteen days after the first day of the accounting period, and the last installment is due three months and fourteen days after the end of the accounting period. These payments are based on the estimated tax liability for the current year. Fewer payments may be required for shorter accounting periods.

All other companies must pay estimates of their corporation tax liability within nine months after the end of their accounting period.

Companies not complying with the filing and payment deadlines described above are subject to interest and penalties.

A self-assessment system requires companies to assess correctly their tax liabilities or face significant penalties. In addition, the tax authority (HMRC) has extensive investigative powers.

Large businesses must publish annually their UK tax strategy. Those businesses that fail to do so correctly and in time are liable to a penalty. The first online UK tax strategy report is required before the end of the first accounting period that began after 15 September 2016 (and thereafter, one each year, within 15 months of the last one being published). The tax strategy report should include the approach of the UK group to tax governance and risk management, as well as its attitude to tax planning

and its approach to dealing with HMRC. In broad terms, the following entities are required to publish a tax strategy:

- UK subgroups of and subsidiaries and permanent establishments of multinational groups with EUR750 million global turnover (that is, those that fall within the Country-by-Country Reporting [CbCR] requirement)
- UK-headed groups, some specific UK subgroups and stand-alone UK entities (including companies and partnerships) with at least either GBP200 million of turnover or a balance sheet total exceeding GBP2 million.

A key point is that no de minimis level is set for UK entities that are part of a EUR750 million turnover group. A UK company, subgroup or permanent establishment that is part of such a multinational group must publish a strategy, even if the level of activity in the UK is minimal.

*Inward Investments Support.* Significant inward investors can apply under HMRC's Inward Investments Support service for written confirmation of the UK tax treatment of specific transactions or events. In this context, "significant" is regarded as an investment of GBP30 million or more, but smaller investments are considered if they are potentially of importance to the national or regional economy.

**Dividends.** Dividends paid by UK resident companies are not subject to withholding tax. For dividends received by UK resident companies, the United Kingdom has a dividend exemption regime. A dividend or other income distribution received on or after 1 July 2009 is generally exempt from UK corporation tax if all of the following conditions are satisfied:

- The distribution falls within an exempt class or, if the recipient is a "small" company, the payer is resident in the United Kingdom or a qualifying territory.
- The distribution is not of a specified kind.
- No deduction is allowed to a resident of any territory outside the United Kingdom under the law of that territory with respect to the distribution.

Until April 2016, UK resident shareholders other than companies were subject to income tax on the distribution received plus a deemed tax credit. The deemed tax credit attaching to dividends equaled  $\frac{1}{9}$  of the net dividend. Under several of the United Kingdom's double tax treaties, a foreign shareholder in a UK company could claim payment of part or all of this deemed tax credit that would have been available to a UK individual. However, in most cases, the benefit was eliminated or reduced to a negligible amount. Effective from 6 April 2016, the deemed tax credit was abolished for UK individuals, and therefore, the treaty benefit is denied in full.

**Interest.** Interest payments on "short loans" (loans with a duration that cannot exceed 364 days) may be made without the need to account for withholding tax. All interest payments by UK resident companies may be made without the imposition of withholding tax if the paying company reasonably believes that the interest is subject to UK corporation tax in the hands of the recipient. See Section E for a summary of the UK's rules on tax deductions for interest payments.

**Foreign tax relief.** Foreign direct tax on income and gains of a UK resident company other than that relating to a non-UK branch for which an exemption election has been made (see *Corporate income tax*) may be credited against the corporation tax on the same profits. The foreign tax relief cannot exceed the UK corporation tax charged on the same profits.

If a company receives a dividend from a foreign company in which it has at least 10% of the voting power, it may also obtain relief for the underlying foreign tax on the profits out of which the dividend is paid. Foreign tax relief does not apply if the dividend satisfies the conditions for the dividend exemption, unless an election is made (see *Dividends*).

### C. Determination of trading income

**General.** The assessment is based on financial statements prepared in accordance with generally accepted accounting principles (GAAP), subject to certain adjustments and provisions. Effective from 1 January 2015, most UK entities (with limited exceptions) must report either under International Financial Reporting Standards or under Financial Reporting Standards in the United Kingdom and Republic of Ireland (either FRS 101 or 102).

In general, expenses must be incurred wholly and exclusively for the purposes of the trade. However, specific reliefs and prohibitions exist for certain expenses. For example, no deduction is allowed for entertainment expenses, except for the entertaining of company employees (in certain circumstances).

**Corporate and government debt and foreign-exchange differences.** The rules under the “loan relationships” regime are designed to allow the tax treatment of interest, discounts and premiums on debt instruments to follow the accounting treatment in most circumstances. However, the regime includes many anti-abuse measures as well as other measures, which can restrict the allowable deductions (for further details, see Section E).

Foreign-exchange differences on most items are taxable or relievable when they are recognized in the profit-and-loss account. Specific rules apply to foreign-exchange differences arising on loans that hedge exchange risk on shareholdings.

**Inventory.** Inventory is normally valued at the lower of cost or net realizable value. Cost must be determined on a first-in, first-out basis; the last-in, first-out basis is not currently acceptable under UK GAAP.

**Provisions.** HMRC allows specific provisions made in accordance with GAAP to be deductible for tax purposes unless specific legislation provides to the contrary. However, no expenditure may be relieved more than once.

**Leased assets.** If leases of plant or machinery function essentially as financing transactions (long-funding leases), they are taxed as such and the following rules apply:

- The lessor includes only the finance element of the rentals arising under the lease income.
- The lessee deducts only the finance element of the rentals payable over the life of the lease and is entitled to capital allowances.



This regime applies to finance leases and certain operating leases. With the exception of some hire-purchase transactions, leases of less than five years are not affected.

### **Tax depreciation (capital allowances)**

Capital allowances are usually subject to recapture on the disposal of an asset on which capital allowances have been claimed.

*Plant and machinery.* Expenditure on plant and machinery bought after April 2009 is pooled together (the main pool) and allowances are given at 18% on a reducing-balance basis. Assets with a useful life of 25 years or more (long-life assets) are depreciated at 8% on a reducing-balance basis. Integral features to a building also qualify for the 8% rate of capital allowances. An annual investment allowance (AIA) of 100% is available and applies to the first GBP200,000 of investment in plant and machinery (other than cars) by all businesses, regardless of size. One AIA is available to each individual business or corporate group.

*Cars.* The capital allowances rules for cars are based on their CO<sub>2</sub> emissions per kilometer driven. A 100% first-year allowance rate applies to expenditure incurred on or before 31 March 2021 on electric cars and cars with CO<sub>2</sub> emissions of 75g/km or less (50g/km for expenditure incurred on or after 1 April 2018). Cars emitting between 75g/km (50g/km from 1 April 2018) and 130g/km (110g/km from 1 April 2018) are added to the main pool, and the 18% rate applies. Cars emitting above 130g/km (110g/km from 1 April 2018) are added to the special-rate pool, and the 8% rate applies. For leased cars with CO<sub>2</sub> emissions above 130g/km (110g/km from 1 April 2018), 15% of the lease cost is disallowed for tax purposes. The 100% first-year allowance rate does not apply to cars that will be leased. Car leases that start before 1 April 2018 remain subject to the current thresholds.

*Energy-saving assets.* A 100% first-year allowance is available to businesses for expenditure on gas-refueling infrastructure, water-efficient technologies and energy-saving technologies. Lists of qualifying technologies are reviewed regularly.

*Renovation of business premises in disadvantaged areas.* A 100% first-year allowance that was available to companies and individuals for certain expenditure on the conversion, renovation or repair of a commercial building or structure located in a designated disadvantaged area, ended on 31 March 2017 for companies and on 5 April 2017 for individuals.

*Industrial and agricultural buildings.* Allowances for industrial buildings and agricultural buildings were fully withdrawn on 1 April 2011.

*Other.* Capital allowances are also available for certain other types of expenditure, such as expenditure on mineral extraction and dredging.

### **Relief for losses**

*Trading Losses.* Trading losses may be used to relieve other income and capital gains of the year in which the loss was incurred and of the preceding year, provided the same trade was then carried on. Losses may also be carried forward without time limit for relief against future profits from the same trade. The use of

losses that are carried forward as at 31 March 2015 by banks was restricted from that date to an offset of a maximum of 50% of profits and further restricted from 31 March 2016 to 25%. Anti-avoidance provisions exist to prevent the offset of losses carried forward in arrangements that are principally tax driven. A company that ceases trading may carry back trading losses and offset them against profits of the preceding 36 months.

New legislation on corporation tax loss relief has been introduced with effect for accounting periods beginning on or after 1 April 2017 (accounting periods straddling 1 April 2017 being deemed to be split into two for this purpose). The new rules increase groups' flexibility to use carried-forward losses, but restrict the amount of losses that can be used in any one year. They provide the following:

- Losses arising in accounting periods beginning on or after 1 April 2017 can be carried forward and offset against total profits of the company and group, rather than being restricted to particular types of income. However, losses arising prior to 1 April 2017 remain subject to existing restrictions as to the profits against which they can be offset.
- The amount of annual profit incurred in accounting periods beginning on or after 1 April 2017 that can be relieved by brought forward losses (whether arising before or after 1 April 2017) is limited to 50% from 1 April 2017, subject to a GBP5 million allowance per "group" ("group" for this purpose is determined using concepts similar to those in the definition found in the group relief rules but with key differences). No new restrictions are imposed on the carryback of losses, and groups have full discretion as to how the GBP5 million allowance is used within the group.

Losses for the purposes of the new rules mean trading losses, non-trading loan relationship deficits, UK property losses, management expenses and non-trading losses on intangible fixed assets.

*Non-trading losses.* Relief is also available for non-trading deficits and management expenses. Specific rules provide how such losses can be used or carried forward and the order in which they can be used.

**Groups of companies.** UK law does not provide for tax consolidation. However, a trading loss incurred by one company within a 75%-owned group of companies may be grouped with profits for the same period realized by another member of the group. Similar provisions apply in certain consortium situations to allow a transfer of a proportion of the losses; for this purpose, a UK resident company is owned by a consortium if 75% or more of its ordinary share capital is owned by other companies, none of which individually has a holding of less than 5%. However, the consortium-owned company must not be a 75%-owned subsidiary of any company. In both situations, anti-avoidance provisions that aim to prevent artificial arrangements exist.

Capital losses cannot be grouped with capital gains of other group members under the above provisions. However, the seller of an asset and another group company may jointly elect to transfer a capital gain or allowable loss to enable offset of capital gains and

capital losses. A transferred capital loss can be carried forward in the transferee company.

In a capital gains worldwide group (a 75% group but with some differences from the 75% group for group relief purposes), the transfer of assets between group companies does not result in a capital gain if the companies involved are subject to UK corporation tax. The transferee company assumes the transferor's original cost of the asset plus subsequent qualifying expenditure and indexation. However, under an anti-avoidance provision, if the transferee company leaves the group within six years after the date of the transfer of the asset, that company is deemed to have disposed of and reacquired the asset at its market value immediately after the transfer. In certain circumstances, the chargeable gain or allowable loss that arises is added to or deducted from the proceeds of a share sale that caused the company to leave the group in the first place. The resulting gain or loss can then potentially be exempted or disallowed under the SSE (see *Capital gains*). If this provision does not apply, the gain or loss remains in the company that has left the group, but the gain or loss can be transferred by election to another company in the group. Anti-avoidance provisions that aim to prevent artificial arrangements exist.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT); on any supply of goods or services, other than an exempt supply, made in the United Kingdom by a taxable person in the course of business (for businesses established in the United Kingdom only); taxable if annual supplies exceed GBP85,000	0%/5%/20%
Stamp duty; imposed on transfers of shares, securities and interests in certain partnerships; duty charged on the stampable consideration	0.5%
Stamp duty land tax (SDLT); imposed on transfers of land and buildings and certain partnership transactions; tax is charged on the final consideration, but this may be replaced by market value in certain circumstances (not applicable in Scotland and, from 1 April 2018, Wales; see Land and Buildings Transaction Tax [LBTT] in Scotland and Land Transaction Tax [LTT] in Wales below)	
Residential property (SDLT is charged at increasing rates for each portion of the price paid)	
Portion up to GBP125,000	0%
Portion between GBP125,001 and GBP250,000	2%
Portion between GBP250,001 and GBP925,000	5%
Portion between GBP925,001 and GBP1,500,000	10%
Portion above GBP1,500,000	12%

Nature of tax	Rate
Acquisitions by companies and certain other bodies	
Consideration up to GBP500,000	Rates as above
Consideration exceeding GBP500,000	15% on total
Nonresidential or mixed-use property (SDLT is charged at a single rate for the entire price of a property.)	
Up to GBP150,000	0%
GBP150,001 to GBP250,000	2%
More than GBP250,000	5%
LBTT; in Scotland, LBTT has replaced SDLT from 1 April 2015 on the acquisition by individuals and companies of residential and nonresidential land and buildings; charged at increasing rates for each portion of the price paid	
Residential property	
Portion up to GBP145,000	0%
Portion between GBP145,001 and GBP250,000	2%
Portion between GBP250,001 and GBP325,000	5%
Portion between GBP325,001 and GBP750,000	10%
Portion above GBP750,000	12%
Nonresidential or mixed-use property	
Portion up to GBP150,000	0%
Portion between GBP150,001 to GBP350,000	3%
Portion above GBP350,000	4.5%
LTT; in Wales, LTT replaces SDLT from 1 April 2018 on the acquisition by individuals and companies of residential and nonresidential land and buildings; charged at increasing rates for each portion of the price paid; the rates are shown below	
Residential property	
Portion up to GBP180,000	0%
Portion between GBP180,001 and GBP250,000	3.5%
Portion between GBP250,001 and GBP400,000	5%
Portion between GBP400,001 and GBP750,000	7.5%
Portion between GBP750,001 and GBP1,500,000	10%
Portion above GBP1,500,000	12%
Nonresidential or mixed-use property	
Portion up to GBP150,000	0%
Portion between GBP150,001 and GBP250,000	1%
Portion between GBP250,001 and GBP1,000,000	5%
Portion above GBP1,000,000	6%
Social security contributions, on employees' salaries and wages; payable on weekly wages by	
Employer; imposed on employees' weekly wages exceeding GBP157	13.8%
Employee; imposed on employees' weekly wages	
On first GBP157 (GBP162 from April 2018)	0%
On next GBP709 (GBP730 from April 2018)	12%
On balance of weekly wage	2%

Nature of tax	Rate
Bank levy; based on the total chargeable equity and liabilities (subject to various exclusions) as reported in relevant balance sheets at the end of a chargeable period; a half-rate applies to long-term amounts and a nil rate allowance is granted for the first GBP20 billion (2018 rates)	0.16%/0.08%
Annual tax on enveloped dwellings; a UK-wide levy on certain higher value residential property held by companies and partnerships with a corporate member; several reliefs are available to exempt genuine property development and investment rental businesses from the tax; the tax is levied at a flat rate per year	
Properties worth between GBP500,000 and GBP1 million	GBP3,500
Properties worth more than GBP1 million and not more than GBP2 million	GBP7,050
Properties worth more than GBP2 million and not more than GBP5 million	GBP23,550
Properties worth more than GBP5 million and not more than GBP10 million	GBP54,950
Properties worth more than GBP10 million and not more than GBP20 million	GBP110,100
Properties worth more than GBP20 million	GBP220,350

## E. Miscellaneous matters

**Foreign-exchange controls.** Foreign-exchange regulations were suspended in 1979 and subsequently abolished. No restrictions are imposed on inward or outward investments. The transfer of profits and dividends, loan principal and interest, royalties and fees is unlimited. Nonresidents may repatriate capital, together with any accrued capital gains or retained earnings, at any time, subject to company law or tax considerations.

**Anti-avoidance legislation.** UK tax law contains many anti-avoidance provisions, which include the substitution of an arm's-length price for intercompany transactions (including intercompany debt) with UK or foreign affiliates, the levy of an exit charge on companies transferring a trade or their tax residence from the United Kingdom and the recharacterization of income for certain transactions in securities and real property. Some of these anti-avoidance provisions apply only if the transaction is not carried out for bona fide commercial reasons.

In certain situations, legislation provides a facility for an advance clearance to be obtained from HMRC. If legislation does not provide this facility and if uncertainty exists as to the tax treatment for a transaction, a non-statutory clearance facility exists under which companies may apply to HMRC in advance of the transaction for a written confirmation of HMRC's view on how the tax law will apply to the transaction. HMRC undertakes to provide advance clearance within 28 days if evidence exists that the transaction is genuinely contemplated. It also aims to respond within this time period if certainty is sought for a transaction that has already taken place. HMRC does not provide clearance if it

believes that the arrangements are primarily intended to obtain a tax advantage.

The United Kingdom has implemented a system requiring the disclosure of certain transactions and arrangements to HMRC. As a direct result of this disclosure regime, tax-planning schemes are sometimes disclosed in advance to HMRC.

A general anti-abuse rule (GAAR) entered into force on 17 July 2013. The GAAR targets artificial and abusive tax-avoidance schemes and applies to the main taxes but not VAT.

**Anti-hybrid rules.** The previous rules counteracting structures involving hybrid entities or instruments (the anti-arbitrage rules) have been replaced with broader anti-hybrid rules from 1 January 2017 in response to Action 2 of the Base Erosion and Profit Shifting (BEPS) project of the Organisation for Economic Co-operation and Development (OECD). The rules effectively target deduction or non-inclusion or double deduction mismatches resulting from hybrid entities or instruments, dual-resident companies or companies with permanent establishments. The rules also cover imported mismatches. This is a situation in which the UK corporate taxpayer is not directly party to a relevant mismatch, but such a mismatch exists within a wider arrangement. Unlike the previous anti-arbitrage rules, the new rules do not contain a purpose test, and it is only necessary for it to be reasonable to suppose that the mismatch arises as a result of the specified features.

In deduction or non-inclusion cases, the mismatches are countered by the following:

- Disallowing a deduction if the payer is within the charge to UK corporation tax
- In cases in which the United Kingdom is the payee jurisdiction, taxing the income if it is reasonable to assume that the deduction has not been counteracted by equivalent rules outside the United Kingdom

In cases in which a double deduction is in more than one territory, the outcome depends on the structure and whether the other territory takes action. However, the rules often result in the United Kingdom denying a deduction unless the deduction is offset against dual-inclusion income.

**Royalty withholding tax.** From 16 March 2016, a new rule applies to deny the benefit of double tax treaties if connected-party arrangements have as a main purpose, or one of the main purposes, the avoidance of withholding tax on intellectual property (IP) royalty payments. In addition, from 28 June 2016, the definition of IP royalties for the purposes of determining whether income tax should be withheld at source has been broadened. The rules have also been extended to treat as UK source and subject to withholding tax, IP royalty payments paid by a nonresident company in connection with a UK permanent establishment. If such royalty payments are made in connection with an avoided permanent establishment, a diverted profits tax charge is imposed (see *Diverted profits tax*).

The UK government has announced that legislation will be introduced, with effect from April 2019, which will extend the royalty rules so that any payment for the exploitation of certain IP or

other rights made in connection with UK sales to a connected party in a jurisdiction with which the United Kingdom does not have a double tax treaty will be subject to tax, even if the group has no taxable presence in the UK. The payments caught by the measure will be wider than those within the existing royalty definition but will not include services. The legislation will contain anti-abuse rules including provisions targeting arrangements put in place before April 2019, with a view to circumventing the new rules after that date.

**Transfer pricing.** UK tax law contains measures that substitute an arm's-length price for certain intercompany transactions with UK or foreign affiliates. Companies are required to prepare their tax returns in accordance with the arm's-length principle, and retain adequate records or other documentation to support their compliance with that principle, or otherwise suffer substantial penalties. These rules have other far-reaching consequences, and taxpayers should seek specific advice concerning their circumstances.

If both parties to a transaction are subject to UK corporation tax, and one is required to increase its taxable profits in accordance with the arm's-length principle, the other is usually allowed to decrease its taxable profits through a corresponding adjustment. Companies that were dormant as of 31 March 2004 and remain dormant are exempt from the transfer-pricing rules. Although small and medium-sized companies (unless they elect otherwise) are exempt from the rules with respect to transactions with persons in qualifying territories (broadly, the United Kingdom and those countries with which the United Kingdom has entered into a double tax treaty containing a non-discrimination article), they can be subject to the issuance of a transfer-pricing notice by HMRC. However, for small companies, this notice can be issued only if the company has undertaken a non-arm's-length transaction with an affiliate that is taken into account in determining profits under the Patent Box regime (see *Patent Box*).

Persons that are otherwise independent but collectively control a business and have acted together with respect to the financing arrangements for the business are also subject to the UK transfer-pricing regime.

**Interest restrictions.** The United Kingdom's transfer-pricing measures apply to the provision of finance (as well as to trading income and expenses). As a result, companies must self-assess their tax liability on financing transactions using the arm's-length principle. Consequently, HMRC may challenge interest deductions on the grounds that, based on all of the circumstances, the loan would not have been made at all or that the amount loaned or the interest rate would have been less, if the lender was an unrelated third party acting at arm's length.

New rules are in effect for financial periods beginning on or after 1 April 2017 (periods straddling 1 April 2017 being deemed to be split into two for this purpose). Under the new rules, the amount of relief for interest is capped at the lower of 30% of taxable earnings before interest, depreciation and amortization (EBITDA) in the United Kingdom or the modified debt cap (the fixed ratio rule). This is tighter than the previous and now-repealed Worldwide Debt Cap and provides that a group's net tax-interest

amounts in the United Kingdom cannot exceed the global net adjusted interest expense of the group. Alternatively, groups can elect for the restriction to be based on the ratio of net interest (excluding interest paid to related parties) to accounting EBITDA for the worldwide group as opposed to UK taxable EBITDA (the group ratio rule, which is also subject to a modified debt cap). If a group's net tax-interest expense exceeds its interest capacity, the excess interest is disallowed. However, the excess interest can be carried forward indefinitely (in the company in which it was disallowed) and treated as if it were an amount of interest in a subsequent period. If a group has spare capacity, it can carry this forward for up to five years. Restricted interest or spare capacity cannot be carried back.

Notwithstanding the above rules, groups may always deduct net tax-interest expense of up to GBP2 million per year (subject to existing anti-avoidance and thin-capitalization provisions).

**Controlled foreign companies.** The controlled foreign company (CFC) regime was significantly revised in 2012, effective for accounting periods beginning on or after 1 January 2013. The regime applies to non-UK resident companies that are controlled by UK residents. Similar rules apply to non-UK branches of UK resident companies for which an exemption election has been made.

The regime is similar to the prior regime in that, if a CFC has profits that do not meet any of the exemptions, those profits are taxed on any UK resident companies having a 25% or more interest in the CFC. However, the regime is much more focused on identifying artificial diversion of profits out of the United Kingdom. Consequently, it is necessary to examine a company's income on a source-by-source basis to determine whether it falls within one of the "gateways," or whether one of the entity exemptions apply.

The following are the five "gateways," which must all be considered:

- Profits attributable to UK activities
- Non-trading finance profits
- Trading finance profits
- Captive insurance business
- Solo consolidation (for banking subsidiaries), which allows a UK bank to treat the foreign company as it were a division of the UK bank

For each gateway test, it is necessary to establish whether the test applies, and then determine which profits pass through the gateway and are chargeable profits of the CFC. Such profits are then subject to apportionment to the appropriate UK resident shareholders. Profits that fall outside one gateway may still fall within one of the others.

Several safe harbors and specific exemptions exist with respect to the gateways, intended to narrow the scope to only artificially diverted profits. In particular, a company may make a claim that between 75% and 100% of profits arising from certain "qualifying loan relationships" are exempt, but this is currently being considered in the context of the EU state-aid provisions.



The entity-level exemptions apply if any of the following circumstances exist:

- The CFC's local tax liability is 75% or more of the equivalent UK liability.
- The CFC has low profits or a low-profit margin.
- The CFC is resident in certain qualifying territories.
- A foreign company has become a CFC for the first time (in certain circumstances).

**Diverted profits tax.** The diverted profits tax (DPT) is an anti-avoidance measure, which is effective from 1 April 2015. It is aimed at perceived abuse in certain circumstances involving “insufficient economic substance” somewhere in the supply chain or avoided UK permanent establishments. The DPT is separate from the corporation tax and is imposed at the rates listed below, on profits diverted from the United Kingdom, broadly in the following situations:

- A different transfer-pricing outcome allocating more profits to the United Kingdom and less to a low-tax entity would have resulted had all the facts, including the full supply chain and the activities undertaken by each entity in that chain, been considered.
- An alternative transaction would have been entered into in the absence of tax considerations, and it would have resulted in more taxable profits in the United Kingdom and less in a low-tax entity.
- A UK resident or nonresident carries on an activity in the United Kingdom in connection with the supply of goods, services or property by a non-UK trading company, and it is reasonable to assume that the activities are designed to ensure that no permanent establishment is established in the United Kingdom, and certain other conditions are satisfied. An exclusion applies if the total UK-related sales revenues of the company (together with connected companies) that are not already included within the charge to UK corporation tax in a 12-month accounting period are less than GBP10 million. Likewise, an exclusion applies if the total UK-related expenses of the company (together with connected companies) in a 12-month accounting period are less than GBP1 million.

Exclusions apply based on substance and the relative values of the tax and other benefits of the transactions. Transactions are also excluded from DPT if they only give rise to one or more loan relationships and associated hedging derivatives. Notification requirements (which are broader than the tax-levying measures) and a unique charging mechanism are imposed with respect to DPT.

The following are the DPT rates:

- General rate: 25%
- Diverted ring-fence or notional ring-fence profits: 55%
- Diverted profits that would have been subject to the 8% bank surcharge: 33%

**Patent Box.** The Patent Box regime was introduced in 2012, and is effective for accounting periods beginning on or after 1 April 2013. The regime (which is optional) taxes qualifying income relating to patents and certain other IP at a rate of 10%. This rate

was phased in over five years. Therefore, the 10% rate has been available on all qualifying income from patents and certain other IP since 1 April 2017.

The Patent Box regime applies to patents granted by UK and European patent offices and certain other patent offices in the European Economic Area, as well as to patent applications that cannot be published for reasons of national security or public safety. Other innovative IP found in the medicinal, veterinary and agriculture industries is also included, such as regulatory data, marketing exclusivity, supplementary protection certificates and plant variety rights.

The 10% effective tax rate is achieved by creating an additional deduction from taxable profits and applies to all income arising from the patents, including royalties and income from the sale of patents. Significantly, it also applies to profits from the sale of products, services and processes with embedded patents.

Effective from 1 July 2016, the regime was amended in line with the recommendations of the OECD BEPS Action 5 report. For new entrants (new IP or new claimants) after 30 June 2016, an additional requirement is introduced into the regime. This requirement restricts the availability of the 10% tax rate if the claimant company has, to a significant extent, outsourced research and development (R&D) to related parties or has acquired the IP. Qualifying income needs to be divided into substreams and then the nexus fraction applied (broadly based on the amount of R&D performed or outsourced by the company) to each income stream to determine how much income qualifies for the reduced tax rate. Existing IP in the regime as of 30 June 2016 should continue to qualify under the existing regime for up to a further five years.

**Dual-resident companies.** A dual-resident company that is broadly not a trading company loses the right to surrender its losses to fellow group members and is prevented from enjoying certain other reliefs. These rules effectively prevent such dual-resident companies from obtaining double reliefs in both countries of residence.

**Impact of decisions of the Court of Justice of the European Union.** The UK tax system is currently subject to significant external influence in the form of binding decisions rendered by the Court of Justice of the European Union (CJEU). These decisions have held that several UK domestic tax measures are contrary to European Fundamental Freedoms (for example, the decisions in *Marks & Spencer*, *Test Claimants in the Franked Investment Income Group Litigation*, *Cadbury Schweppes* and *Philips Electronics UK Limited*).

New UK legislation has been enacted as a result of cases, such as *Marks & Spencer*, *Cadbury Schweppes* and *Philips Electronics*. Also, UK legislation has been amended following CJEU decisions that concern the tax system in another EU member state, if an equivalent tax provision exists in UK domestic law (for example, *National Grid Indus BV*).

The impact of future CJEU decisions and the application of existing CJEU decisions is being discussed as part of the process of the UK leaving the EU. It is likely that existing CJEU decisions

will be binding UK law (in the same way as UK Supreme Court decisions) and that future decisions may be either binding in certain areas or otherwise taken into account by the UK courts.

**Devolution of tax powers.** Legislation enabling devolution of some corporation tax powers to the Northern Ireland Assembly was enacted during 2015, and will take effect on a date to be determined by statutory instrument. A Northern Ireland corporate tax rate of 12.5% from April 2018 has been proposed. Although certain tax-raising powers have been devolved to the Scottish Parliament and Welsh Assembly, power over corporation tax has not been devolved.

## F. Treaty withholding tax rates

The rates in the table below reflect the lower of the treaty rate and the rate under domestic tax law. The table is for general guidance only.

Under UK domestic law, withholding tax is not imposed on dividends.

Under an EU directive, payments of interest and royalties made between, broadly, associated companies resident in EU member states are exempt from withholding tax. Numerous conditions and transitional rules apply, including some that delay the application of the rules for several years. New legislation may be needed in the United Kingdom to reflect that fact that when the United Kingdom leaves the EU, the directive will no longer apply. In principle, it is expected that payments by UK companies of royalties to EU member states will be subject to the individual double tax treaties between the countries.

Anti-avoidance provisions may also restrict treaty benefits in certain circumstances.

Residence of recipient	Payments by UK companies of		
	Dividends (a)	Interest (b) %	Royalties (b) %
Albania	0	0/6 (x)	0
Algeria	0	0/7 (x)	10
Antigua and Barbuda	0	20	0
Argentina	0	0/12 (h)	3/5/10/15 (i)
Armenia	0	5	5
Australia	0	0/10 (k)(v)	5
Austria	0	0	0/10 (y)
Azerbaijan	0	0/10	5/10 (j)
Bahrain	0	0 (t)	0
Bangladesh	0	7.5/10 (k)	10
Barbados	0	0	0
Belarus	0	0	0
Belgium	0	0/10 (u)	0
Belize	0	20	0
Bolivia	0	0/15	15
Bosnia and Herzegovina (o)	0	10	10
Botswana	0	0/10	10
Brunei Darussalam	0	20	0
Bulgaria	0	5	5

Residence of recipient	Payments by UK companies of		
	Dividends (a)	Interest (b) %	Royalties (b) %
Canada	0	0/10	0/10 (a)
Chile	0	5/15 (b)	5/10 (f)
China	0	0/10	6/10 (r)
Côte d'Ivoire	0	0/15	10
Croatia (o)	0	5	5
Cyprus	0	10	0/5 (c)
Czech Republic	0	0	0/10 (d)
Denmark	0	0	0
Egypt	0	0/15	15
Estonia	0	0/10	5/10 (f)
Ethiopia	0	0/5 (v)	7.5
Falkland Islands	0	0	0
Faroe Islands	0	0	0
Fiji	0	10	0/15 (j)
Finland	0	0	0
France	0	0	0
Gambia	0	0/15 (v)	12.5
Georgia	0	0	0
Germany	0	0	0
Ghana	0	0/12.5 (v)	12.5
Greece	0	0	0
Grenada	0	20	0
Guernsey	0	20	20
Guyana	0	0/15 (v)	10/20 (n)
Hong Kong SAR	0	0	3
Hungary	0	0	0
Iceland	0	0	0/5
India	0	0/10/15 (k)(v)	10/15 (f)
Indonesia	0	0/10 (v)	10/15 (f)
Ireland	0	0	0
Isle of Man	0	20	20
Israel	0	15	0/15 (n)
Italy	0	0/10 (v)	8
Jamaica	0	12.5 (v)	10
Japan	0	0/10 (c)	0
Jersey	0	20	20
Jordan	0	0/10 (v)	10
Kazakhstan	0	0/10 (v)	10
Kenya	0	0/15 (v)	15
Kiribati	0	20	0/20 (q)
Korea (South)	0	0/10 (v)	2/10 (e)
Kosovo	0	0	0
Kuwait	0	0	10
Latvia	0	0/10 (v)	5/10 (f)
Lesotho	0	0/10 (v)	10
Libya	0	0	0
Liechtenstein	0	0	0
Lithuania	0	0/10 (v)	5/10 (f)
Luxembourg	0	0	5
Macedonia (o)	0	0/10 (u)	0
Malawi	0	0/20 (l)	0/20 (l)
Malaysia	0	0/10 (v)	8
Malta	0	0/10 (v)	10
Mauritius	0	0/20 (k)(v)	15

Residence of recipient	Payments by UK companies of		
	Dividends (a)	Interest (b) %	Royalties (b) %
Mexico	0	0/5/10/15	10
Moldova	0	0/5 (k)(v)	5
Mongolia	0	0/7/10 (k)(v)	5
Montenegro (o)	0	10	10
Montserrat	0	20	0
Morocco	0	0/10 (v)	10
Myanmar (Burma)	0	20	0
Namibia	0	20	0/5 (j)
Netherlands	0	0	0
New Zealand	0	0/10 (v)	10
Nigeria	0	0/12.5 (v)	12.5
Norway	0	0	0
Oman	0	0	8
Pakistan	0	0/15 (v)	12.5
Panama	0	0/5 (w)	5
Papua New Guinea	0	0/10 (v)	10
Philippines	0	0/10/15 (m)(v)	15/25 (p)
Poland	0	0/5 (v)	5
Portugal	0	10	5
Qatar	0	0	5
Romania	0	10	10/15 (j)
Russian Federation	0	0	0
St. Kitts and Nevis	0	20	0
Saudi Arabia	0	0	5/8 (e)
Senegal	0	0/10 (bb)	10 (aa)
Serbia (o)	0	10	10
Sierra Leone	0	20	0
Singapore	0	0/5 (k)(v)	8 (c)
Slovak Republic	0	0	0/10 (d)
Slovenia (o)	0	0/5 (u)	5
Solomon Islands	0	20	0
South Africa	0	0	0
Spain	0	0	0
Sri Lanka	0	0/10 (k)	0/10 (s)
Sudan	0	15	10
Swaziland	0	20	0
Sweden	0	0	0
Switzerland	0	0	0
Taiwan	0	0/10 (v)	10
Tajikistan	0	10	7
Thailand	0	0/10/25 (k)(v)	5/15 (j)
Trinidad and Tobago	0	0/10 (v)	0/10 (j)
Tunisia	0	10/12 (k)	15
Turkey	0	0/15 (v)	10
Turkmenistan	0	10	10
Tuvalu	0	20	0
Uganda	0	0/15 (v)	15
Ukraine	0	0	0
United Arab Emirates	0	0 (z)	0
United States	0	0	0
Uruguay	0	10	10
Uzbekistan	0	0/5 (v)	5
Venezuela	0	0/5 (v)	5/7 (g)

## Payments by UK companies of

Residence of recipient	Dividends (a)	Interest (b)	Royalties (b)
		%	%
Vietnam	0	0/10 (v)	10
Zambia	0	10	5
Zimbabwe	0	0/10 (v)	10
Non-treaty jurisdictions	0	20	20

- (a) No withholding tax is imposed on royalties paid for copyrights of literary, dramatic, musical or artistic works (except motion pictures, films, videotapes and certain other items), payments for patents or commercial or industrial experience or payments for the use of computer software.
- (b) The lower rate applies to interest paid with respect to loans from banks and insurance companies, securities quoted on a stock exchange, and certain sales of machinery and equipment.
- (c) The higher rate applies to cinematographic royalties.
- (d) The higher rate applies to industrial, commercial, scientific, technical and technological royalties, and royalties with respect to patents, trademarks, designs or models, plans, and secret formulas or processes.
- (e) The lower rate applies to payments for the use of, or right to use, industrial, commercial or scientific equipment. The higher rate applies to other royalties.
- (f) The lower rate applies to payments for the use of industrial, commercial or scientific equipment. The higher rate applies to other royalties.
- (g) The 5% rate applies to royalties for patents, trademarks or processes as well as to royalties for know-how concerning industrial, commercial or scientific experience. The 7% rate applies to royalties for copyrights of literary, artistic or scientific works.
- (h) The standard rate of withholding tax on interest is 12%. Interest is exempt from withholding tax if any of the following apply:
- The state is the payer of the interest.
  - The interest is paid on a loan made, guaranteed or insured by the other contracting state.
  - The interest is paid on a loan granted by a bank to an unrelated party at preferential rates and the loan is repayable over a period of not less than five years.
  - The interest is paid on a debt resulting from either of the following:
    - Sales on credit of industrial, commercial or scientific equipment by a resident of the other contracting state (excluding sales between related persons).
    - Purchases of industrial, commercial or scientific equipment financed through a leasing contract.
- (i) The 3% rate applies to royalties for the right to use news. The 5% rate applies to royalties for copyrights of artistic works (excluding motion picture films and television). The 10% rate applies to royalties for patents or payments for industrial experience, including the rendering of technical assistance. The 15% rate applies to other royalties.
- (j) The lower rate applies to copyright royalties.
- (k) The lower rate (the 7% rate under the Mongolia treaty and the 10% rate under the India and Thailand treaties) applies to interest paid to banks and other financial institutions.
- (l) The higher rate applies if the recipient is a Malawi company that controls more than 50% of the voting power in the UK company that makes the payment.
- (m) The 10% rate applies to interest on listed bonds.
- (n) The higher rate applies to cinematographic, television and radio broadcasting royalties.
- (o) The applicability to Bosnia and Herzegovina of the treaty entered into with the former Yugoslavia is uncertain. The UK tax authorities request that claims for relief be examined by their Tax Treaty Team. The UK tax authorities consider the former Yugoslavia treaty to be applicable to Montenegro and Serbia. New agreements have been entered into with Croatia, Kosovo, Macedonia and Slovenia.
- (p) The lower rate applies to royalties with respect to cinematographic films and films or tapes for television or radio broadcasting.
- (q) The higher rate applies to royalties with respect to mines, quarries or other extractions of natural resources.
- (r) The lower rate applies to the right to use industrial, commercial or scientific equipment.

- (s) The lower rate applies to copyright royalties. The higher treaty rate applies to all other royalties payable with respect to rights granted after the signing of the double tax treaty.
- (t) The 0% rate applies to, among other interest payments, the following:
- Interest paid to the state (or a subdivision), an individual, a pension scheme, a financial institution, a quoted company or an unquoted company if it is less than 25% owned by Bahrain residents, provided that such interest is not paid as part of an arrangement involving back-to-back loans
  - Interest paid by the state (or a subdivision) or a bank, or on a quoted Eurobond
- (u) The lower rate applies to interest on loans between enterprises (20% relationship required in the case of Slovenia), interest paid to a pension scheme (some treaties) or to a state or political subdivision.
- (v) The lowest rate applies, depending on the treaty, to interest paid to a state or political subdivision or the central bank. Some treaties also apply this rate to interest guaranteed by or paid by the state.
- (w) The lower rate applies if any of the following circumstances exists:
- The interest is paid to a state or political subdivision or the central bank.
  - The interest is paid with respect to the sale on credit of merchandise or equipment to an enterprise of either country.
  - The interest is paid as a result of financing provided in connection with agreements concluded between the two governments.
  - The beneficial owner of the interest is a pension scheme.
- (x) The 0% rate applies if any of the following circumstances exists:
- The recipient and beneficial owner of the interest is the other state or the central bank or a political subdivision or local authority thereof, a financial institution or a pension scheme.
  - The interest is paid by the state in which the interest arises or by a political subdivision, or local authority thereof, or the interest is paid with respect to a loan, debt claim or credit that is owed to or made, provided, guaranteed or insured by that state or a political subdivision, local authority or export financing agency thereof.
  - The interest is paid with respect to indebtedness arising as a result of the sale on credit of equipment, merchandise or services.
- (y) The higher rate applies if the Austrian company controls more than 50% of the voting stock in the UK company.
- (z) Qualification for the lower rate may require certification by the relevant competent authority that one of a company's main purposes is not the securing of the treaty relief.
- (aa) An adjusted amount (60% of the gross amount of the royalties) is subject to the 10% rate with respect to the right to use industrial, commercial or scientific equipment.
- (bb) The 0% rate applies if the recipient of the interest is the government of the other state, its political subdivisions or local authorities thereof.

The United Kingdom has also entered into tax treaties with Brazil, British Virgin Islands, Cameroon, Cayman Islands, Congo (Democratic Republic of), Iran and Lebanon. These treaties do not have articles covering dividends, interest or royalties. Payments to these countries are subject to withholding tax at the non-treaty countries' rates set forth in the above table.

The United Kingdom also has new treaties, amendments or protocols to treaties with Belgium, Colombia, Cyprus, Kyrgyzstan, Lesotho, Switzerland, Ukraine and Uzbekistan, which are signed but not yet in force.

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## A. At a glance

Corporate Income Tax Rate (%)	21 (a)
Corporate Capital Gains Tax Rate (%)	21
Branch Tax Rate (%)	21 (a)
Withholding Tax (%) (b)	
Dividends	30 (c)
Interest	30 (c)(d)
Royalties from Patents, Know-how, etc.	30 (c)
Branch Remittance Tax	30 (e)
Net Operating Losses (Years)	
Carryback	0 (f)
Carryforward	Unlimited (f)

- (a) The 21% rate is effective for tax years beginning after 31 December 2017. In addition, many states levy income or capital-based taxes. A base erosion minimum tax is also imposed on corporations. See Section B.
- (b) Rates may be reduced by treaty.
- (c) Applicable to payments to non-US corporations and nonresidents.
- (d) Interest on certain “portfolio debt” obligations issued after 18 July 1984 and non-effectively connected bank deposit interest are exempt from withholding tax.
- (e) This is the branch profits tax applicable to non-US corporations (see Section D).
- (f) A net operating loss deduction is generally limited to 80% of taxable income. Special rules apply to certain types of losses and entities. For details, see Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** US corporations are subject to US federal taxation on their worldwide income, including income of foreign branches and certain income of their foreign subsidiaries (regardless of whether such income is repatriated to the United States in the year in which it is earned). If certain conditions are met, a US corporation is allowed a 100% deduction against the foreign-source portion of dividends received from certain foreign subsidiaries, including any gain from the sale or exchange of stock in a foreign subsidiary that is treated as a dividend under Section 1248 of the Internal Revenue Code (IRC).

In general, foreign corporations are subject to US taxation on income that is effectively connected with a US trade or business and on certain other US-source income. However, if the foreign corporation is resident in a country having an income tax treaty with the United States and is eligible to claim the benefits of that treaty, only the foreign corporation’s business profits that are attributable to a permanent establishment in the United States are subject to US taxation and the rate of tax on certain other US-source income may be reduced.

**Rates of corporate tax.** For tax years beginning after 31 December 2017, a corporation’s taxable income is taxed at 21%. This rate applies both to US corporations and to the income of foreign corporations that is effectively connected with a US trade or business. Special rules under Section 15 of the IRC apply to US corporations with certain fiscal tax years to account for the corporate rate change.

**Base erosion and anti-abuse tax.** The base erosion and anti-abuse tax (BEAT) is a minimum tax on corporations that are subject to US corporate income tax and that meets certain gross receipts

and base erosion percentage thresholds. The BEAT amount is the excess, if any, of an amount equal to a 10% (5% for tax years beginning in the 2018 calendar year and 12.5% for tax years beginning after 31 December 2025) of modified taxable income (MTI) over an amount equal to the regular tax liability of the taxpayer reduced by certain credits (including the foreign tax credit). In general, MTI means taxable income calculated without regard to any base erosion tax benefits (for example, current expenses or cost-recovery deductions) generated from base erosion payments and the base erosion percentage of certain net operating loss deductions. Base erosion payments include most deductible payments to foreign related persons, including payments for services, for the use of property and for depreciable or amortizable property. Base erosion payments generally do not include costs of goods sold, with exceptions.

**Capital gains and losses.** A corporation's gains are taxed at the same rates as ordinary income. In general, capital losses may offset only capital gains, not ordinary income. Subject to certain restrictions, a corporation's excess capital loss may be carried back three years and forward five years to offset capital gains in such other years.

**Administration.** The annual tax return for domestic corporations is due by the 15th day of the third month after the close of the company's tax year for tax years beginning before 2016, and by the 15th day of the fourth month after the close of the company's tax year for tax years beginning after 2015. A corporation is entitled, upon request, to an automatic six-month extension to file its return. In general, 100% of a corporation's tax liability must be paid through quarterly estimated tax installments during the year in which the income is earned. The estimated tax payments are due on the 15th day of the 4th, 6th, 9th and 12th months of the company's fiscal year.

**Credit for foreign taxes.** A credit is allowed for foreign income taxes paid, or deemed paid, by US corporations, but the credit is generally limited to the amount of US tax incurred on the foreign-source portion of a company's worldwide taxable income. Separate limitations must also be calculated for passive income, "general" category income, foreign branch income, global intangible low-taxed income (GILTI; see Section C) and income resourced under a treaty.

### C. Determination of taxable income

**General.** Income for tax purposes generally is computed according to certain statutory tax provisions (for example, Sections 451 and 461 of the IRC) and underlying regulations. Consequently, taxable income typically does not equal income for financial reporting purposes.

In general, a deduction is permitted for ordinary and necessary trade or business expenses. However, expenditures that create an asset having a useful life longer than one year (and not eligible for certain exceptions, such as those relating to the bonus depreciation deduction for qualified depreciable tangible property and eligible de minimis items) may need to be capitalized and recovered over an appropriate period.

**Depreciation.** A depreciation deduction is available for most tangible property (except land) used in a trade or business or held for the production of income, such as rental property. Tangible depreciable property that is used in the United States and placed in service after 1986 is generally depreciated under prescribed recovery periods pursuant to the Modified Accelerated Cost Recovery System (MACRS). In general, under the MACRS, each class is assigned a recovery period and a depreciation method. Significantly, under tax reform legislation effective for tax years beginning in 2018, a 100% first-year bonus depreciation deduction is allowed for certain qualified property acquired and placed in service after 27 September 2017 and before 1 January 2023. Qualified property generally includes tangible property with a recovery period of 20 years or less under MACRS (subject to certain significant exceptions related to designated types of real property improvements), provided the certain statutory requirements are met.

After 2022, the rate of bonus depreciation for qualified property decreases over the next four years to the following rates:

- 80% for property placed in service in 2023
- 60% for property placed in service in 2024
- 40% for property placed in service in 2025
- 20% for property placed in service in 2026

The cost of intangible assets developed by a taxpayer may be amortized over the determinable useful life of an asset. Certain intangible assets, including goodwill, going concern value, patents and copyrights, may generally be amortized over 15 years if they are acquired as part of a business.

Tax depreciation is generally subject to recapture on the sale of a depreciated asset to the extent that the sales proceeds exceed the tax value after depreciation. The amounts recaptured are subject to tax as ordinary income.

**Net operating losses.** If allowable deductions of a US corporation or branch of a foreign corporation exceed its gross income, the excess is called a net operating loss (NOL). With the exception of a two-year carryback for certain losses incurred in the trade or business of farming, NOLs may not be carried back to prior years. However, corporations may generally carry losses forward indefinitely. A net operating loss deduction is generally limited to 80% of taxable income.

**Inventories.** Inventory is generally valued for tax purposes at either cost or the lower of cost or market value. In determining the cost of goods sold, the two most common inventory flow assumptions used are last-in, first-out (LIFO) and first-in, first-out (FIFO). The method chosen must be applied consistently. Uniform capitalization rules require the inclusion in inventory costs of allocable indirect costs.

**Dividends.** In general, dividends received by a US corporation from other US corporations qualify for a 50% dividends-received deduction, subject to certain limitations. The dividends-received deduction is generally increased to 65% of the dividend if the recipient corporation owns at least 20% of the distributing corporation. Dividend payments between members of an affiliated group of US corporations qualify for a 100% dividends-received

deduction. In general, an affiliated group consists of a US parent corporation and all other US corporations in which the parent owns, directly or indirectly through one or more chains, at least 80% of the total voting power and value of all classes of shares (excluding non-voting preferred shares). For distributions made after 31 December 2017, the foreign source-portion of dividends (excluding hybrid dividends) received by a US corporation from certain 10%-owned foreign corporations qualifies for a 100% dividends-received deduction.

**Consolidated returns.** An affiliated group of US corporations (as described in *Dividends*) may elect to determine its taxable income and tax liability on a consolidated basis. The consolidated return provisions generally allow electing corporations to report aggregate group income and deductions. Consequently, the NOLs of some members of the group can, subject to certain limitations, be used to offset the taxable income of other members of the group, and transactions between group members, such as intercompany sales and dividends, are generally deferred or eliminated until there is a transaction outside the group. Under certain circumstances, losses incurred on the sale of consolidated subsidiaries are disallowed.

**Foreign subsidiaries.** Under certain circumstances, undistributed income of a foreign subsidiary controlled by US shareholders is taxed to the US shareholders on a current basis, as if the foreign subsidiary distributed a dividend on the last day of its tax year. This may result if the foreign subsidiary holds “United States property” (including loans to US shareholders) during its tax year or earns certain types of income (Subpart F, including certain passive income and “tainted” business income, and global intangible low-taxed income [GILTI]). In addition (for tax years of foreign corporations beginning after 31 December 2017, and tax years of US shareholders in which or with which such tax years of foreign corporations end), the US shareholder includes in gross income the aggregate net income of its foreign subsidiary that is treated as GILTI. GILTI is broadly the amount of gross income in excess of a deemed return from tangible depreciable assets held by the foreign subsidiaries reduced by certain amounts of interest expense incurred by the foreign subsidiaries and excluding income that is effectively connected with a US trade, Subpart F income, foreign base company high-taxed income, dividends from related parties and foreign oil and gas extraction income.

**Foreign derived intangible income and global intangible low-taxed income deduction.** For tax years beginning after 31 December 2017, a US corporation may deduct 37.5% (21.875% for tax years beginning after 31 December 2025) of its foreign derived intangible income (FDII) and 50% (37.5% for tax years beginning after 31 December 2025) of its GILTI, subject to certain limitations. In general, FDII equals the foreign derived amount of a domestic corporation’s deemed intangible income that is driven, in part, by property and services sold to non-US persons. Deemed intangible income equals deduction-eligible income in excess of a deemed return from tangible depreciable assets held by the domestic corporation.

**Anti-hybrid rules.** For tax years beginning after 31 December 2017, a deduction is denied for any disqualified related-party

amount paid or accrued pursuant to a hybrid transaction (involving payments that are treated as interest or royalties for US tax purposes but not by the recipient's residence country) or by, or to, a hybrid entity (an entity that is fiscally transparent for US tax purposes but not for purposes of the tax law of the resident country, or vice versa).

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Branch profits tax, on branch profits (reduced by reinvested profits and increased by withdrawals of previously reinvested earnings); the rate may be reduced by treaty	30%
Branch interest tax, on interest expense paid by a branch (unless the interest would be exempt from withholding tax if paid by a US corporation); the rate may be reduced by treaty	30%
Personal holding company (PHC) tax, applies to a corporation that satisfies a passive-income test; in addition to regular tax or AMT; imposed on undistributed income	20%
Accumulated earnings tax; penalty tax levied on a corporation (excluding a PHC) accumulating profits to avoid shareholder-level personal income tax; assessed on accumulated taxable income exceeding a calculated amount (at least USD250,000 or USD150,000 for certain personal services corporations)	20%
State and local income taxes, imposed by most states and some local governments	Various
State and local sales taxes, imposed by many states and some local governments	Various
Payroll taxes	
Federal unemployment insurance (FUTA); imposed on first USD7,000 of wages	6.0% and 0.6% (assuming full credit of 5.4%)
Workmen's compensation insurance; provisions vary according to state laws; rates vary depending on nature of employees' activities	Various
Social security contributions (including 1.45% Medicare tax); imposed on	
Wages up to USD128,400 (for 2018); paid by	
Employer	6.2%
Employee	6.2%
All covered wages (for 2018; Medicare tax); paid by	
Employer	1.45%
Employee	1.45%
(Effective from 1 January 2013, an additional Medicare tax of 0.9% applies to wages, tips, other compensation and self-employment income in excess of USD200,000 for taxpayers who file as single or head of household. For married taxpayers	



Nature of tax	Rate
filing jointly and surviving spouses, the additional 0.9% Medicare tax applies to the couple's combined wages in excess of USD250,000. The additional tax applies only to the amount owed by the employee; the employer does not pay the additional tax. Employers withhold tax only on wages in excess of USD200,000.)	

## E. Miscellaneous matters

**Foreign-exchange controls.** The United States currently has no foreign-exchange control restrictions.

**Debt-to-equity rules.** The United States has thin-capitalization principles under which the Internal Revenue Service (IRS) may attempt to limit the deduction for interest expense if a US corporation is thinly capitalized. Extensive rules were promulgated for debt instruments issued after 4 April 2016. In such case, funds loaned to it by a related party may be recharacterized by the IRS as equity. As a result, the corporation's deduction for interest expense may be disallowed, and principal and interest payments may be considered distributions to the related party and be subject to withholding tax as distributions. Certain documentation requirements apply for certain related-party debt instruments issued on or after 1 January 2019. The original effective date of such rules was 1 January 2018, but that date was pushed back by IRS Notice 2017-36. The debt/equity regulations for Section 385 of the IRC were also identified by the US Treasury in Notice 2017-38 as one of the sets of regulations for which action would be taken to "reduce the burden" on taxpayers. The US Treasury released a report in October 2017, detailing its intention to retain the distribution rules in the Section 385 regulations pending tax reform and to replace the current documentation rules with more "streamlined" rules. With the passage of the Tax Cuts and Jobs Act in December 2017, it is not clear whether the Treasury will take action to remove the distribution rules, as they were identified as remaining "pending tax reform."

In addition to the Section 385 regulations, the United States has extensive case law generally applying some type of facts and circumstances test in determining whether a business is thinly capitalized.

The deduction for net interest expense was modified by the Tax Cuts and Jobs Act and now generally applies to limit the deduction for business interest to 30% of adjusted taxable income (ATI). For the first four years, ATI is computed without regard to depreciation, amortization or depletion. Thereafter (beginning in 2022), ATI will be decreased by those items, thereby making the computation 30% of net interest expense exceeding earnings before interest and taxes. Interest expense must be related to a "business," which means the interest must be properly allocable to a trade or business. Certain exceptions apply, including a small business exception, and special rules apply to partnerships for purposes of determining the limitation. Disallowed interest may be carried forward to future years and allowed as a deduction.

In addition, interest expense accrued on a loan from a related foreign lender must be actually paid before the US borrower can deduct the interest expense.

**Transfer pricing.** In general, the IRS may redetermine the tax liability of related parties if, in its discretion, this is necessary to prevent the evasion of taxes or to clearly reflect income. Specific regulations require that related taxpayers (including US persons and their foreign affiliates) deal among themselves on an arm's-length basis. Under the best-method rule included in the transfer-pricing regulations, the best transfer-pricing method is the one that provides the most reliable measure of an arm's-length result, determined based on the facts and circumstances. Transfer-pricing methods that may be acceptable, depending on the circumstances, include the comparable profits method, comparable uncontrolled price method, cost-plus method, resale price method and profit-split method. It is possible to reach transfer-pricing agreements in advance with the IRS.

If the IRS adjusts a taxpayer's tax liability, tax treaties between the United States and other countries usually provide mutual agreement procedures for the allocation of adjustments between related parties in the two countries to avoid double tax.

## F. Treaty withholding tax rates

The following are US withholding tax rates for dividends, interest and royalties paid from the United States to residents of various treaty countries.

	Dividends %	Interest %	Patent and know-how royalties %
Australia	0/5/15 (a)	0/10 (b)	5
Austria	5/15 (c)	0	0
Bangladesh	10/15 (c)	5/10 (d)	10
Barbados	5/15 (c)	5	5
Belgium	0/5/15 (a)	0	0
Bulgaria	5/10 (c)	5	5
Canada	5/15 (c)	0	0/10 (e)
China (mainland)	10	10 (x)	10
Cyprus	5/15 (c)	10	0
Czech Republic	5/15 (c)	0	0/10 (f)
Denmark	0/5/15 (a)	0	0
Egypt	5/15 (c)	15	15
Estonia	5/15 (c)	10	5/10 (g)
Finland	0/5/15 (a)	0	0
France	0/5/15 (a)	0	0 (h)
Germany	0/5/15 (a)	0	0
Greece	30	0/30 (i)	0
Hungary (j)	5/15 (c)	0	0
Iceland	5/15 (c)	0	0/5 (k)
India	15/25 (c)	10/15 (l)	10/15 (m)
Indonesia	10/15 (c)	10	10
Ireland	5/15 (c)	0	0
Israel	12.5/25 (c)	10/17.5 (n)	10/15 (o)
Italy	5/15 (c)	0/10 (p)	0/5/8 (q)
Jamaica	10/15 (c)	12.5	10
Japan (dd)	0/5/10	10	0

	<b>Dividends</b>	<b>Interest</b>	<b>Patent and know-how royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Kazakhstan	5/15 (c)	10	10
Korea (South)	10/15 (c)	12	10/15 (r)
Latvia	5/15 (c)	10	5/10 (g)
Lithuania	5/15 (c)	10	5/10 (g)
Luxembourg (oo)	0/5/15 (c)(s)	0	0
Malta	5/15	10	10
Mexico	0/5/10 (u)	4.9/10/15 (v)	10
Morocco	10/15 (c)	15	10
Netherlands	0/5/15 (a)	0	0
New Zealand	0/5/15 (a)(c)	10	5
Norway	15	0 (y)	0
Pakistan	15/30 (c)	30	0/30
Philippines	20/25 (c)	10/15 (z)	15/25 (aa)
Poland (bb)	5/15 (c)	0	10
Portugal	15 (cc)	10	10
Romania	10	10	10/15 (ee)
Russian Federation	5/10 (c)	0	0
Slovak Republic	5/15 (c)	0	0/10 (ee)
Slovenia	5/15 (c)	0/5	5
South Africa	5/15 (c)	0	0
Spain (ii)	10/15 (c)	10	5/8/10 (ff)
Sri Lanka	15	10	5/10 (gg)
Sweden	0/5/15 (a)	0	0
Switzerland (pp)	5/15 (c)	0	0
Thailand	10/15 (c)	10/15 (hh)	5/8/15
Trinidad and Tobago	30	30	15
Tunisia	14/20 (c)	15	10/15 (jj)
Turkey	15/20 (c)	10/15 (hh)	5/10 (kk)
Ukraine	5/15 (c)	0	10
USSR (ll)	30	0	0
United Kingdom	0/5/15 (mm)	0 (nn)	0
Venezuela	5/15 (c)	4.95/10 (t)	5/10 (kk)
Non-treaty jurisdictions	30	30 (w)	30

Various exceptions (for example, for governmental entities and REITs) or conditions may apply (for example, a limitation-on-benefits provision), depending upon the terms of the particular treaty.

- (a) The 0% rate applies if dividends are paid by an 80%-owned US corporation to its parent company (80% ownership must be for at least a 12-month period ending on the date the dividend is declared or the entitlement is determined) and if certain other conditions are met. The 5% rate applies to dividends paid to a company that directly owns at least 10% of the voting power (or share capital, if applicable) of the payer. The 15% rate applies to other dividends.
- (b) The 10% rate applies to all interest payments with the following exceptions:
- Interest derived by the government of a contracting state
  - Interest derived by certain financial institutions
- (c) The withholding rate is reduced to 5% (10% in the case of Bangladesh, Indonesia, Jamaica, Korea (South), Morocco, Spain, Thailand and Trinidad and Tobago; 12.5% in the case of Israel; 14% in the case of Tunisia; 15% in the case of India, Pakistan and Turkey; and 20% in the case of the Philippines) if, among other conditions, the recipient is a corporation owning a specified percentage of the voting power of the distributing corporation.

- (d) The 5% rate applies to interest paid to banks or financial institutions and interest related to the sale on credit of industrial, commercial or scientific equipment or of merchandise.
- (e) The 0% rate applies to royalties for cultural works as well as to payments for the use of, or the right to use, computer software, patents and information concerning industrial, commercial and scientific experience.
- (f) The 0% rate applies to royalties paid for copyrights. The 10% rate applies to royalties paid for patents, trademarks, and industrial, commercial or scientific equipment or information.
- (g) The 5% rate applies to royalties paid for the use of commercial, industrial or scientific equipment.
- (h) The 0% rate applies to royalties paid for copyrights of literary, artistic or scientific works, cinematographic films, sound or picture recordings, or software.
- (i) The exemption does not apply if the recipient controls directly or indirectly more than 50% of the voting power in the paying corporation.
- (j) On 4 February 2010, the United States and Hungary signed a new income tax treaty that would replace the existing treaty between the two countries. As of 31 December 2017, the proposed treaty had not yet received US Senate advice and consent to ratification.
- (k) The treaty provides for a general exemption from withholding tax on royalties. A 5% withholding tax rate applies to royalties for trademarks and motion pictures.
- (l) The 10% rate applies to interest paid on loans granted by banks carrying on bona fide banking business and similar financial institutions.
- (m) The 10% rate generally applies to royalties for the use of industrial, commercial or scientific equipment.
- (n) The 10% rate applies to interest on bank loans. The 17.5% rate applies to other interest.
- (o) The 10% rate applies to copyright and film royalties.
- (p) The exemption applies to the following:
- Interest paid to qualified governmental entities, provided the entity owns, directly or indirectly, less than 25% of the payer of the interest
  - Interest paid with respect to debt guaranteed or insured by a qualified governmental entity
  - Interest paid or accrued with respect to the sale of goods, merchandise or services
  - Interest paid or accrued on a sale of industrial, commercial, or scientific equipment
- (q) The 0% rate applies to royalties paid for the use of certain copyright materials. The 5% rate applies to royalties paid for the use of computer software and industrial, commercial or scientific equipment. The 8% rate applies in all other cases.
- (r) The 10% rate applies to royalties paid for copyrights or rights to produce or reproduce literary, dramatic, musical, or artistic works and to royalties paid for motion picture films.
- (s) The rate is 0% for dividends paid by a company resident in Luxembourg if the beneficial owner of the dividends is a company that is a resident of the United States and if, during an uninterrupted period of two years preceding the date of payment of the dividends, the beneficial owner of the dividends has held directly at least 25% of the voting shares of the payer.
- (t) The 4.95% rate applies to interest paid on loans made by financial institutions and insurance companies. The 10% rate applies to other interest.
- (u) The 0% rate applies to the following dividends:
- Dividends paid to certain recipients that own at least 80% of the voting shares of the payer of the dividends
  - Dividends paid to certain pension plans
- The 5% rate applies if the conditions for the 0% rate are not met and if the recipient owns at least 10% of the payer of the dividends. The 10% rate applies if the 10% ownership threshold is not met. A protocol to the treaty provides an exemption from the 5% “dividend equivalent amount” tax if certain conditions are met (the conditions are similar to those that apply with respect to the 0% withholding tax rate on dividends).
- (v) The 4.9% rate applies to interest paid on loans (except back-to-back loans) made by banks and insurance companies and to interest paid on publicly traded securities. The 10% rate applies to interest paid by banks and to interest paid by sellers to finance purchases of machinery and equipment. The 15% rate applies to other interest.
- (w) Interest on certain “portfolio debt” obligations issued after 18 July 1984 and non-effectively connected bank deposit interest are exempt from withholding tax.

- (x) Interest paid to state-owned enterprises in China is exempt from withholding tax.
- (y) The general withholding tax rate for interest may be increased to 10% if both Norway and the United States tax interest paid to nonresidents under their domestic tax laws. Norway does not impose tax on interest paid to nonresidents and, consequently, a 0% rate applies to US-source interest under the treaty. The treaty also provides that a 0% rate applies to certain types of interest, such as interest paid on bank loans.
- (z) The 10% rate applies to interest derived by a resident of one of the contracting states from sources in the other contracting state with respect to public issuances of bonded indebtedness.
- (aa) The tax imposed by the source state may not exceed, in the case of the Philippines, the lowest of the following:
- 25%
  - 15% if the royalties are paid by a corporation registered with the Philippine Board of Investments and engaged in preferred areas of activities
  - The lowest rate of Philippine tax that may be imposed on royalties of the same kind paid under similar circumstances to a resident of a third state
- (bb) On 13 February 2013, the United States and Poland signed a new income tax treaty that would replace the existing treaty between the two countries. As of 31 December 2017, the proposed treaty had not yet received US Senate advice and consent to ratification.
- (cc) A reduced rate may apply if the beneficial owner of the dividend is a Portuguese company that owns at least 25% of the capital of the dividend-paying company.
- (dd) On 24 January 2013, the United States and Japan signed a protocol that would amend the existing income tax treaty between the countries. As of 31 December 2017, the proposed protocol had not yet received US Senate advice and consent to ratification.
- (ee) The lower rate applies to cultural royalties, which are defined as payments for the right to use copyrights of literary, artistic or scientific works, including cinematographic films.
- (ff) The 5% rate applies to royalties paid for copyrights of musical compositions or literary, dramatic or artistic works. The 8% rate applies to royalties paid for the following:
- Motion picture films, and films, tapes and other means of transmission or reproduction of sounds
  - Industrial, commercial or scientific equipment
  - Copyrights of scientific works
- (gg) The 5% rate applies to rent paid for the use of tangible movable property.
- (hh) The 10% rate applies to interest on loans granted by financial institutions. The 15% rate applies to other interest.
- (ii) On 14 January 2013, the United States and Spain signed a new protocol that would amend the existing income tax treaty and protocol between the two countries. As of 31 December 2017, the proposed protocol had not yet received US Senate advice and consent to ratification.
- (jj) The 10% rate applies to the following:
- Royalties paid for the use of, or the right to use, industrial, commercial or scientific equipment
  - Remuneration for the performance of accessory technical assistance with respect to the use of the property or rights described above, to the extent that such technical assistance is performed in the contracting state where the payment for the property or right has its source
- The 15% rate applies to royalties or other amounts paid for the following:
- The use of, or right to use, copyrights of literary, artistic and scientific works, including cinematographic and television films and videotapes used in television broadcasts
  - Patents, trademarks, designs and models, plans, and secret formulas and processes
  - Information relating to industrial, commercial or scientific experience
- (kk) The 5% rate applies to payments for the right to use industrial, commercial or scientific equipment. The 10% rate generally applies to other royalties.
- (ll) The US Department of Treasury has announced that the income tax treaty between the United States and the USSR, which was signed on 20 June 1973, continues to apply to the former republics of the USSR, including Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan, until the United States enters into tax treaties with these countries. The United States has entered into tax treaties with Estonia, Kazakhstan, Latvia, Lithuania, the Russian Federation and Ukraine. The withholding tax rates under these treaties are listed in the above table.

- (mm) The 0% rate applies if the dividends are paid by US companies to UK companies that owned 80% or more of the voting shares of the payer of the dividends for a 12-month period preceding the declaration of the dividends and if either of the following additional conditions is met:
- The 80% test was met before 1 October 1998.
  - The recipient is a qualified resident under certain prongs of the limitation-on-benefits provision in the treaty.
- The 0% rate also applies to US-source dividend payments made to UK pension schemes. The 5% rate applies if the beneficial owner of the dividends is a company owning 10% or more of the payer. For other dividends, the 15% rate applies.
- (nn) Withholding tax may be imposed at the full domestic rate on interest paid in certain circumstances.
- (oo) On 20 May 2009, the United States and Luxembourg signed a protocol that would amend the existing income tax treaty between the two countries. As of 31 December 2017, the proposed protocol had not yet received US Senate advice and consent to ratification.
- (pp) On 23 September 2009, the United States and Switzerland signed a protocol that would amend the existing income tax treaty between the two countries. As of 31 December 2017, the proposed protocol had not yet received US Senate advice and consent to ratification.

The United States and Chile signed their first-ever income tax treaty and protocol on 4 February 2010. It includes a general limitation-on-benefits provision and reductions in withholding tax rates. As of 31 December 2017, the proposed treaty and protocol had not yet received US Senate advice and consent to ratification.

The United States and Vietnam signed their first-ever income tax treaty and protocol on 7 July 2015. It includes a general limitation-on-benefits provision and reductions in withholding tax rates. As of 31 December 2017, the proposed treaty and protocol had not yet received US Senate advice and consent to ratification.

## US Virgin Islands

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On 22 December 2017, the President of the United States signed into the law the bill known as the "Tax Cuts and Jobs Act," which amended various provisions of the US Internal Revenue Code (IRC). Because the US Virgin Islands operates under a system of corporate income taxation that is a mirror image of the IRC, please refer to the United States chapter of this guide for further details on the applicable new provisions.

### A. At a glance

Corporate Income Tax Rate (%)	23.1 (a)
Capital Gains Tax Rate (%)	23.1 (a)
Branch Tax Rate (%)	23.1 (a)
Withholding Tax (%) (b)	
Dividends	11 (c)
Interest	11 (c)
Royalties from Patents, Know-how, etc.	11 (c)
Branch Remittance Tax	11 (c)(d)
Net Operating Losses (Years) (e)	
Carryback	2
Carryforward	20

- (a) This is the maximum rate. The rate includes a 10% surcharge. The 21% rate is effective for tax years beginning after 31 December 2017.
- (b) The statutory rate for each withholding tax is 10%. The US Virgin Islands Bureau of Internal Revenue has taken the position that the 10% surcharge also applies to each withholding tax, and consequently the withholding rate is 11%.
- (c) Under certain circumstances, these taxes may not apply to US corporations doing business in the US Virgin Islands. The US Virgin Islands Bureau of Internal Revenue has taken the position that a 10% withholding applies to dividend distributions to US corporations, despite the statutory provision stating otherwise.

- (d) This is the branch profits tax, imposed on the earnings of a foreign corporation attributable to its branch, reduced by earnings reinvested in the branch and increased by reinvested earnings withdrawn (see Section B).
- (e) These periods apply to losses incurred in tax years beginning after 5 August 1997. A three-year carryback period is available in certain circumstances. Small businesses may elect to carry back net operating losses incurred in 2008 for up to the five preceding years.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** The system of corporate income taxation in force in the US Virgin Islands is generally a mirror image of the US Internal Revenue Code (IRC). The applicable law is the IRC with “US Virgin Islands” substituted for all references to the “United States.” Significant differences between US and US Virgin Islands taxation are discussed below.

US Virgin Islands corporations are subject to income tax on their worldwide income. A foreign corporation, which is a corporation organized outside the US Virgin Islands, is subject to income tax only on its income from US Virgin Islands sources and on its income that is effectively connected with the conduct of a trade or business in the US Virgin Islands.

Under Section 937(b) of the IRC, rules similar to those for determining US-source income or income effectively connected with the conduct of a trade or business in the United States must be used to determine if income is from sources within the US Virgin Islands or effectively connected with the conduct of a trade or business within the US Virgin Islands.

**Rates of corporate income tax.** Corporations are taxed at the rates specified in the IRC, except that the US Virgin Islands imposes an additional 10% surcharge on the tax liability of all domestic and foreign corporations. This increases the maximum effective income tax rate to 23.1% for tax years beginning after 31 December 2017. This rate applies both to US Virgin Islands corporations and to the income of foreign corporations that is effectively connected with a US trade or business.

US Virgin Islands corporations may benefit from the tax exemptions and reductions indicated below.

*Economic development program.* Qualifying corporations are exempt from income tax on up to 90% of their income. In addition, they are exempt from real property, gross receipts and certain excise taxes. Other reductions in various taxes may apply.

*Exempt companies.* Qualifying corporations that are foreign-owned and do not carry on a trade or business in the United States or in the US Virgin Islands may elect a 20-year exemption from substantially all US Virgin Islands taxes.

*Development of renewable and alternative energy-generation sources.* Equipment or component parts brought into the US Virgin Islands for the purpose of manufacturing solar water heaters or wind or solar energy systems are exempt from the payment of custom duties and excise taxes. Also, revenues derived from the installation or construction of a renewable or alternative energy electric power or production plant or device are exempt from the gross receipts tax.



**Branch profits tax and branch interest tax.** The branch profits tax (BPT) and branch interest tax (BIT) rules in the US Virgin Islands are similar to those in the United States, except that the BPT and BIT rates are 11% (including the 10% surcharge) instead of 30%. Under certain circumstances, these taxes may not apply to US corporations doing business in the US Virgin Islands.

**Capital gains and losses.** The provisions applicable to capital gains and losses in the US Virgin Islands are the same as those in the United States.

**Administration.** The annual income tax return is due by the fifteenth day of the fourth month after the close of the company's fiscal year. On request, a corporation receives an automatic six-month extension to file its tax return. In general, 100% of a corporation's tax liability must be paid through estimated tax installments during the year in which the income is earned.

Domestic and foreign corporations file their returns with the Bureau of Internal Revenue (BIR).

**Foreign tax relief.** The provisions related to foreign tax credits are similar to those in the United States.

**Foreign Investment in Real Property Tax Act.** The Foreign Investment in Real Property Tax Act (FIRPTA) applies to corporations owning real property interests in the US Virgin Islands. Under this act, a foreign corporation (including a US corporation) pays tax attributable to its gain from the sale of US Virgin Islands property to the US Virgin Islands treasury.

### C. Determination of trading income

**General.** The rules for determining trading income are the same as those in the United States.

**Groups of companies.** A US Virgin Islands corporation may not file a consolidated income tax return with a related US tax entity. However, a group of US Virgin Islands corporations may file a consolidated return with the BIR if they meet the requirements set by the IRC provisions for consolidated returns.

### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Gross receipts tax, on total business receipts	5
Excise tax, on imported goods, merchandise and commodities for sale or for processing in the US Virgin Islands unless exempt by law; tax is computed on invoice value plus a 5% mark-up	2 to 25
Real property tax; imposed on the assessed value of the property as determined by the tax assessor; the application of exemptions and credits may not reduce the tax due to an amount less than USD360	
Unimproved non-commercial property	0.49
Residential property	0.38
Commercial property	0.71
Timeshares	1.4

Nature of tax	Rate (%)
Franchise tax, imposed annually on capital stock of domestic and foreign corporations qualified to do business in the US Virgin Islands; minimum tax is USD150	0.15
Stamp tax, on transfer of real or personal property located in the US Virgin Islands	2 to 3.5
Payroll taxes	
Federal unemployment insurance (FUTA), imposed on first USD7,000 of wages	6
US Virgin Islands unemployment insurance (creditable against FUTA; each employer must pay USD25 annually per employee for interest accrued on the Virgin Islands Federal Trust Fund Loan)	5.4
Workmen's compensation insurance, varies depending on classification of employee's activities	Various
Social security contributions; subject to the same limitations as in the United States; imposed on	
Wages up to USD128,400 (for 2018); paid by Employer	6.2
Employee	6.2
Medicare portion (hospital insurance; for 2018); paid by	
Employer	1.45
Employee (subject to an additional 0.9% of Medicare tax for wages in excess of USD200,000; no employer matching contribution for Medicare tax)	1.45
Insurance premium tax, on gross premiums received by insurers for insurance policies covering risks in the US Virgin Islands; certain exceptions apply	5

## E. Miscellaneous matters

**Foreign-exchange controls.** The US Virgin Islands has not enacted any specific foreign-exchange controls, but US laws concerning cash transaction reporting and other financial matters are applicable.

**Debt-to-equity rules.** The US Virgin Islands debt-to-equity rules are the same as those in the United States.

## F. Treaty withholding tax rates

The US Virgin Islands does not have tax treaties with foreign governments.

# Uruguay

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## A. At a glance

Corporate Income Tax Rate (%)	25
Capital Gains Tax Rate (%)	25
Branch Tax Rate (%)	25
Withholding Tax (%)	
Dividends	7 (a)(b)(c)
Interest	12 (a)(b)
Royalties	12 (a)(b)
Equipment Rent	12 (a)(b)
Technical Assistance Payments and Service Fees	12 (b)
Income Paid to Entities from Low or Nil Tax Jurisdictions or Benefiting from Low or Nil Tax Regimes	25 (d)
Branch Remittance Tax	7 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

- (a) This tax applies to nonresident corporations and individuals and resident individuals. Nonresident corporations are corporations not incorporated in Uruguay.
- (b) See Section B.
- (c) Under Accountability Law No. 19,438, notional dividends are taxable, effective from 1 March 2017. For the purposes of this law, notional dividends are determined considering the net taxable income of the company that is more than three years old, less certain items (equity participation investments in other resident entities and investments in fixed and intangible assets, among others), subject to certain limits.
- (d) This tax applies to income paid to entities that are resident, domiciled, constituted or located in low or nil tax countries or jurisdictions or that benefit from a low or nil tax regime, except for dividends distributed by Uruguayan corporate income taxpayers. This rate applies from 1 January 2017, according to Accountability Law No. 19,438 and Fiscal Transparency Law No. 19,484. In addition, a complementary tax rate of 5.25% applies to income derived from immovable assets.

## **B. Taxes on corporate income and gains**

**Corporate income tax.** Corporations are taxed on Uruguay-source income, defined as income derived from activities performed, property situated or economic rights used in Uruguay. Any profits, including capital gains, are taxable.

**Rate of corporate tax.** The corporate tax rate is 25%.

**Capital gains.** Capital gains are included in ordinary income and taxed at the regular corporate rate.

**Administration.** Corporations are required to make monthly advance payments. These payments are calculated by applying to monthly gross income a fraction with a numerator equal to income tax for the prior tax year and a denominator equal to the corporation's gross income subject to tax for that year (the one that corresponds to the last filed corporate income tax return). Filing of tax returns and payment of the balance must be made by the fourth month after the end of the accounting period, which is the company's tax year-end.

**Dividends and branch remittances.** Dividends paid to resident companies are exempt from tax. Dividends paid to resident individuals are subject to personal income tax at a rate of 7% if the dividends are paid out of income subject to corporate income tax. Dividends paid to nonresident companies and individuals and branch remittances are subject to withholding tax at a rate of 7% if they are paid out of income subject to corporate income tax. Dividends and branch remittances paid out of income not subject to corporate income tax are exempt from tax. Dividends subject to withholding tax cannot exceed the taxable profit of the company.

Effective from 1 March 2017, companies must calculate and withhold personal income tax or nonresidents income tax on notional dividends, which are deemed to be paid to shareholders. The rates of this tax are 12% on dividends from income from foreign capital investment and 7% for other dividends and profit distributions. For this purpose, notional dividends are calculated in accordance with specified rules (see footnote [c] in Section A). The payer of corporate income tax acts as the "withholding" agent before it makes the actual income payment. Because no real withholding takes place, it must pay the tax to the tax office. On receipt of actual dividends, shareholders can credit the taxes already paid against their income tax liability. Consequently, no additional tax is due.

**Withholding tax on certain payments to nonresidents.** In general, a 12% withholding tax is imposed on the following payments to nonresidents:

- Interest
- Royalties
- Technical assistance payments
- Publicity and advertising services
- Service fees
- Equipment rent

If a nonresident is a low or nil tax entity, the general withholding tax rate is 25%, instead of the general rate of 12%. This rate applies from 1 January 2017, according to Accountability Law No. 19,438 and Fiscal Transparency Law No. 19,484.

### C. Determination of trading income

**General.** Tax is imposed on taxable profit, which is accounting profit earned in the accounting period after tax adjustments. An inflation adjustment is applied currently if certain conditions are met. However, under Accountability Law No. 19,438, for fiscal years ending from 1 January 2017, the inflation adjustment applies only if the inflation index increases more than 100% (in a cumulative manner) in the three-year period preceding the relevant fiscal year. All Uruguay-source income is taxable. Expenses are deductible to the extent that they are incurred in producing or maintaining taxable income, are documented, are accrued in the fiscal year and are taxable to the counterparty.

In general, payments to nonresidents are fully deductible as expenses if the effective income tax rate of the country of the recipient is 25% or higher (to be proved through a specific certificate). If the effective tax rate of the country of the recipient is lower than 25%, only a percentage of the expenses is deductible. The percentage equals the ratio of the nonresident withholding tax rate (12%) plus the effective income tax rate of the country of the nonresident (reduced by a tax credit if one exists) to the corporate income tax rate of 25% in Uruguay. If the nonresident withholding tax of 12% applies, the minimum percentage of deduction is 48% (the ratio of the withholding tax rate of 12% to the corporate income tax rate of 25%). Stock is valued according to the cost of purchases, production costs or reposition costs (the valuing of inventory according to reposition costs is accepted only if it is based on quantities, prices and conditions that reflect normal market conditions, based on the taxpayer's type of business).

**Inventories.** Last-in, first-out (LIFO), first-in, first-out (FIFO), average cost and market price are acceptable methods. The corporation can choose which method to use, but may not change the method without prior authorization.

**Provisions.** Only deductions for expenses already incurred are allowed. Provisions for bad debts and severance pay are not allowed. Bad debts may be written off if the debtor goes bankrupt or if 18 months have elapsed since the obligation to pay the debt became due.

**Depreciation.** A depreciation deduction may be taken on tangible assets based on their useful lives using the straight-line method. The following are some of the applicable rates.

Asset	Rate (%)
Commercial and industrial buildings	2/3 (a)
Motor vehicles	10
Office equipment	10 (b)
Machinery and equipment	10 (b)

- (a) The 2% rate applies to buildings in urban areas; the 3% rate applies to buildings in rural areas.  
 (b) This is the usual rate. The rate for a particular asset depends on its estimated useful life.

For some assets, the units-of-production method may be used. Goodwill may not be depreciated.

Intangible assets must be amortized based on their expected useful life. If it is not possible to determine the expected useful life, they should be amortized at an annual rate of 10%.

Tangible assets must be revalued according an index determined by the government. Intangible assets and goodwill cannot be revalued.

**Relief for losses.** Under Accountability Law No. 19,438, for fiscal years ending from 1 January 2017, the offset of fiscal losses allowed for a specific fiscal year is limited to 50% of the taxable income before applying such offset. This means that 50% of the tax generated in the fiscal year (before the relief for losses) must always be paid, unless a corporate income tax exemption applies to an investment project approved under Law No. 16,906 of Promotion and Protection of Investments.

Under the prior general rule, losses could be carried forward for five years and deducted from income without limit.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), on the sale of products and most services and on imported goods	
Standard rate	22
Rate on basic foodstuffs and pharmaceuticals	10
Net worth tax, on corporate net worth, computed using values used for tax purposes; for some companies, up to 50% of this tax may be credited against corporate income tax (the current discount is 1%)	
Banks and credit card corporations	2.8
Others	1.5
(The rate applicable for entities subject to low or nil taxation that do not have a permanent establishment in Uruguay is 3%.)	
Social security contributions, on salaries and wages; imposed on	
Salaries and wages up to approximately USD5,000; paid by	
Employer; standard rate	12.625
Employee	18.125 to 23.125
Salaries and wages exceeding approximately USD5,000; paid by	
Employer	5.125
Employee	3.125 to 8.125
(The salary threshold for social security contributions is updated in February of each year.)	

#### E. Miscellaneous matters

**Foreign-exchange controls.** Uruguay does not impose foreign-exchange controls. No restrictions are imposed on inbound or

outbound investments. The transfer of profits and dividends, loan principal and interest, royalties and fees is unlimited. Nonresidents may repatriate capital, together with accrued capital gains and retained earnings, subject to applicable withholding taxes and company law considerations (for example, the requirement that companies transfer a portion of their annual income to a reserve).

Import and export operations are transacted at a free rate determined by the market.

**Debt-to-equity rules.** No specific debt-to-equity rules apply in Uruguay.

**Transfer pricing.** Transfer-pricing regulations are included in the corporate income tax law. Transfer pricing in Uruguay is based on the arm's-length principle and is in many aspects consistent with the transfer-pricing guidelines of the Organisation for Economic Co-operation and Development (OECD). Every corporate income taxpayer that has operations with related parties must perform a transfer-pricing analysis.

## F. Treaty withholding tax rates

The maximum withholding tax rates under Uruguay's double tax treaties are set forth below. The withholding tax rates can never exceed those under domestic law. The withholding tax rates in the treaties can be applied only if the nonresident is the effective beneficiary of the income.

	Dividends %	Interest %	Royalties %
Belgium (c)	5/15	0/10	10
Ecuador	10/15	15	10/15
Finland	5/15	0/10	5/10
Germany	5/15	0/10	10
Hungary	15	0/15	15
India	5	0/10	10
Korea (South)	5/15	0/10	10
Liechtenstein	5/10	0/10	10
Luxembourg (c)	5/15	0/10	5/10
Malta	5/15	10	5/10
Mexico	5	0/10	10
Portugal	5/10	10	10
Romania	5/10	0/10	10
Singapore (c)	5/10	0/10	5/10
Spain	0/5	0/10	5/10
Switzerland	5/15	0/10	10
United Arab Emirates (a)	5/7	0/10	0/5/10
United Kingdom (a)	5/15	0/10	10
Vietnam (a)	5/10	10	10
Non-treaty jurisdictions	7 (b)	12/25	12/25

(a) The provisions regarding income tax and net wealth tax are effective from fiscal years beginning on or after 1 January 2017.

(b) See Section B.

(c) The provisions regarding income tax and net wealth tax are effective from fiscal years beginning on or after 1 January 2018.

# Uzbekistan

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## A. At a glance

Corporate Profits Tax Rate (%)	14 (a)
Capital Gains Tax Rate (%)	14 (a)
Permanent Establishment Tax Rate (%)	14 (a)
Withholding Tax (%) (b)	
Dividends	10 (c)
Interest	10 (c)
Royalties, Service Fees and Capital Gains	20 (d)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (e)

- (a) This is the general corporate profits tax rate. See Section B for other rates.  
(b) The withholding taxes are generally considered to be final taxes.  
(c) The withholding tax is imposed on payments to Uzbek companies and individuals and to foreign companies without a permanent establishment in Uzbekistan.  
(d) The withholding tax is imposed on payments to foreign companies without a permanent establishment in Uzbekistan.  
(e) See Section C.

## B. Taxes on corporate income and gains

**Corporate profits tax.** Most enterprises in Uzbekistan, including Uzbek companies with foreign participation, are subject to the general profits tax regime. Small businesses and retail and wholesale trading companies are subject to different regimes. Foreign companies that are deemed by the tax authorities to have a permanent establishment (PE) in Uzbekistan are taxable on profits derived from business activities of the PE in Uzbekistan (the taxable profits of a PE should not be less than 7% of deductions). The definition of a PE in Uzbek legislation is somewhat similar to the definition of a PE in the model treaty of the Organisation for Economic Co-operation and Development (OECD), with certain exceptions. However, the legislation regarding the taxation and treatment of PEs in Uzbekistan is undeveloped.



**Rates of corporate tax.** The regular corporate profits tax rate is 14%. This rate also applies to Uzbek enterprises with foreign participation and to PEs of foreign companies. For commercial banks, the profits tax rate is 22%. A progressive scale of profits tax rates applies to mobile phone operators.

PEs are no longer subject to an additional tax on their net profits after deduction of the corporate profits tax.

Foreign legal entities without a PE in Uzbekistan are subject to withholding tax on income derived from their activities in Uzbekistan. The following are the withholding tax rates.

Nature of payment	Rate (%)
Dividends and interest	10
International communication and freight fees	6
Insurance premiums	10
Royalties, capital gains, rent and service fees not connected with an Uzbek PE	20

**Capital gains.** Capital gains are generally included in taxable profits and are subject to tax at the regular corporate tax rate. Capital losses are generally deductible only if they are incurred on fixed assets used in production for at least three years. Capital gains derived by nonresidents from disposals of shares in Uzbek resident legal entities or real estate located in Uzbekistan are subject to withholding tax at the general rate of 20%.

**Administration.** The tax year is the calendar year.

Tax declarations must be filed quarterly by the 25th day of the month following the reporting quarter and annually by 15 February of the year following the tax year. Companies must file financial statements together with the tax declarations. Companies with foreign participation and PEs of foreign companies must file the annual declaration by 25 March.

The final tax liability must be paid by the deadline for filing the tax declarations. Quarterly estimates of the tax payable must be filed by the 10th day of the 1st month of the quarter. Tax installment payments based on the filed estimates are required to be made by the 10th day of each month. Companies generating profits of less than 200 minimum monthly wages per reporting quarter (approximately USD4,240) are subject to profits tax based on actual quarterly profits and are not required to pay installments of profits tax.

On written request, excess payments of tax must be refunded within a 15-day period or be offset against other tax liabilities. In practice, it may be difficult to obtain refunds of overpayments of tax.

**Dividends.** Dividends, including those paid to domestic enterprises, are subject to a withholding tax at a rate of 10%.

**Foreign tax relief.** Under the double tax treaties of Uzbekistan, a foreign tax credit is available for foreign tax paid on income earned abroad (subject to certain documentary requirements).

### C. Determination of trading income

**General.** Taxable profits are equal to the annual net profits disclosed in the company's Uzbek financial statements, as adjusted

by the tax law. Financial statements must be prepared on an accrual basis and be supported by documentation. The following are the most significant items that are not deductible for tax purposes:

- Nonbusiness expenses
- Entertainment, business travel and voluntary insurance expenses in excess of (low) statutory limits
- Interest on overdue and deferred loans (in excess of normal loan interest rate)
- Losses resulting from misappropriations of funds or assets
- Certain benefits to employees
- Charitable donations
- Litigation expenses
- Penalties

**Special deductions.** Taxable profits may be reduced by certain special deductions, including the following:

- Amounts reinvested in main production in the form of new construction and reconstruction of buildings and facilities used for production needs and new technological equipment (less current depreciation) over a certain time period, subject to other conditions, up to 30% of taxable profits
- Charitable donations of up to 2% of taxable profits

**Provisions.** Banks may deduct loan loss provisions within the limits established by the Central Bank of the Republic of Uzbekistan.

**Tax depreciation.** The following are the applicable depreciation rates in Uzbekistan.

Assets	Rate (%)
Buildings and structures	5
Trains, ships, airplanes, pipelines, communication equipment and electric power lines and equipment	8
Production machinery and equipment	15
Cars, computers and office equipment	20
Perennial plants	10
All other assets	15

Intangible assets are amortized for tax purposes over the useful life of an asset, the life of the company or five years (if useful life cannot be determined), whichever is less.

**Relief for losses.** Tax losses can be carried forward for five years. However, the amount of losses carried forward that may be deducted each year is subject to a limit of 50% of taxable profits for the year. Losses incurred during a profits tax exemption period cannot be carried forward.

**Groups of companies.** The tax law does not allow the offsetting of profits and losses among members of a tax group.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT), on the supply of all goods and services, including imports, unless they are zero-rated or exempt	20%

Nature of tax	Rate
Excise tax; imposed on an extensive number of specified goods produced in Uzbekistan or imported into Uzbekistan; goods subject to tax include oil and gas products, alcohol, tobacco, jewelry, silverware and cars	Various
Special State Funds contribution; imposed on sales turnover, excluding VAT and excise tax	3.2%
Property tax; imposed on the annual average depreciated value of immovable property and certain other assets; land is exempt	5%
Subsurface use tax; imposed on the extraction of natural resources; tax imposed on the sales price of extracted natural resources and components and on waste derived from the extraction or processing of natural resources	
Sales	2.6% to 30%
Waste	0.78% to 9%
Excess profits tax; imposed on the difference between the actual net sales price and the established threshold price for certain natural resources and products	Various
Signing and commercial discovery bonuses for subsurface users; payable to the state budget through the tax authorities	Various
Road Use Fund contribution; imposed on purchases of cars and other vehicles	Various (minimum rate of 3% for new cars and other vehicles)
Water use tax; general rates per cubic meter	
Surface water	UZS98.2 (approximately USD0.0121)
Underground water	UZS124.8 (approximately USD0.0154)
Land tax; imposed at a fixed rate per hectare, which varies depending on the location, quality and purpose of the land plot; rate in Zone 1 of Tashkent	UZS131,175,469 (approximately USD16,155)
Social fund contributions	
Pension Fund; paid by employees (withheld from salaries of local employees)	8%
Unified Social Payment; payable by employers	
On the total payroll of small businesses	15%
On the total payroll of all other entities	25%
Contributions to individual accumulative pension accounts of citizens (maintained at Peoples Bank); payable by employers on salaries of local employees; amounts of the contributions are deducted from the amounts of accrued individual income tax	2%

## E. Foreign-exchange controls

The currency in Uzbekistan is the Uzbek soum (UZS).

Uzbekistan imposes various foreign-exchange controls, including the following:

- Mandatory exchange rates set weekly by the Central Bank of the Republic of Uzbekistan for accounting, reporting, tax and customs duty calculations
- Strict control over payments in foreign currencies to parties outside Uzbekistan
- Limitations on the circulation of foreign currencies in Uzbekistan, and limitations on the domestic foreign currencies markets

## F. Treaty withholding tax rates

The following table lists the withholding rates under Uzbekistan's tax treaties.

Payee resident in	Dividends (I)	Interest (I)	Royalties
	%	%	%
Austria	5/15 (a)	10	5
Azerbaijan	10	10	10
Bahrain	8	8	8
Belarus	15 (l)	10	15
Belgium	5/15 (a)	10	5
Bulgaria	10	10	10
Canada	5/15 (a)	10	5/10 (e)
China (mainland)	10	10	10
Czech Republic	5/10 (b)	5	10
Estonia	5/10 (b)	5	10
Finland	5/15 (a)	5	0/5/10 (f)
France	5/10 (a)	0/5 (d)	0
Georgia	5/15 (b)	10	10
Germany	5/15 (b)	5	3/5 (g)
Greece	8	10	8
Hungary	10	10	10
India	10	10	10
Indonesia	10	10	10
Iran	8	10	5
Ireland	5/10 (a)	5	5
Israel	10	10	5/10 (h)
Italy	10	5	5
Japan (k)	15 (l)	10	0/10 (i)
Jordan	7/10 (b)	10	20
Kazakhstan	10	10	10
Korea (South)	5/15 (b)	5	2/5 (j)
Kuwait	5/10 (b)	8	20
Kyrgyzstan	5	5	15
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg	5/15 (b)	10	5
Malaysia	10	10	10
Moldova	5/15 (a)	10	15
Netherlands	5/15 (b)	10	10
Oman	7	7	10
Pakistan	10	10	15
Poland	5/15 (c)	10	10

Payee resident in	Dividends (I)	Interest (I)	Royalties
	%	%	%
Romania	10	10	10
Russian Federation	10	10	0
Saudi Arabia	7	7	10
Singapore	5	5	8
Slovak Republic	10	10	10
Slovenia	8	8	10
Spain	5/10 (b)	5	5
Switzerland	5/15 (c)	0/5 (d)	5
Thailand	10	10/15 (l)	15
Turkey	10	10	10
Turkmenistan	10	10	10
Ukraine	10	10	10
United Arab Emirates	5/15 (b)	10	10
United Kingdom	5/10 (a)	5	5
Vietnam	15 (l)	10	15
Non-treaty jurisdictions	10	10	20

- (a) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the payer of the dividends.
- (b) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 25% of the payer of the dividends.
- (c) The lower rate applies if the beneficial owner of the dividends is a company that owns at least 20% of the payer of the dividends.
- (d) The 0% rate applies to interest with respect to the following:
- Loans made, guaranteed or insured by the government of the other contracting state or an instrumentality or agency thereof
  - Sales on credit of industrial, commercial or scientific equipment
  - Sales on credit of merchandise between enterprises
  - Bank loans
- (e) The 5% rate applies to royalties paid for certain cultural works (with exceptions) as well as for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experience (know-how), with exceptions.
- (f) The 0% rate applies to royalties for the use of, or the right to use, computer software, patents, designs or models, or plans. The 5% rate applies to royalties paid for the use of, or the right to use, secret formulas or processes, or for information concerning industrial, commercial or scientific experience (know-how). The 10% rate applies to royalties paid for trademarks or certain cultural works.
- (g) The 3% rate applies to royalties paid for the use of, or the right to use, copyrights of scientific works, patents, trademarks, designs or models, plans, or secret formulas or processes, as well as for the disclosure of industrial, commercial, or scientific knowledge. The 5% rate applies to royalties paid for certain cultural works.
- (h) The 5% rate applies to royalties paid for certain cultural works (with exceptions).
- (i) The 0% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, including motion picture films.
- (j) The 2% rate applies to royalties for the use of, or the right to use, industrial, commercial, or scientific equipment.
- (k) These are the withholding tax rates under the USSR-Japan treaty, which is honored by Uzbekistan.
- (l) The domestic withholding tax rate for dividends and interest in Uzbekistan is 10%. Consequently, the withholding tax rate of 15% for dividends and interest under treaties does not apply to payments made by Uzbek companies.

# Venezuela

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**A. At a glance**

Corporate Income Tax Rate (%)	34 (a)
Capital Gains Tax Rate (%)	34 (a)
Branch Tax Rate (%)	34 (a)
Withholding Tax (%)	
Dividends	34/50/60 (b)
Interest	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	
Individuals	34 (e)
Corporations	34 (f)
Royalties (g)	
Paid to Residents (g)	
Individuals	1
Corporations	2
Paid to Nonresidents (h)	
Individuals	34 (i)
Corporations	34 (j)

Professional Fees	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	34 (k)
Rent of Immovable Property	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	
Individuals	34
Corporations	34 (l)
Rent of Movable Goods	
Paid to Residents	
Individuals	3 (c)
Corporations	5 (d)
Paid to Nonresidents	
Individuals	34
Corporations	5
Technical Assistance	
Paid to Residents	
Individuals	1
Corporations	2
Paid to Nonresidents (m)	
Individuals	34 (n)
Corporations	34 (o)
Technological Services	
Paid to Residents	
Individuals	1
Corporations	2
Paid to Nonresidents (p)	
Individuals	34 (q)
Corporations	34 (r)
Sales of Shares (s)	
Sales by Residents	
Individuals	3 (c)
Corporations	5 (d)
Sales by Nonresidents	
Individuals	34
Corporations	5
Net Operating Losses (Years)	
Carryback	0
Carryforward	3 (t)

- (a) This is the maximum progressive rate, which applies to income exceeding 3,000 tax units. Effective from 1 March 2018, the value of a tax unit is VEF500. Effective from May 2018, the value of a tax unit will be increased to VEF850. For further details, see Section B. Petroleum companies and income from petroleum-related activities are taxed at a rate of 50%. Mining royalties and transfers of such royalties are subject to tax at a rate of 60%.
- (b) For details, see Section B.
- (c) The withholding tax applies to payments over VEF12,500.01. The tax is imposed on the payment minus VEF375.
- (d) This withholding tax applies to payments over VEF25.
- (e) For interest associated with a loan invested in an income-generating activity, the withholding tax is imposed on 95% of the gross payment. Consequently, the effective withholding tax rate is 32.3% (95% x 34%). For other cases, the tax base is the gross interest payment.
- (f) In general, the withholding tax rate is determined under Tariff No. 2 (see Section B), which provides for a maximum tax rate of 34%. It is applied to 95% of the gross interest payment associated with a loan invested in an



income-generating activity. For other cases, the tax base is the gross interest payment. Interest paid to foreign financial institutions that are not domiciled in Venezuela is subject to withholding tax at a flat rate of 4.95%.

- (g) The law does not explicitly set forth any withholdings for royalties paid to residents. However, in practice, it is possible that the Tax Administration could consider the operation to be a provision of services and, accordingly, a 1% or 2% rate of withholding tax would apply.
- (h) Royalties paid to nonresidents are taxed on a deemed profit element, which is 90% of gross receipts.
- (i) Because royalties paid to nonresidents are taxed on a deemed profit element (see footnote (h) above), the effective withholding tax rate is 30.6% (90% x 34%).
- (j) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%. Because royalties paid to nonresidents are taxed on a deemed profit element (see footnote (h) above), the maximum effective withholding tax rate is 30.6% (90% x 34%).
- (k) Professional fees paid to nonresidents are taxed on a deemed profit element, which is 90% of gross receipts. Consequently, the effective withholding tax rate is 30.6% (90% x 34%).
- (l) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%.
- (m) Payments to nonresidents for technical assistance are taxed on a deemed profit element, which is 30% of gross receipts.
- (n) Because payments to nonresidents for technical assistance are taxed on a deemed profit element (see footnote (m) above), the effective withholding tax rate is 10.2% (30% x 34%).
- (o) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%. Because payments to nonresidents for technical assistance are taxed on a deemed profit element (see footnote (m) above), the maximum effective withholding tax rate is 10.2% (30% x 34%).
- (p) Payments to nonresidents for technological services are generally taxed on a deemed profit element, which is 50% of gross receipts.
- (q) Because payments to nonresidents for technological services are taxed on a deemed profit element (see footnote (p) above), the effective withholding tax rate is 17% (50% x 34%).
- (r) The withholding tax rate is determined under Tariff No. 2, which provides for a maximum tax rate of 34%. Because payments to nonresidents for technological services are taxed on a deemed profit element (see footnote (o) above), the maximum effective withholding tax rate is 17% (50% x 34%).
- (s) This tax applies to transfers of shares of corporations domiciled in Venezuela that are not traded on national stock exchanges. The withholding tax rates are applied to the sale price.
- (t) Losses may be carried forward three tax years, but they may not offset more than 25% of the income obtained in such tax years.

## B. Taxes on corporate income and gains

**Corporate income tax.** Companies domiciled in Venezuela are subject to income tax on their net annual income from Venezuelan and foreign sources. Companies organized in Venezuela are deemed to be domiciled in Venezuela. In addition, Venezuelan permanent establishments of foreign companies are also considered to be domiciled in Venezuela. However, only income attributable to a permanent establishment is taxable in Venezuela.

**Rates of corporate income tax.** Domestic corporations and branches of foreign corporations are subject to the corporate income tax rates of Tariff No. 2, which are progressive and are expressed in tax units. Effective from 1 March 2018, the value of a tax unit is VEF500. Effective from May 2018, the value of a tax unit will be increased to VEF850. The Venezuelan Budget Law may change the value of the tax unit each year. The following are the corporate income tax rates provided in Tariff No. 2.

Taxable income		Rate %
Exceeding tax units	Not exceeding tax units	
0	2,000	15
2,000	3,000	22
3,000	—	34

Net income arising from mining and related activities is taxed under Tariff No. 2. Petroleum companies and income from petroleum-related activities, such as transportation and exploitation, are taxed at a rate of 50%. Mining royalties and transfers of such royalties are subject to tax at a rate of 60%.

For tax years beginning on or after 31 December 2015, taxpayers that perform banking, financial, insurance and reinsurance activities are taxed at a proportional rate of 40%.

Interest paid to foreign financial institutions that are not domiciled in Venezuela is subject to a 4.95% withholding tax.

**Capital gains.** Capital gains are not taxed separately, but are taxable as business profits. For the computation of gains from sales of shares, the tax basis is zero if such shares had been received as a result of a dividend paid with new shares of the payer of the dividend.

**Administration.** Companies must file an annual income tax return, self-assess and pay any resulting balance of tax due, within three months after the end of their fiscal year.

Companies must make estimated tax payments during their fiscal year.

**Dividends.** Dividends paid by Venezuelan companies and profits remitted by permanent establishments of foreign companies to the countries of their home offices are taxable to the extent that “net income” exceeds its “net taxable income.” For this purpose, “net income” is the financial income approved by the shareholders’ meeting based on the financial statements, and “net taxable income” is the resulting income subject to tax after the tax reconciliation. The tax reconciliation is the procedure for determining the income tax liability. However, the tax does not apply to remittances paid by permanent establishments of foreign companies if the permanent establishment can prove that the excess amount is reinvested in Venezuela for at least five years.

The tax is withheld at source. The applicable rate depends on the business of the payer of the dividends. For dividends paid by hydrocarbon or mining companies subject to the 50% or 60% rates of corporate income tax (see *Rates of corporate income tax*), the dividend tax rate is the corporate tax rate applicable to the company. For dividends paid by other companies, the dividend tax rate is 34%.

**Foreign tax relief.** A credit is granted for income taxes paid on foreign-source income, up to the amount of Venezuelan tax payable on such income.

### C. Determination of trading income

**General.** Corporate tax is based on the annual net taxable accounting profits calculated in accordance with generally accepted accounting principles, subject to certain adjustments for non-taxable income and nondeductible expenses defined by law.

To determine the net taxable income, deductions are subtracted from gross income. In general, most expenses, including cost of production, are deductible, provided that they are normal and necessary for the earning of the income.

Under reconciliation rules, the determination of the Venezuelan and foreign-source income is made separately (two baskets). The reconciliation rules include detailed measures for the allocation of allowances and deductions to the two baskets.

**Inventories.** Inventories may be valued using any method in accordance with generally accepted accounting principles. The method chosen must be applied consistently. Because of tax indexation (see *Tax indexation*), inventory is effectively valued using the last-in, first-out (LIFO) method, adjusted for inflation.

**Tax indexation.** Companies must apply an annual inflation adjustment. A company carries out this adjustment by adjusting its non-monetary assets, some of its non-monetary liabilities and its equity to reflect the change in the consumer price index from the preceding year. These adjustments affect the calculation of depreciation and cost of goods sold. The net effect of these adjustments is recorded in an inflation adjustment account and is added to taxable income or allowed as a deduction.

Effective for tax years beginning after 22 October 1999, the tax indexation rules apply only to the reconciliation of Venezuelan-source income. Therefore, foreign-source non-monetary assets and liabilities are not subject to tax indexation.

For tax years beginning on or after 18 November 2014, for purposes of determining the adjustment for inflation, the National Index of Consumer Prices must be used instead of the Index of Consumer Prices, which was applicable for previous tax years. In addition, taxpayers that engage in banking, financial, insurance and reinsurance activities are excluded from the tax indexation system set forth in the Income Tax Law.

In addition, for tax years beginning on or after 31 December 2015, taxpayers appointed as "Special Taxpayers" are also excluded from the tax indexation system set forth in the Income Tax Law.

**Provisions.** Provisions for inventory obsolescence and accounts receivable are not deductible; amounts are deductible only when inventories or accounts receivable are effectively written off.

**Depreciation.** In general, acceptable depreciation methods are the straight-line and the units-of-production methods. The declining-balance method and accelerated depreciation are not accepted. Venezuelan law does not specify depreciation rates. If the estimated useful life of an asset is reasonable, the depreciation is accepted. Estimated useful lives ranging from 3 to 10 years are commonly used.

**Relief for tax losses.** Operating losses from Venezuelan sources may be carried forward for three tax years, but they may not offset more than 25% of the income obtained in such tax years. No carryback is permitted.

Losses in the foreign-source basket (see *General*) may not offset Venezuelan-source income. Such foreign-source losses may be carried forward three tax years to offset foreign-source income only and are also subject to the limitation described above.

Under the amendment of the Income Tax Law published on 18 November 2014 in *Official Gazette* No. 6,152, losses attributable to tax indexation for tax years beginning on or after that date cannot be carried forward.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT), imposed on goods and services, including imports; the National Executive may exonerate from tax acquisitions of goods and services; the law provides an indexation system for input VAT during the preoperational period for enterprises engaged in certain industrial activities; input VAT generated during the preoperational phase of industrial projects intended primarily for export is refunded	12
Tax on Large Financial Transactions; imposed on any payment made by taxpayers qualified as "special taxpayers" (that is, high income) by the tax administration, regardless of Venezuelan financial system involvement, including payment-equivalent means, such as offsetting, novation or debt forgiveness	0.75
Municipal tax; business activity tax, usually based on gross receipts or sales; rate varies depending on the industrial or commercial activity and the municipal jurisdiction	0.5 to 10
Social security contributions, on monthly salary of each employee, up to five minimum salaries; paid by	
Employer	11/12/13
Employee	4
National Institute of Cooperative Education; contributions required if employer has five or more employees; paid by	
Employer, on total employee remuneration	2
Employee, on profit share received, if any, from employer at year-end	0.5
Housing policy contributions, on the integral salary (any remuneration, benefit or advantage received by an employee in consideration for services rendered, provided it can be evaluated in terms of cash value) of each employee; paid by	
Employer	2
Employee	1

Nature of tax	Rate (%)
Unemployment and training contributions, on the monthly salary of each employee, up to five minimum salaries; paid by	
Employer	2
Employee	0.5

### E. Miscellaneous matters

**Foreign-exchange controls.** Under the foreign-exchange control system in Venezuela, the purchase and sale of currency in Venezuela is centralized by the Central Bank of Venezuela. This limits foreign-currency trade in Venezuela and other transactions.

**Debt-to-equity rules.** For fiscal years beginning on or after 16 February 2007, the law disallows deductions to companies for interest payments to related parties domiciled abroad if the average of the companies' debts (owed to related and unrelated parties) exceeds the average amount of their fiscal equity for the respective fiscal year.

**Transfer pricing.** Under transfer-pricing rules, cross-border income and expense allocations in transactions with related parties are subject to analysis and special filings. The rules contain a list of related parties and provide a list of acceptable transfer-pricing methods.

**Controlled foreign corporations.** Under controlled foreign corporation (CFC) rules, income derived by a CFC (as defined) domiciled in a low income tax jurisdiction is taxable to its Venezuelan shareholders. The tax authorities have issued a list of low income tax jurisdictions.

### F. Treaty withholding tax rates

	Dividends %	Interest (a) %	Royalties %
Austria	5/15 (c)	4.95/10 (m)	5
Barbados	5/10 (e)	5/15 (o)	10 (s)
Belarus	5/15 (b)	4.95/5 (ll)	5/10 (mm)
Belgium	5/15 (b)	10	5
Brazil (kk)	10/15 (j)	15	15 (t)
Canada	10/15 (h)	10	5/10 (u)
China (mainland)	5/10 (d)	5/10 (o)	10
Cuba	10/15 (h)	10	5
Czech Republic	5/10 (c)	10	12 (v)
Denmark	5/15 (b)	5	5/10 (w)
France	0/5/15 (k)	5	5
Germany	5/15 (c)	5	5
Indonesia	10/15 (l)	10	10/20 (x)
Iran	5/10 (c)	0/5 (r)	5 (y)
Italy	10	10	7/10 (z)
Korea (South)	5/10 (d)	5/10 (o)	5/10 (aa)
Kuwait	5/10 (d)	5	20
Malaysia	5/10 (d)	4.95/15 (nn)	10 (oo)
Mexico (kk)	5	4.95/10/15 (q)	10 (s)
Netherlands	0/10 (f)	5	5/7/10 (cc)
Norway	5/10 (d)	5/15 (o)	9/12 (dd)
Portugal	10	10	10/12 (dd)

	<b>Dividends</b>	<b>Interest (a)</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Qatar	5/10 (d)	4.95/5 (pp)	5
Russian Federation	10/15 (i)	5/10 (o)	10/15 (ee)
Spain	0/10 (f)	4.95/10 (n)	5
Sweden	5/10 (b)	10	7/10 (ff)
Switzerland	0/10 (f)	5 (gg)	5
Trinidad and Tobago	5/10 (b)	15	10
United Arab Emirates	5/10 (d)	10	10
United Kingdom	0/10 (g)	5	5/7 (hh)
United States	5/15 (d)	0/4.95/10 (p)	0/5/10 (bb)
Vietnam	5/10 (d)	4.95/10 (n)	10
Non-treaty jurisdictions	34/50/60 (ii)	4.95/34 (jj)	34 (jj)

- (a) Under Venezuelan domestic law, a reduced withholding tax rate of 4.95% applies to interest paid to financial institutions not domiciled in Venezuela.
- (b) The 5% rate applies to dividends paid to a parent company that owns at least 25% of the capital of the payer of the dividends. Under the Denmark and Sweden treaties, to benefit from the 5% rate, the recipient of the dividends must have direct control of at least 25% of the voting shares of the payer of the dividends. The higher rate applies to other dividends (portfolio dividends).
- (c) The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 15% of the capital of the payer of the dividends. Under the treaties with Austria, Czech Republic and Iran, to benefit from the 5% rate, the beneficial owner of the dividends must have direct control of at least 15% of the capital of the payer of the dividends. The higher rate applies to other dividends (portfolio dividends).
- (d) The 5% rate applies if the beneficial owner of the dividends is a company that owns at least 10% of the capital of the payer of the dividends. Under the treaties with China, Korea and Norway, to benefit from the 5% rate, the beneficial owner of the dividends must have direct control of at least 10% of the capital of the payer of the dividends. The higher rate applies to other dividends.
- (e) The 5% rate applies if the beneficial owner of the dividends is a company that owns directly at least 5% of the capital of the payer of the dividends. The higher rate applies to other dividends.
- (f) The 0% rate applies to dividends paid to certain recipients who own at least 25% of the voting shares of the payer of the dividends. Under the treaty with Switzerland, to benefit from the 0% rate, the recipient of the dividends must have direct control of at least 25% of the voting shares of the payer of the dividends. The higher rate applies to other dividends.
- (g) The 0% rate applies if the beneficial owner of the dividends is a company that directly controls at least 10% of the capital of the payer of the dividends. The 10% applies to other dividends.
- (h) The 10% rate applies if the beneficial owner of the dividends is a company that owns at least 25% of the capital of the payer of the dividends. Under the treaty with Cuba, to benefit from the 10% rate, the beneficial owner of the dividends must have direct control of at least 25% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
- (i) The 10% rate applies if the beneficiary of the dividends is a company that owns at least 10% of the capital of the payer of the dividends and if it has an investment in the payer of at least USD100,000. The 15% rate applies to other dividends.
- (j) The 10% rate applies if the beneficiary of the dividends is a company that controls at least 20% of the capital of the payer of the dividends. The 15% rate applies to other dividends.
- (k) The 0% rate applies if the beneficial owner of the dividends is a company that holds directly or indirectly at least 10% of the payer of the dividends. The 15% rate applies if the beneficiary of the dividends is a resident of Venezuela that receives from a company resident in France dividends that would give rise to a tax credit (*avoir fiscal*). For dividends received by a resident of France, the recipient has a right to a payment from the French Treasury in an amount equal to the *avoir fiscal*. The 5% rate applies in all other cases.

- (l) The 10% rate applies if the beneficiary of the dividends is a company that controls directly at least 10% of the voting power of the distributing company. The 15% rate applies to other dividends.
- (m) The 4.95% rate applies to interest paid to banks. The 10% rate applies to other interest payments.
- (n) The 4.95% rate applies to interest paid to financial institutions. The 10% rate applies to other interest payments.
- (o) The 5% rate applies to interest paid to banks. The higher rate applies to other interest payments.
- (p) The 0% rate applies to interest paid to the Eximbank, Federal Reserve Bank, Private Investment Corporation, Foreign Trade Bank, Central Bank of Venezuela and Venezuelan Investment Fund. The 4.95% rate applies to interest paid to financial institutions or insurance companies. The 10% rate applies to other interest payments.
- (q) The 4.95% rate applies to interest paid to banks or insurance companies. The 10% rate applies if the beneficial owner of the interest is not one of the entities mentioned in the preceding sentence and if either of the following additional conditions is satisfied:
- The interest is paid by banks.
  - The interest is paid on bonds or other credit securities that are traded regularly and substantially on a recognized securities market.
- The 15% rate applies to other interest payments.
- (r) The following interest payments are exempt:
- Interest paid to the government of the other contracting state, or a local authority or central bank of such state
  - Interest paid for the sale on credit of industrial, commercial or scientific equipment
  - Interest on bank loans
- The 5% rate applies to other interest payments.
- (s) The 10% rate also applies to technical assistance fees.
- (t) The 15% rate applies to royalties related to copyrights, trademarks, know-how, literary, artistic or scientific works, or films. A protocol to the treaty provides that payments for technical assistance services are treated as royalties and are therefore also subject to the 15% rate.
- (u) The 5% rate applies to the following:
- Copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or other artistic works (but not including royalties for motion picture films or works on film or videotape or other means of reproduction for use in connection with television broadcasting)
  - Royalties for the use of, or the right to use, computer software, patents or information concerning industrial, commercial or scientific experience (but not including royalties paid in connection with rental or franchise agreements) if the payer and the beneficial owner of the royalties are not related persons
- The 10% rate applies to other royalties.
- (v) The 12% rate also applies to technical assistance fees.
- (w) The 5% rate applies to technical assistance fees resulting from the rendering of technical, managerial or consultancy services if such services make available technical knowledge, experience, skills, know-how or processes. The 10% rate applies to the following royalties:
- Royalties paid as consideration for the use of, or the right to use, copyrights of literary, artistic or scientific works, including cinematographic films, patents, trademarks, designs or models, plans, and secret formulas or processes
  - Royalties for information concerning industrial, commercial or scientific experience
- (x) The 10% rate applies to payments for technical assistance. The 20% rate applies to royalties.
- (y) This rate applies to royalties and to amounts paid for technical assistance services.
- (z) The 7% rate applies to copyright royalties and similar payments with respect to the production or reproduction of literary, dramatic, musical or other artistic works (but not including royalties with respect to motion picture films, or works on film, videotape or other means of reproduction for use in connection with television broadcasting); and royalties for the use of, or the right to use, computer software or patents or for information concerning industrial, commercial or scientific experience (but not including royalties paid in connection with rental or franchise agreements) if the payer and the beneficial owner of the royalties are not related persons. The 10% rate applies to other royalties.

- (aa) The 5% rate applies to royalties paid for the use of, or the right to use, industrial, commercial, or scientific equipment. The 10% rate applies to other royalties.
- (bb) The 0% rate applies to royalties paid for technical services, scientific, geological or technical studies, engineering works, consulting or supervision services, if the recipient does not have a permanent establishment. The 5% rate applies to royalties paid for industrial, commercial or scientific equipment. The 10% rate applies to royalties paid for the following:
- Patents, designs or models, plans, or secret formulas or processes
  - Industrial, commercial or scientific know-how
  - Trademarks
  - Copyrights with respect to literature, arts or sciences, motion pictures, or movies and tapes for radio or television broadcasting
- (cc) The 5% rate applies to payments for the following:
- Patents, designs or models, plans, or secret formulas or processes
  - The use of, or the right to use, industrial, commercial, or scientific equipment
  - Information concerning industrial, commercial or scientific experience
- The 7% rate applies to amounts paid for trademarks or trade names. The 10% rate applies to amounts paid for copyrights of literary, artistic or scientific works, including cinematographic films or tapes for television or broadcasting.
- (dd) The lower rate applies to payments for technical assistance. The 12% rate applies to royalties.
- (ee) The 10% rate applies to technical assistance fees, which are all payments in consideration for the rendering of technical, managerial or consultancy services, if such services make available technical knowledge, experience, skills, know-how or processes. The 15% rate applies to royalties.
- (ff) The 10% rate applies to royalties related to literary, artistic or scientific works, or films. The 7% rate applies to other royalties.
- (gg) This is the general rate. Certain special rules apply.
- (hh) The 5% rate applies to royalties for patents, trademarks, designs or models, plans, or secret formulas or processes, or for information (know-how) concerning industrial, commercial or scientific experience. The 7% rate applies to royalties for copyrights of literary, artistic or scientific works, including cinematographic films, and films or tapes for radio or television broadcasting.
- (ii) For details, see Section B.
- (jj) See Section A.
- (kk) This treaty has been signed, but it has not yet been ratified and is not yet in force.
- (ll) The 4.95% rate applies to interest paid to financial institutions. The 5% rate applies to other interest payments.
- (mm) The 5% rate applies to royalties paid for the use of, or the right to use, copyrights of scientific works, software and trademarks, and to payments for the use of, or the right to use, equipment and transportation vehicles. The 10% rate applies to other royalties.
- (nn) The 4.95% rate applies to interest paid to banks. The 15% rate applies to other interest payments.
- (oo) The 10% rate applies to royalties paid for the use of, or the right to use, copyrights of literary, artistic or scientific works, cinematographic films, patents, trademarks, designs or models, plans, or secret formulas or processes, and to payments for the use of, or the right to use, industrial, commercial, or scientific equipment or for information (know-how) concerning industrial, commercial or scientific experience. It also applies to gains derived from the alienation of such rights or property to the extent that such gains are contingent on the productivity, use or disposition of such property.
- (pp) The 4.95% rate applies to interest paid to banks. The 5% rate applies to other interest payments.

Venezuela has signed other tax treaties that cover only air and maritime transportation.



# Vietnam

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*Because of the rapidly changing economic situation in Vietnam, readers should obtain updated information before engaging in transactions.*

**A. At a glance**

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax Rate (%)	20 (b)
Branch Tax Rate (%)	20
Withholding Tax (%)	
Dividends	0
Interest	5
Royalties	10
Branch Remittance Tax	0
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 (c)

- (a) The standard corporate income tax rate is 20%. However, tax incentives are available (see Section B). Enterprises operating in the oil and gas industry are subject to corporate income tax rates ranging from 32% to 50%, depending on the location and specific project conditions. Enterprises engaging in prospecting, exploration and exploitation of mineral resources (for example, silver, gold and gemstones) are subject to corporate income tax rates of 40% to 50%, depending on the project's location.
- (b) Gains derived from sales of capital or shares in entities are subject to tax at a rate of 20%. Transfers of securities by foreign investors are subject to presumptive tax of 0.1% on total sales proceeds, regardless of whether the transfer is profitable.
- (c) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** The following types of enterprises are subject to corporate income tax:

- Enterprises established under the Law on Enterprises, the Law on Investment, the Law on Credit Organizations, the Law on Insurance Business, the Law on Securities, the Law on Oil and Gas, the Trade Law and other legal entities including joint stock companies, limited liability companies, partnerships, private businesses, law offices, private public notary offices, parties to business cooperation contracts, parties to oil and gas product sharing contracts, and joint operation companies
- Public and non-public organizations engaged in business
- Organizations established under the Law on Cooperatives
- Businesses established under foreign laws that have a permanent establishment in Vietnam
- Other organizations conducting production and business activities that generate taxable income

**Rates of corporate income tax.** The standard corporate income tax rate is 20%. However, tax incentives are available (see *Tax incentives*).

The rate of corporate income tax applicable to activities of exploration and exploitation of oil, gas and other precious natural resources ranges from 32% to 50%, depending on the project.

### Tax incentives

*Incentive tax rates.* Preferential tax rates of 10% or 17% may be available to eligible projects in industries or locations that are encouraged by the government.

A 10% rate for the 15-year period beginning with the first year of revenue may be available for the following:

- Income from new investment projects in areas with especially difficult socioeconomic conditions, and in economic zones and high-technology zones
- Income from new investment projects that are engaged in the following:
  - Scientific research and technological development
  - Application of high technologies in the list of prioritized high technologies provided by the Law on High Technology
  - Cultivation of high technologies
  - Cultivation of high-technology enterprises
  - High-risk investment in the development of high technologies in the list of prioritized high technologies provided by the Law on High Technology

- Construction investment and commercial operation of establishments nursing high technologies
- Investment in development water plants, power plants, water supply and drainage systems, bridges, roads, railways, airports, seaports, river ports airfields, stations and other particularly important infrastructure facilities determined by the prime minister
- Software production
- Production of composite materials, light building materials, rare materials, renewable energy, clean energy and energy from waste destruction
- Development of biological technology
- Income of new investment projects in the field of environmental protection, including manufacturing of equipment for treating environmental pollution and equipment for environmental observation and analysis, environmental pollution treatment and protection, collection and treatment of wastewater, exhaust and solid wastes, and recycling and reuse of wastes
- Income of high-technology enterprises and agricultural enterprises that apply high technologies according to the Law on High Technology
- Income from new investment projects that make products supportive of the high-technology industry in line with the Law on High Technology or products supportive of certain industries, including textile and garment, footwear, electronics, information technology, automobile assembly and mechanics, and that are not domestically produced as of 1 January 2015 or meet the quality standard of the European Union or an equivalent standard
- Income from new investment projects in the production sector (except for projects producing goods subject to special sales tax and mineral exploitation projects) that have investment capital of at least VND6 trillion, if the capital is disbursed within three years from the date of the investment certificate and if either of the following conditions is satisfied:
  - The project's total revenue reaches VND10 trillion per year within three years from the first year of revenue.
  - The project employs more than 3,000 employees.
- Large-scale manufacturing projects (excluding projects manufacturing products subject to special sales tax or exploiting mineral resources) if all of the following conditions are satisfied:
  - The investment capital must be at least VND12 trillion.
  - The technology used must be certified in accordance with the Law on High Technology and the Law on Science and Technology.
  - The capital disbursement must be made within five years of the licensing date.

A 10% rate applies for the entire period of operation for enterprises in the sectors of education and training, occupational training, health care, culture, sports, environment, social housing, forestry, agriculture, fishing, salt production and publishing. However, this incentive is subject to detailed conditions provided separately by the prime minister.

A 17% rate for the 10-year period beginning with the first year of revenue may apply to the following:

- Income from new investment projects based in areas with difficult socioeconomic conditions

- Income from new investment projects that are engaged in the production of high-qualified steel or energy-saving products, the manufacturing of machinery and equipment serving agriculture, forestry, aquaculture, salt production, production of irrigation equipment, the production of foodstuff for cattle and the development of traditional trades

The duration of the application of preferential tax rates described above is counted consecutively from the first year in which enterprises generate turnover from new investment projects eligible for tax incentives. For high-technology enterprises and agricultural enterprises applying high technologies, this duration is counted from the year in which they are certified as high-technology enterprises or agricultural enterprises applying high technologies. For other projects applying high technologies, this duration is counted from the year in which they are granted certificates of projects applying high technologies.

If, within an assessment period, an enterprise has both incentivized activities and normal activities, it must conduct a separate accounting for income from each activity to declare and pay tax separately. Otherwise, taxable income must be prorated according to the ratio of revenue or deductible expenses of each activity to the total revenue or deductible expenses.

Income and losses from incentivized activities and normal activities (except for transfers of mineral exploratory, mining and processing rights) may be netted against each other before the tax rate of the activity with the highest amount of income is applied.

Tax incentives previously granted as a result of the export ratio are repealed, effective from 1 January 2012. Affected taxpayers can adopt either tax incentives for the remaining incentive period based on the prevailing regulations effective at the time they were licensed or those effective from 31 December 2011. Taxpayers are required to notify the tax authorities regarding the tax incentive option selected.

*Tax exemptions and tax reductions.* Criteria for eligibility to tax holidays and reductions, which are set out in the corporate income tax regulations, are described below.

Four years of tax exemption and nine subsequent years of 50% reduction apply to the following:

- Income from new investment projects entitled to the 10% corporate income tax
- Income from new investment projects operating in the socialized sectors and difficult socio-economic areas

Four years of tax exemption and 50% tax reduction for five subsequent years apply to income from new investment projects in the socialized sectors and in regions not included in the list of difficult socio-economic areas.

Two years of tax exemption and four subsequent years of 50% reduction apply to the following:

- Income from new investment projects in regions with difficult socio-economic conditions
- Income from new investment projects, including production of high-grade steel, production of energy-saving products,

production of machinery or equipment used to serve agricultural, forestry, fishery or salt production, production of irrigation equipment, production and refinement of foodstuffs for cattle, poultry or aquatic products, and development of traditional trades

- Income from new investment projects in industrial zones (except for industrial zones located in regions with favorable socio-economic conditions)

The continuous period of tax exemption and reduction begins from the first year in which the enterprise earns taxable income from the new investment project that is granted tax incentives. If the enterprise does not have taxable income in the first three years, the period of tax exemption and reduction begins in the fourth year following the first year in which revenue is generated by the new project.

**Capital gains.** Gains derived from sales of shares or assignments of capital in enterprises are subject to tax at a rate of 20%. The taxable income equals the transfer price less the sum of the purchase price of the transferred capital and expenses incurred with respect to the transfer.

Foreign investors transferring “securities” (this is a specified term, which includes shares of public companies) are subject to presumptive tax at a rate of 0.1% on total sale proceeds, regardless of whether the transfer is profitable.

**Administration.** Enterprises normally use the calendar year as their tax year. Enterprises that have their own particular characteristics of operational organization may choose a financial year of 12 months according to the Gregorian calendar and they must notify the local authorities of such year.

Enterprises must pay their quarterly income tax due within 30 days after the last day of the quarter. Enterprises must file a final income tax return and pay any balance of income tax due within 90 days after the end of the tax year.

An under declaration is subject to only a late-payment fine if it is self-corrected by the taxpayer. Otherwise, a penalty of 20% of the under declared tax is imposed. As of 1 July 2016, late payments of tax are subject to interest at a rate of 0.03% of the unpaid amount per day.

Tax audits are performed annually or on an ad hoc basis. Any tax under declaration identified by the tax auditor is penalized at 20% (or 100% to 300% if considered to be tax evasion) and subject to a prevailing interest rate of the tax liability for each day late, calculated from the statutory deadline to the date of actual payment.

**Dividends.** Dividends and branch remittances are not subject to withholding tax.

**Withholding taxes on interest and royalties.** The rate of withholding tax on interest paid under loan contracts is 5%.

A withholding tax at a rate of 10% is imposed on royalties paid to foreign legal entities with respect to technology transfers and licensing.

**Foreign tax relief.** Vietnam has signed tax treaties with several countries that provide relief from double taxation (see Section F).

### C. Determination of taxable income

**General.** The taxable income of an enterprise is the income shown in the financial statements, subject to certain adjustments. Taxable income includes income derived by branch operations from business and other activities.

An enterprise may deduct expenses if the following conditions are satisfied:

- The expenses are actually incurred and related to the production and business activities of the enterprise.
- The expenses are accompanied by complete invoices and source vouchers as required by law.
- Expenses of VND20 million or more must be supported with cashless payments (for example, bank transfers and payments with cards).
- The expenses are not on the list of nondeductible expenses shown below.

Certain expenses are not deductible in determining taxable income, including the following:

- Provisions that do not conform to the regulations of the Ministry of Finance (MOF)
- Accrued expenses not corresponding to taxable turnover that has been recognized
- Bonuses and life insurance expenses for employees that are not clearly stated in the labor contracts, the collective labor contracts, the financial regulations of the company or the reward regulations promulgated by the chairman of the board of management
- Interest payments on loans corresponding to equity that is not contributed
- Interest payments on loans borrowed from lenders that are not credit institutions or economic organizations that exceed 150% of the basic interest rate quoted by the State Bank of Vietnam at the time of the loan agreement
- Under recently enacted transfer-pricing regulations, loan interest expenses in excess of 20% of the total net profit generated from business activities plus loan interest expenses and amortization costs arising in the period
- Expenses sourced from other funding and expenses paid from the Science and Technology Development Fund of the enterprise
- The portion of business management expenses allocated by a foreign company to its resident establishment in Vietnam (for example, head office charges allocated to the Vietnam branch) that exceeds the level allowed under the regulations
- Depreciation of fixed assets that are not used for business activities and/or supported by ownership documents
- Employees' fringe benefits that exceed the cap of an average one month's salary cost (calculated by dividing the yearly wage fund by 12) in the tax year
- Payments above VND1 million per person per month for contributions to a voluntary pension fund or purchase of voluntary pension insurance for employees
- Donations except for certain donations for education, health care, natural disasters or building charitable homes for the poor

- Management expenses allocated to permanent establishments in Vietnam by the foreign company that are not in accordance with the regulations
- Administrative penalties
- Input value-added tax (VAT) that has been credited or refunded, input VAT on the value of a car of nine seats or less that exceeds VND1,600,000,000, corporate income tax (except for the corporate income tax that a Vietnamese company pays on behalf of a foreign contractor under a net contract) and personal income tax (unless the employer pays net salary to employees)
- Expenses that do not correspond to taxable revenue
- Exchange-rate loss as a result of the revaluation of the year-end balance of money items in foreign currencies, except for the revaluation of payables in foreign currencies
- Exchange-rate loss arising in the process of capital construction of fixed assets, which is governed by a separate regulation of the MOF

**Inventories.** Inventory valuation should be consistent with the accounting principles and standards selected by the company and approved by the MOF. No specific guidelines have been established by the tax authorities.

**Tax depreciation.** Depreciation of fixed assets is normally computed using the straight-line method. The MOF has issued guidelines setting forth the minimum and maximum years for depreciation of various assets, but companies may apply to the MOF for permission to use different time periods. The following are the minimum and maximum years of depreciation for certain categories of assets.

<b>Asset</b>	<b>Years</b>
Intangible assets	Up to 20
Buildings and factories	5 to 50
Tools and machinery	3 to 20
Transportation vehicles	6 to 30
Other fixed assets	2 to 40

Depreciation at rates exceeding those allowed by the MOF is not deductible for tax purposes. For cars with nine seats or less purchased by enterprises for business other than passenger transportation, hotel or tourism, the depreciable amount is capped at VND1,600,000,000.

**Relief for losses.** Enterprises that incur losses may carry forward the losses to the following five years and claim such losses as deductions from taxable income. Losses must be wholly carried forward to consecutive years (including the year of a tax holiday).

Enterprises that incur losses from real-property transfers may carry forward the losses to offset income from all of their activities.

Carrybacks of losses are not allowed.

**Groups of companies.** Dependent production establishments of a company operating in different areas of Vietnam must declare and pay tax with the local tax authorities where the dependent establishments' offices are located based on the ratio of the expenses of the dependent establishment to the total expenses of the company. The offsetting of losses and profits between parents and subsidiaries is not allowed.



## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate
Value-added tax (VAT); imposed on all goods and services consumed in and imported into Vietnam, including goods and services subject to special consumption tax, except for non-taxable items	
General rate	10%
Exports of goods and services	0%
Certain goods and services, such as water supply, agricultural goods, medical goods and teaching aids	5%
Special consumption tax; imposed on imported or domestically produced cigarettes, beer, spirits, motor vehicles, fuel and air conditioners, and various services including casinos, betting, golf courses and various places of entertainment	5% to 150%
Social insurance, health insurance and unemployment insurance contributions, on salaries (generally applicable to Vietnamese employees only); paid by Employer	
Social insurance; the contribution is based on the salary and other allowances of the employees as provided in the labor contract but not exceeding 20 times the minimum salary	18%
(The rate of 18% consists of a 3% contribution to the maternity and illness fund, a 1% contribution to the labor and professional accident fund and a 14% contribution to the pension and death fund)	
Health insurance; calculated on the same base as social insurance	3%
Unemployment insurance	1%
Employee	
Social insurance	8%
Health insurance	1.5%
Unemployment insurance	1%
Foreign contractor tax; rate depends on type of business activity	0.1% to 10%
Land rent (land-use tax); imposed annually for the use of land; tax base is calculated by multiplying the amount of square meters of the land by land price rates, which vary by location; the higher land price rates apply to land in Hanoi, Ho Chi Minh City and other urban locations	Various
Non-agricultural land use tax; taxable objects include residential land in all areas and land used for business purposes, except for certain cases	
Residential land	0.03% to 0.15%
Non-agricultural land used for business purposes	0.03%

Nature of tax	Rate
Land not used in accordance with granted purposes	0.15%
Environmental Tax; taxable objects consist of petroleum, oil, lubricants, black coal, hydrochlorofluorocarbon (HCFC) solutions, taxable plastic bags, herbicide termite insecticides, forest products protective agents and warehouse insecticides	
Petroleum, oil and lubricants	VND300 to VND4,000 per liter/kilogram
Black coal	VND10,000 to VND50,000 per ton
HCFC solution	VND1,000 to VND5,000 per kilogram
Taxable plastic bags	VND30,000 to VND50,000 per kilogram
Herbicide (restricted use category)	VND500 to VND2,000 per kilogram
Termite insecticide (restricted use category)	VND1,000 to VND3,000 per kilogram
Forest products protective agents (restricted use category)	VND1,000 to VND3,000 per kilogram
Warehouse insecticides (restricted use category)	VND1,000 to VND3,000 per kilogram
Natural Resources Tax (NRT); payable by industries exploiting Vietnam's natural resources; taxable objects include metallic minerals, nonmetallic minerals, products of natural forests, natural marine products, natural mineral water, other natural resources and petroleum; tax base for NRT calculation includes the output of royalty-liable natural resources, royalty-liable price of a unit of natural resource and royalty rate	
Metallic minerals	10% to 20%
Nonmetallic minerals	6% to 27%
Products of natural forests	5% to 35%
Natural marine products	2% to 10%
Natural mineral water and natural water	1% to 10%
Other natural resources	10% to 20%
Crude oil	
Encouraged investment projects	7% to 23%
Other projects	10% to 29%
Natural gas and coal gas	
Encouraged investment projects	1% to 6%
Other projects	2% to 10%

## E. Miscellaneous matters

**Foreign-exchange controls.** Enterprises with foreign-owned capital must open accounts denominated in a foreign currency or the Vietnam dong (VND) at a bank located in Vietnam and approved

by the State Bank of Vietnam (SBV). All foreign-exchange transactions, such as payments or overseas remittances, must be in accordance with policies set by the SBV.

Enterprises with foreign-owned capital and foreign parties may purchase foreign exchange from a commercial bank to meet the requirements of current transactions or other permitted transactions, subject to the bank having available foreign exchange.

The government may guarantee foreign currency to especially important investment projects or assure the availability of foreign currency to investors in infrastructure facilities and other important projects.

**Transfer pricing.** The Vietnamese tax authorities may recalculate the purchase or sales price to reflect the domestic or foreign market price. The methods permissible under the regulation closely resemble the methods provided for by the Organisation for Economic Co-operation and Development (OECD) guidelines. The following are the permissible methods:

- Comparable uncontrolled price method
- Resale price method
- Cost-plus method
- Profit-split method
- Transaction net margin method

A contemporaneous Transfer Pricing Document (TPD) must be in place to substantiate the arm's-length prices of related-party transactions for submission to the tax authority within 30 days on receipt of a written request. Under the Vietnamese transfer-pricing regulations, the documentation and analysis requirements are contemporaneous; that is, the TPD is required to be updated every year to reflect the current economic circumstances and latest financials of selected comparable companies and transactions.

Advance pricing agreement (APA) regulations were introduced and became effective from February 2014. The regulations are largely in line with the OECD Guidelines and APA regimes in other tax jurisdictions. An APA is a binding agreement between a taxpayer and the tax authority that determines in advance the basis for tax calculation, transfer-pricing methods and arm's-length prices of the covered related-party transactions for a specific time period. The APA period is five years with a renewal period of up to five years.

## F. Treaty withholding tax rates

The withholding rates under Vietnam's double tax treaties are listed in the following table.

	Dividends %	Interest %	Royalties %
Australia	10/15	10	10
Austria	5/10/15 (a)	10	10
Azerbaijan	10	10	10
Bangladesh	15	15	15
Belarus	15	10	15
Belgium	5/10/15 (a)	10	15
Brunei Darussalam	10	10	10
Bulgaria	15	10	15
Canada	5/10/15 (a)	10	7.5/10

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	<b>%</b>	<b>%</b>	<b>%</b>
China (mainland)	10	10	7/10
Cuba	5/10/15 (a)	10	10
Czech Republic	10	10	10
Denmark	5/10/15 (a)	10	5/15
Finland	5/10/15 (a)	10	10
France	7/10/15 (a)	– (b)	10
Germany	5/10/15 (a)	10	7.5/10
Hong Kong SAR	10	10	7/10
Hungary	10	10	10
Iceland	10/15 (a)	10	10
India	10	10	10
Indonesia	15	15	15
Iran	10	10	10
Ireland	5/10	10	5/10/15
Israel	10	10	5/15
Italy	5/10/15 (a)	10	7.5/10
Japan	10	10	10
Kazakhstan	5/15	10	10
Korea (North)	10	10	10
Korea (South)	10	10	5/15
Kuwait	10/15	15	20
Laos	10	10	10
Luxembourg	5/10/15 (a)	10	10
Malaysia	10	10	10
Malta	5/15	10	5/10/15
Mongolia	10	10	10
Morocco	10	10	10
Mozambique	10	10	10
Myanmar	10	10	10
Netherlands	5/10/15 (a)	10	5/10/15
New Zealand	5/15 (a)	10	10
Norway	5/10/15 (a)	10	10
Oman	5/10/15 (a)	10	10
Pakistan	15	15	15
Palestinian Authority	10	10	10
Panama	5/7/12.5	10	10
Philippines	10/15 (a)	15	15
Poland	10/15 (a)	10	10/15
Portugal	5/10/15	10	10
Qatar	5/12.5	10	5/10
Romania	15	10	15
Russian Federation	10/15 (a)	10	15
San Marino	10/15	10/15	10/15
Saudi Arabia	5/12.5	10	7.5/10
Serbia	10/15	10	10
Seychelles	10	10	10
Singapore	5/7/12.5 (a)	10	5/10
Slovak Republic	5/10	10	5/10/15
Spain	7/10/15 (a)	10	10
Sri Lanka	10	10	15
Sweden	5/10/15 (a)	10	5/15
Switzerland	7/10/15 (a)	10	10
Taiwan	15	10	15
Thailand	15	10/15	15

	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
Tunisia	10	10	10
Ukraine	10	10	10
United Arab Emirates	5/15	10	10
United Kingdom	7/10/15 (a)	10	10
Uruguay	5/15	—	—
Uzbekistan	15	10	15
Venezuela	5/10 (a)	10	10
Non-treaty jurisdictions	0	5	10

(a) The rates vary depending on the percentage of the payer's capital that is owned by the recipient of the dividends.

(b) The treaty with France does not cover the taxation of interest.

Vietnam has signed double tax treaties with Algeria, Egypt, Estonia, Macedonia and the United States, but these treaties have not yet been ratified or have not yet taken effect.

# Zambia

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## A. At a glance

Corporate Income Tax Rate (%)	0 to 40 (a)
Capital Gains Tax Rate (%)	0
Branch Tax Rate (%)	0 to 40 (a)
Withholding Tax (%) (b)	
Dividends	15 (c)
Interest	15 (d)
Royalties	20 (e)
Management Fees	15/20 (f)
Rental Income	10
Branch Remittance Tax	15
Net Operating Losses (Years)	
Carryback	0
Carryforward	5 or 10 (g)

(a) For details, see Section B.

(b) These withholding taxes apply to payments to resident and nonresident companies and individuals.

(c) For resident and nonresident companies and individuals, this is a final tax. Zambian-incorporated companies may offset the withholding tax imposed on dividends received from other Zambian-incorporated companies against withholding tax payable on their own distributions of dividends.

(d) Withholding tax is payable on the accrual of interest. This rate applies to interest accrued by companies. This is a final tax for nonresident companies. Resident companies may credit the withholding tax against their income tax.

(e) For individuals and nonresident companies, this is a final tax. Resident companies may credit the withholding tax against their income tax.

(f) The 15% rate applies to resident companies and individuals, while the 20% rate applies to nonresidents. This is a final tax for nonresident companies and individuals. The tax withheld from payments to resident companies and individuals is granted as a credit in the final tax return.

(g) See Section C.

## B. Taxes on corporate income and gains

**Corporate income tax.** Resident and nonresident companies are subject to tax on their income derived from Zambian sources. However, residents are subject to tax on dividends and interest received on a worldwide basis. Resident companies are also subject to tax on profits derived from a business carried on partly inside, and partly outside, Zambia. A company is considered resident in Zambia if it is incorporated in Zambia or if the central management and control of the company's business or affairs are exercised in Zambia.

**Tax rates.** The following are the standard corporate tax rates.

Source	Rate (%)
Farming	10
Agro-processing	10
Export of non-traditional products	15
Manufacturing	35
Banking income	35
Mobile telephone operators	
Profits up to ZMW250,000	35
Profits exceeding ZMW250,000	40
Royalties	35 (a)
Income from mining operations	30 (b)
Income from mineral processing	35
Trading and other sources	35

- (a) A 20% final withholding tax is imposed on royalties paid to nonresidents.
- (b) A mining operation is any operation carried out under a mining right referred to in Section 6 of the Mines and Minerals Development Act, but does not include any operations carried out under a prospecting permit or prospecting license or any operations involving only mineral processing. Mining operations are subject to a mineral royalty (see Section D). If the income from a mining operation exceeds 8% of gross sales, the rate is determined in accordance with the following formula:

$$Y = 30\% + [a - (ab \div c)]$$

The following are the values of the items in the formula:

- Y = the tax rate to be applied per year
- a = 15%
- b = 8%
- c = the percentage ratio of assessable income to gross sales

A tax incentive is available to companies that are newly listed on the Lusaka Stock Exchange. A two percentage point reduction of each corporate tax rate is granted to such companies. In addition, a reduction of five percentage points (for a total reduction of seven percentage points) of each corporate tax rate is available to companies with more than 33% of their shares owned by Zambians. The incentive applies for one year only, and a company may claim the incentive only once.

**Capital gains.** Capital gains are not subject to tax in Zambia, but depreciation recaptured for tax purposes (see *Tax depreciation*) is taxable at the regular corporate tax rates. In addition, a property transfer tax is imposed (see Section D).

**Administration.** The Zambia Revenue Authority administers the Income Tax Act. The tax year runs from 1 January to 31 December. Annual tax returns must be filed by 30 June of the following tax year.

Companies must make four advance payments of tax, which are due on 14 April, 14 July, 14 October and 14 January. The installments are based on an estimate of the tax due for the year. The balance of tax due must be paid by the due date for filing the annual tax return.

A company may apply to the Commissioner-General to use an accounting year other than the standard tax year. However, the due dates described above for filing returns and advance payments of tax also apply to companies with an accounting year-end other than 31 December.

**Dividends.** A 15% withholding tax is imposed on dividends paid. For resident and nonresident companies and individuals, this is a final tax. Dividends received from subsidiaries are also subject to a 15% withholding tax.

Zambian-incorporated companies may offset the withholding tax imposed on dividends received from other Zambian-incorporated companies against withholding tax payable on their own distributions of dividends.

**Foreign tax relief.** A foreign tax credit is available to resident companies for foreign taxes paid on foreign income subject to Zambian tax. The amount of the tax credit is the lower of the Zambian tax payable on the foreign income and the foreign tax paid on the same income.

### **C. Determination of trading income**

**General.** Taxable income is the net profit reported in the companies' financial statements, adjusted by certain tax law provisions.

Expenses are deductible to the extent they are incurred wholly and exclusively for the purposes of the business.

Companies engaged in fishing or farming for two consecutive tax years may elect to calculate taxable income or loss for the two tax years by averaging the taxable income earned or loss incurred in each of the two tax years. This election must be filed with the Commissioner-General before the end of the tax year following the second consecutive tax year. The election is not allowed in certain circumstances.

**Inventories.** Inventories are valued at the lower of cost or net realizable value.

**Provisions.** Specific identifiable provisions with proof of steps taken to collect the debt are allowed for tax purposes, but general provisions are not allowed.

**Tax depreciation.** Industrial buildings qualify for an initial allowance of 10%. The initial allowance is not deductible from the cost of the assets. Annual wear-and-tear allowances, which are calculated using the straight-line method, are available for the following assets.



Asset	Rate (%)
Industrial buildings	
Low-cost housing (buildings used to provide housing for the purposes of a business with a cost per unit of up to ZMW20,000 [USD2,000])	10
Others	5
Commercial buildings	2
Implements and plant and machinery used in farming, tourism, electricity generation and manufacturing	50
Other implements and plant and machinery, and commercial vehicles	25
Other vehicles	20

The amount of depreciation claimed on an asset may be recaptured when the asset is sold. In general, the amount recaptured is the excess of the sales price over the tax value, but it is limited to the amount of depreciation claimed.

**Relief for losses.** Tax losses may be carried forward five years to offset income from the same source. Mining operations and companies operating in the hydro- and thermo-generation sector may carry forward losses for a period of 10 years. Effective from 1 July 2015, a loss from a mining operation is deducted from 50% of the income of a person from the mining operation. In general, losses may not be carried back.

**Groups of companies.** No provisions for filing consolidated returns exist in Zambia.

#### D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax, on any supply of goods and services, other than an exempt supply, made in Zambia and on taxable imports; exports are zero-rated	16
National Pensions Scheme Authority (NAPSA; social security system) contributions on monthly wages; maximum contribution of ZMW792.05 per month for both employers and employees	
Employer	5
Employee	5
Property transfer tax, on transfers of shares of companies incorporated in Zambia, and land, buildings and structures located in Zambia	5
Property transfer tax on transfer of mining rights	10
Property transfer tax on intellectual property; effective from 1 January 2018	5
Royalty on the extraction, production and selling of ore; the mineral royalty tax rate varies depending on the type of mineral	Various

## E. Miscellaneous matters

**Foreign-exchange controls.** The Zambian currency is the kwacha (ZMW). The exchange rate of the kwacha against foreign currencies is not controlled.

Zambia does not impose foreign-exchange controls.

**Transfer pricing.** Transfer-pricing rules apply to transactions between related parties. Related-party transactions must be conducted at arm's length. Transfer-pricing rules apply to transactions with nonresident related parties as well as to transactions between local entities. The transfer-pricing regulations are based on Organisation for Economic Co-operation and Development (OECD) rules, and any price determined in accordance with OECD rules is acceptable. Effective from 1 January 2018, taxpayers must retain transfer-pricing documentation and submit it within 14 days of a request by the tax authority or they will be subject to a penalty of USD50,000.

**Permanent establishment.** The provision of services, including consultancy services, through employees or other personnel engaged by an entity in Zambia for a period or periods exceeding an aggregate of 90 days in any rolling 12-month period results in a permanent establishment.

## F. Treaty withholding tax rates

	Dividends	Interest	Royalties	Management fees
	%	%	%	%
Canada	15	15	15	0
China (mainland)	5/15	10	5	0
Denmark	15	10	15	0
Finland	5/15	15	5/15	0
France	15	10	15	0
Germany	5/15	10	10	0
India	5	10	10	0
Ireland	0	0	0	0
Italy	5/15	10	10	0
Japan	0	10	10	0
Kenya	15	15	15	20
Mauritius	5/15	10	10	0
Netherlands	5	10	10	0
Norway	15	10	10	20
South Africa	15	15	15	20
Sweden	5/15	10	10	20
Switzerland	15	15	15	20
Tanzania	15	15	15	20
Uganda	15	15	15	20
United Kingdom	5/15	10	10	0
Non-treaty jurisdictions	15	15	20	20

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*This chapter excludes references to proposals in the 2018 draft legislation. At the time of writing, the proposed tax changes had not yet been gazetted into law. Because significant tax changes may be imminent, readers should obtain updated information before engaging in transactions.*

## A. At a glance

Corporate Income Tax Rate (%)	25 (a)(b)
Capital Gains Tax Rate (%)	1/5/20 (c)
Capital Gains Withholding Tax Rate (%)	1/5/15 (d)
Branch Tax Rate (%)	25 (a)(b)
Withholding Tax (%)	
Dividends	10/15 (e)
Interest Received by Residents	
Paid by Banks, Other Financial Institutions and Building Societies	0/5/15 (f)
Accruing from Treasury Bills, Bankers' Acceptances and Discounted Instruments Traded by Financial Institutions	15 (g)
Royalties	15 (h)
Remittances	15 (i)
Fees and Commissions	15/20 (j)
Contract Payments	10 (k)
Value-Added Tax Withholding Tax	10 (l)
Branch Remittance Tax	15 (m)
Net Operating Losses (Years)	
Carryback	0
Carryforward	6 (n)

- (a) Special tax rates apply to certain enterprises. For details, see Section B.
- (b) An AIDS levy of 3% is imposed on income tax payable (excluding tax on income subject to special rates).
- (c) Tax is imposed on capital gains on the disposal of specified assets, including listed and unlisted marketable securities, immovable property (including rights in residential, commercial or industrial stands and membership interests in condominiums) and intangible property requiring formal registration. See Section B.
- (d) A capital gains withholding tax is withheld from funds held by a depository on behalf of a seller of a specified asset. The 1% withholding tax on the disposal of securities listed on the Zimbabwe Stock Exchange is a final tax. See Section B.
- (e) The 10% rate applies to dividends paid by companies listed on the Zimbabwe Stock Exchange to resident individuals and nonresidents. The 15% rate applies to dividends paid to resident persons other than companies and all nonresidents.
- (f) This is a final withholding tax imposed on residents. The following types of interest are exempt from income tax and withholding tax:
- Interest on deposits with a term of more than 12 months
  - Interest paid by the People's Own Savings Bank
  - Interest on building society Class C (tax-free) shares
- The 5% rate applies to interest on fixed-term deposits of at least 90 days with financial institutions. The 0% rate applies to fixed-term deposits of more than 12 months.
- (g) This is a final tax imposed on the income to maturity of treasury bills, bankers' acceptances and discounted instruments traded by financial institutions that are purchased by resident investors who are not financial institutions. The tax is imposed at the time of disposal or maturity of the instrument.
- (h) This withholding tax is imposed on nonresidents. The income is also subject to income tax unless a tax treaty provides that the withholding tax is a final tax.
- (i) This is a final tax imposed on remittances transferred from Zimbabwe by nonresidents for allocable technical, managerial, administrative or consulting expenditures incurred outside Zimbabwe in connection with a trade carried on in Zimbabwe.

- (j) The 15% rate applies to payments by residents to nonresidents of technical, managerial, administrative and consulting fees. The 20% rate applies to payments for non-executive directors' fees and property and insurance commissions paid to resident and nonresidents who are not employees. The tax withheld is deductible from income tax payable. However, the 15% tax is a minimum tax.
- (k) This is a tax on the payee, which is withheld by the payer from all payments made under contracts for more than a specified threshold to resident and nonresident suppliers who cannot provide a tax-clearance certificate.
- (l) The tax is withheld by Value Added Withholding Tax Agents from payments for taxable supplies to specified noncompliant registered value-added tax (VAT) operators who can offset the tax withheld each month from output VAT for the following month.
- (m) Only remittances of head office technical, managerial, administrative and consulting expenditures are subject to the 15% withholding tax (see footnote [i] above).
- (n) Mining losses are ring fenced to specific locations and may be carried forward indefinitely.

## B. Taxes on corporate income and gains

**Corporate income tax.** Income tax is levied on all amounts (other than capital) received or accrued to residents from a Zimbabwean source or a deemed Zimbabwean source, less expenditures not of a capital nature incurred in the production of income or for business purposes. Certain specific types of income are exempt.

Nonresident companies that carry on business in Zimbabwe are subject to corporate income tax on all taxable income, wherever arising, attributable to a permanent establishment in Zimbabwe.

Foreign interest and dividends accruing to taxpayers that are ordinarily resident in Zimbabwe are deemed to be from a source in Zimbabwe. A corporation is ordinarily resident in Zimbabwe if it is managed and controlled in Zimbabwe.

**Rates of corporate tax.** Resident and nonresident companies are subject to income tax at a rate of 25%. Residents are subject to income tax at a rate of 20% on gross foreign dividends receivable.

An AIDS levy of 3% is imposed on income tax payable (excluding tax on income subject to special rates).

*Special tax rates.* Special tax rates apply to the following enterprises.

<b>Type of enterprise</b>	<b>Rate (%)</b>
Licensed investors operating in export-processing zones and licensed before the year of assessment beginning on 1 January 2007	25
Special mining lease operations	15
	(plus additional profits tax)
Build-own-operate-transfer (BOOT) and build-operate-transfer (BOT) projects	
Years 1 through 5	0
Years 6 through 10	15
Year 11 and thereafter	25 *
Industrial park developers that commenced operations before the year of assessment beginning 1 January 2010	
First five years	0

Type of enterprise	Rate (%)
Thereafter	25
Manufacturing enterprises exporting 31% to 51% of their production	15/17.5/20

\* The 3% AIDS levy is also payable.

Interest received by residents on deposits with Zimbabwean financial institutions with a term of over 12 months is exempt from income tax and withholding tax. Other interest received by residents from Zimbabwean financial institutions is exempt from income tax, but it is subject to a final withholding tax at a rate of 15% or 5% for fixed-term deposits of at least 90 days. A final withholding tax at a rate of 15% is also imposed on the income to maturity of treasury bills, bankers' acceptances and discounted instruments traded by financial institutions that are purchased by resident investors that are not financial institutions. The tax is imposed at the time of disposal or maturity of the instrument. No deduction for expenses and losses is permitted from interest subject to the final taxes described above. Other interest received by residents is taxable at the regular corporate income tax rate and may be offset by expenses and losses.

*Tax concessions.* In the past, export-processing zones were designated in the major business centers and border areas of Zimbabwe. Concessions are restricted to licenses issued before 1 January 2007 to certain investors to operate in these zones. Effective from 1 January 2017, similar concessions apply to licensed investors in designated Special Economic Zones established under recently promulgated legislation. These concessions are in the form of reduced rates or an exemption with respect to the following taxes:

- Income tax at reduced rates on taxable income arising from exported goods and services (0% for five years and 15% for subsequent years)
- Tax on employment income at a flat rate of 15% plus a 3% AIDS levy for expatriate employees of licensed investors in Special Economic Zones
- Nonresident and resident shareholders taxes on dividends
- Nonresident taxes on fees and royalties
- Customs duty
- VAT on goods and services (refundable)

Foreign entities that provide finance for approved projects for development in Zimbabwe are exempt from income tax and capital gains tax.

Receipts and accruals of financial institutions that relate to mortgage financing provided by them are exempt from income tax.

**Capital gains.** Withholding tax is imposed on the gross proceeds derived from the disposal of specified assets including listed and unlisted marketable securities, immovable property (including rights in residential, commercial or industrial stands and membership interests in condominiums) and intangible property requiring formal registration.

Specified assets also include any right or title to tangible or intangible property. A depositary includes the official responsible for the formal registration of the right or title.

The withholding tax rates on the disposal of specified assets acquired before 1 February 2009 are 1% for listed marketable securities and 5% for unlisted marketable securities and immovable property. The withholding tax rates on disposal of assets acquired on or after 1 February 2009 are 1% for listed marketable securities, 5% for unlisted marketable securities and 15% for immovable property. This tax is offset against any assessed capital gains tax.

Capital gains derived from the disposal of immovable property and unlisted securities acquired before 1 February 2009 are taxed at the greater of 5% of the gross sale proceeds and the amount of the withholding tax withheld on disposal.

Capital gains derived from disposals of immovable property and unlisted marketable securities acquired after 1 February 2009 are taxed at a rate of 20%. Gains are determined by deducting from the selling price the cost plus an allowance of 2.5% per year on the cost from the date the cost was incurred to the date of disposal. Capital allowances recaptured for income tax purposes (see Section C) are excluded from gains. Capital gains withholding tax is offset against any capital gains tax assessed on the transaction.

Capital gains derived from the disposal of listed securities are exempt from capital gains tax, effective from 1 August 2009. Thereafter, the gross sale proceeds are subject to a 1% capital gains tax, which equals the amount withheld on disposal as capital gains withholding tax.

Capital gains derived from the disposal of shares to an approved indigenization partner or community share ownership trust or scheme is based on the amount paid regardless of the fair market value.

**Administration.** Zimbabwe's tax year ends on 31 December. Tax returns must be filed by 30 April. Self-assessment applies to all taxpayers, other than those who receive employment income only.

Corporate tax must be paid during the relevant tax year. Provisional payments equaling specified percentages of the estimated total tax payable are due on the following dates:

- 25 March: 10%
- 25 June: 25%
- 25 September: 30%
- 20 December: 35%

Penalties can be imposed for late or incorrect returns (excluding returns for provisional tax), and late payments are subject to interest at a rate of 10% per year.

Withholding taxes that are not considered final taxes are credited to the income tax due on the income from which the tax has been withheld.

**Dividends.** Dividends received by a resident corporation from another resident corporation are exempt from withholding tax and income tax. A 10% withholding tax is imposed on dividends paid by companies listed on the Zimbabwe Stock Exchange to resident individuals and nonresidents. A 15% withholding tax is imposed

on other dividends paid to resident individuals and nonresidents. Gross dividends received from foreign companies are subject to tax at a rate of 20%.

**Foreign tax relief.** If relief is not provided by a treaty, a unilateral tax credit is given for foreign withholding tax. The tax credit may not exceed the Zimbabwean income tax imposed on the income.

### **C. Determination of trading income**

**General.** Income tax is levied on all income from a source in Zimbabwe or deemed to be in Zimbabwe. The following types of interest are exempt from income tax:

- Interest on deposits with a term of more than 12 months
- People's Own Savings Bank interest
- Interest from certain building society investments

Other interest on deposits with financial institutions and income from treasury bills, bankers' acceptances and discounted instruments traded by financial institutions is subject to a final withholding tax at a rate of 15%. For further details regarding this withholding tax, see Section B.

Expenses incurred for business purposes are generally deductible. The following expenses are not deductible:

- Expenses incurred in the production of exempt income or income not derived or deemed to be derived from Zimbabwe.
- Pension fund contributions in excess of a specified amount.
- Cost of attending trade missions and conventions in excess of a specified amount.
- Rent or repairs for premises not occupied for purposes of trade.
- Payments in restraint of trade.
- Entertainment expenses.
- Payments in excess of a specified amount for the lease of passenger motor vehicles (as defined).
- Interest relating to excess debt in a company with a debt-to-equity ratio that exceeds 3:1 is disallowed and treated as a deemed dividend. Resident or nonresident shareholders tax on the deemed dividend is payable by the company deemed to have paid the dividend.
- General administration expenses charged by a holding or subsidiary company or foreign head office that qualifies as an enterprise associated with the taxpayer are disallowed and taxed as a deemed dividend to the extent that they exceed 0.75% of expenditure incurred during the preproduction phase or 1% of tax-deductible expenditure incurred after the beginning of trading or the production of income.

Donations of up to a specified threshold for the construction, maintenance or operation of hospitals and schools run by the state, local authorities or religious organizations and donations to approved research institutions are deductible.

A double tax deduction is allowed for specified export market development expenditure.

Amounts contributed to approved scientific and educational bodies for industrial research or scientific experimental work are also deductible for tax purposes.



Under the Indigenisation and Economic Empowerment Act, the following amounts are deductible for tax purposes:

- Contributions or donations to approved community share ownership trusts or schemes are deductible.
- Loans by corporate taxpayers to acquire shares that are repayable from dividends foregone by the taxpayers on those shares are deductible in equal annual installments over the period of the loan.

**Inventories.** The only acceptable inventory valuation methods for tax purposes are cost, using the first-in, first-out (FIFO) method, and market value.

**Provisions.** In general, only specific provisions are deductible for tax purposes.

**Tax depreciation.** Depreciation charged in the financial statements is not deductible; instead, a 25% special initial allowance is granted on the cost of certain assets. A wear-and-tear allowance of 25% of cost is granted in the following three years. The special initial allowance is granted on the cost of construction or additions to qualifying fixed assets other than land and certain buildings and also on the purchase price of movable property. If the special initial allowance is not claimed, a wear-and-tear allowance at varying rates is granted on these assets. The following are the rates and the methods of computing this wear-and-tear allowance for certain assets.

Asset	Method	Rate (%)
Commercial buildings	Straight-line	2.5
Industrial buildings*	Straight-line	5
Office equipment	Declining-balance	10
Motor vehicles	Declining-balance	20
Plant and machinery	Declining-balance	10

\* Toll roads and toll bridges declared to be such under the Toll Roads Act are included in this category.

All capital allowances are subject to recapture on the disposal of assets on which such allowances have been claimed. Any amounts recaptured are subject to tax at the regular corporate tax rate. The full sale price of mining assets on which capital allowances have been granted is subject to tax at the corporate tax rate for mining.

**Relief for losses.** Mining losses are ring fenced to specific locations and may be carried forward indefinitely. Other losses may be carried forward for six years. Losses cannot be carried back.

**Groups of companies.** Zimbabwean law does not contain provisions for filing consolidated returns or for relieving losses within a group.

Transfers of assets in a merger or group reconstruction between companies under common control may be made at the tax value for both income tax and capital gains tax purposes. On the subsequent disposal of such assets outside the group, the gain or loss to the seller is computed with reference to the cost to the first transferor within the group.

## D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); imposed on the supply and importation of goods and services; certain items are exempt, including financial services, medical services, fuel, tobacco, educational or training services, long-term residential leases and transport of passengers by road or rail; also imposed on the export of hides; suppliers of qualifying goods and services with an annual value in excess of a specified threshold must register; the annual threshold is currently USD60,000	
Standard rate	15
Exports (however, see above), prescribed drugs and services (excluding accommodation) supplied by designated tourist facilities to tourists that are paid for with foreign currency, as well as certain other items	0
(From 1 January 2019, VAT will be imposed at the standard rate on the export of unbeneficiated platinum at a rate yet to be determined.)	

Presumptive taxes on different bases and at various rates are imposed on informal traders, small-scale miners, and operators of taxicabs, omnibuses, goods vehicles, driving schools, hair-dressing salons, cottage industries, waterborne vessels, fishing rigs and licensed and unlicensed bottle stores and restaurants.

## E. Miscellaneous matters

**Foreign-exchange controls.** The legislation and regulations with respect to foreign-exchange controls are currently under review. The present rules are discussed below.

The government still imposes broad controls over all transactions involving a nonresident. Applications through commercial banks are required for the approval of most transactions of this nature. Commercial banks refer exceptional items to the Reserve Bank of Zimbabwe.

Foreign investment of up to 35% in primary issues of shares and bonds is permitted if funded by inward transfers of foreign exchange. Purchases and disposals by foreign investors in the secondary market require specific approval from the authorities.

Agreements relating to foreign services (including borrowings) require registration with the commercial banker of the borrower before implementation. Borrowings in excess of specified limits require the approval of the Reserve Bank of Zimbabwe. The approvals are granted based on the merits of the borrowings in accordance with guidelines set by the External Loans Coordinating Committee. The guidelines provide that foreign borrowings may be approved only if they are used to fund productive, export-oriented ventures that have the potential to generate sufficient

foreign currency for loan principal and interest repayments without recourse to the foreign-currency market. Foreign loans to purchase shares, existing companies or real estate, or to fund private consumption, personal loans or retail inventories, are generally discouraged.

All offshore remittances require pre-approval and are released on the basis of published priorities.

The remittance of amounts due to related or unrelated nonresidents under approved foreign-service agreements is restricted to 3% of audited gross annual revenue.

With the approval of the authorities, 100% of after-tax normal trading profits may be remitted to nonresident shareholders within one year after the accrual of the profits. Specific approval is required for remittances of after-tax normal trading profits accrued in prior years.

After-tax dividends and capital gains derived from investments on the Zimbabwe Stock Exchange are fully remittable.

**Debt-to-equity rules.** Debt-to-equity rules apply to all companies (see Section C).

**Transfer pricing.** Zimbabwe introduced transfer-pricing legislation, effective from 1 January 2016. The new transfer-pricing legislation endorses the arm's-length principle and imposes documentary obligations on taxpayers. The legislation covers transactions between all connected persons and applies to both domestic and international transactions. These new provisions are aligned with transfer-pricing principles developed by the Organisation for Economic Co-operation and Development (OECD); consequently, the law recognizes OECD manuals on the subject as relevant sources of interpretation.

## F. Treaty withholding tax rates

The rates shown in the table reflect the lower of the treaty rate and the rate under domestic tax law.

	Dividends (a)	Interest	Royalties	Fees
	%	%	%	%
Botswana (b)	5/10	0	10	10
Bulgaria	10	0	10	10
Canada	10	0	10	10
Congo (Democratic Republic of) (b)	0	0	0	0
France	10	0	10	10
Germany	10	0	7.5	7.5
Iran (b)	5	0	5	5
Kuwait (b)	0/5/10	0	10	0
Malaysia	10	0	10	10
Mauritius	10	0	15	0
Namibia (b)	5/10	0	10	0
Netherlands	10	0	10	10
Norway	15	0	10	10
Poland	10	0	10	10
Serbia (b)	5	0	10	10

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	<b>Dividends (a)</b>	<b>Interest</b>	<b>Royalties</b>	<b>Fees</b>
	%	%	%	%
South Africa	5/10	0	10	5
Sweden	15	0	10	10
United Kingdom	5	0	10	10
Non-treaty jurisdictions	10/15	0	15	15

- (a) Except for the Iran treaty, the reduced treaty rates apply only if the recipient is a company that controls at least 15% to 25% of the voting power of the payer company.
- (b) The entry into force of these treaties has not yet been published.

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## Foreign currencies

The following list sets forth the names and codes for the currencies of jurisdictions discussed in this book.

<b>Jurisdiction</b>	<b>Currency</b>	<b>Code</b>
Afghanistan	Afghani	AFN
Albania	Lek	ALL
Algeria	Dinar	DZD
Angola	Kwanza	AOA
Argentina	Peso	ARS
Armenia	Dram	AMD
Aruba	Florin	AWG
Australia	Dollar	AUD
Austria	Euro	EUR
Azerbaijan	Manat	AZN
Bahamas	Dollar	BSD
Bahrain	Dinar	BHD
Barbados	Dollar	BBD
Belarus	Ruble	BYR
Belgium	Euro	EUR
Bermuda	Dollar	BMD
Bolivia	Boliviano	BOB
Bonaire, St. Eustatius and Saba (BES-Islands)	US Dollar	USD
Botswana	Pula	BWP
Brazil	Real	BRL
British Virgin Islands	US Dollar	USD
Brunei Darussalam	Dollar	BND
Bulgaria	Lev	BGN
Cambodia	Khmer Riel	KHR
Cameroon	CFA Franc BEAC	XAF
Canada	Dollar	CAD
Cape Verde	Escudo	CVE
Cayman Islands	Dollar	KYD
Chad	CFA Franc BEAC	XAF
Chile	Peso	CLP
China (mainland)	Yuan Renminbi	CNY
Colombia	Peso	COP
Congo, Democratic Republic of	Franc	CDF
Congo, Republic of	CFA Franc BEAC	XAF
Costa Rica	Colon	CRC

<b>Jurisdiction</b>	<b>Currency</b>	<b>Code</b>
Côte d'Ivoire	CFA Franc BCEAO	XOF
Croatia	Kuna	HRK
Curaçao	Antillean Guilder	ANG
Cyprus	Euro	EUR
Czech Republic	Koruna	CZK
Denmark	Krone	DKK
Dominican Republic	Peso	DOP
Ecuador	US Dollar	USD
Egypt	Pound	EGP
El Salvador	Colon	SVC
Equatorial Guinea	CFA Franc BEAC	XAF
Estonia	Euro	EUR
European Monetary Union	Euro	EUR
Fiji	Dollar	FJD
Finland	Euro	EUR
France	Euro	EUR
Gabon	CFA Franc BEAC	XAF
Georgia	Lari	GEL
Germany	Euro	EUR
Ghana	Cedi	GHS
Gibraltar	Pound	GIP
Greece	Euro	EUR
Guam	US Dollar	USD
Guatemala	Quetzal	GTQ
Guernsey	Pound	GBP
Guinea	Guinea Franc	GNF
Guyana	Dollar	GYD
Honduras	Lempira	HNL
Hong Kong SAR	Dollar	HKD
Hungary	Forint	HUF
Iceland	Krona	ISK
India	Rupee	INR
Indonesia	Rupiah	IDR
Iraq	Dinar	IQD
Ireland	Euro	EUR
Isle of Man	Pound	GBP
Israel	New Shekel	ILS
Italy	Euro	EUR
Jamaica	Dollar	JMD
Japan	Yen	JPY
Jersey	Pound	GBP
Jordan	Dinar	JOD
Kazakhstan	Tenge	KZT
Kenya	Shilling	KES



<b>Jurisdiction</b>	<b>Currency</b>	<b>Code</b>
Korea (South)	Won	KRW
Kosovo	Euro	EUR
Kuwait	Dinar	KWD
Laos	Kip	LAK
Latvia	Euro	EUR
Lebanon	Pound	LBP
Lesotho	Loti	LSL
Libya	Dinar	LYD
Liechtenstein	Swiss Franc	CHF
Lithuania	Euro	EUR
Luxembourg	Euro	EUR
Macau SAR	Pataca	MOP
Macedonia	Denar	MKD
Madagascar	Ariary	MGA
Malawi	Kwacha	MWK
Malaysia	Ringgit	MYR
Maldives	Rufiyaa	MVR
Malta	Euro	EUR
Mauritania	Ouguiya	MRU
Mauritius	Rupee	MUR
Mexico	Peso	MXN
Moldova	Leu	MDL
Monaco	Euro	EUR
Mongolia	Tugrik	MNT
Montenegro	Euro	EUR
Morocco	Dirham	MAD
Mozambique	Metical	MZN
Myanmar	Kyat	MMK
Namibia	Dollar	NAD
Netherlands	Euro	EUR
New Caledonia	CFP Franc	XPF
New Zealand	Dollar	NZD
Nicaragua	Córdoba Oro	NIO
Nigeria	Naira	NGN
Northern Mariana Islands	US Dollar	USD
Norway	Krone	NOK
Oman	Rial	OMR
Pakistan	Rupee	PKR
Palestinian Authority	None	—
Panama	Balboa	PAB
Papua New Guinea	Kina	PGK
Paraguay	Guarani	PYG
Peru	Nuevo Sol	PEN
Philippines	Peso	PHP

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<b>Jurisdiction</b>	<b>Currency</b>	<b>Code</b>
Poland	Zloty	PLN
Portugal	Euro	EUR
Puerto Rico	US Dollar	USD
Qatar	Rial	QAR
Romania	Leu	RON
Russian Federation	Ruble	RUB
Rwanda	Franc	RWF
St. Lucia	Dollar	XCD
Saint-Martin	Euro	EUR
São Tomé and Príncipe	Dobra	STD
Saudi Arabia	Riyal	SAR
Senegal	CFA Franc BCEAO	XOF
Serbia	Dinar	RSD
Singapore	Dollar	SGD
Sint Maarten	Antillean Guilder	ANG
Slovak Republic	Euro	EUR
Slovenia	Euro	EUR
South Africa	Rand	ZAR
South Sudan	Pound	SSP
Spain	Euro	EUR
Sri Lanka	Rupee	LKR
Suriname	Dollar	SRD
Swaziland	Lilangeni	SZL
Sweden	Krona	SEK
Switzerland	Franc	CHF
Taiwan	Dollar	TWD
Tanzania	Shilling	TZS
Thailand	Baht	THB
Trinidad and Tobago	Dollar	TTD
Tunisia	Dinar	TND
Turkey	Lira	TRY
Uganda	Shilling	UGX
Ukraine	Hryvnia	UAH
United Arab Emirates	Dirham	AED
United Kingdom	Pound	GBP
United States	Dollar	USD
US Virgin Islands	US Dollar	USD
Uruguay	Peso	UYU
Uzbekistan	Sum	UZS
Venezuela	Bolivar	VEF
Vietnam	Dong	VND
Zambia	Kwacha	ZMW
Zimbabwe	US Dollar	USD

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EYG no. 00407-183Gbl

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