The outlook for global tax policy in 2017
This report provides a non-exhaustive update on potential tax policy developments in 2017. The volume, speed and complexity of new developments continues to be high, and this document has been prepared for general informational purposes only. It is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.
2017 global tax policy outlook: New directions ahead

“There seems little to temper jurisdictions’ desires to possess a competitive, ‘low-rate, broad-base’ business tax environment, continuing a trend that we have seen for some years now.”

Those were the words that helped introduce EY’s Outlook for global tax policy in 2016.1

That trend certainly remains strong in 2017, as do the indicators that underpin it: Headline corporate income tax (CIT) rates continue to fall – with some countries committing to multi-year rate reduction programs. The number of countries forecasting an increasing business tax burden (much of it stemming from BEPS-related international tax measures, as may be expected) continues to outstrip those forecasting a reduced burden, cementing the “broad-base” component of the trend.

And while indirect tax rate changes have dramatically slowed from the rate demonstrated in 2010 to 15, the overall burden of VAT remains high and its worldwide spread continues.

So, overall, the immediate picture remains broadly consistent with prior years.

But look beyond the headline data and the potential for completely new and uncharted tax policy developments lurks in the shadows. The real story is often found between the lines, a more nuanced approach to analysis required to bring things into sharper focus. Here, the future tax landscape is starting to form, thought the road forward may be influenced by many as-yet undecided factors.

Tax competition is being constrained, that is clear. Both European actions and the OECD’s BEPS project are starting to impact, tempering the ability (and willingness) of countries to offer, and companies to benefit from, tax measures that the consensus feels may cross the line into harmful tax competition. BEPS measures will continue to be implemented in 2017, and indeed may increase in volume as the year and the OECD’s Multilateral Instrument (‘MLI’) both play out. And R&D incentives, patent/innovation “boxes” and broader business incentives will likely continue to curry favour as governments look for a more “acceptable” form of tax competition.

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But there are other drivers that may create more urgent or fundamental change over and above these medium term trends. Arguably top of the list is US tax reform. Here, major changes may either spur tax policy reactions by other countries or even turn the current work of the OECD and European Commission on their heads. National policy responses may be to hasten further the fall in corporate income tax rates, as well as other trade-related actions, including potential complaints to the World Trade Organization if countries feel that a border adjustment measure in the US is unacceptable.

Likewise, R&D and other incentives may be further strengthened by other countries to try to stem potential leakage of these activities to the US. And how intellectual property assets are valued for tax purposes may be completely re-thought, if business move IP into the US to take advantage of a reformed tax regime.

But significant change may also find its genesis outside of US reform, too. Consider the shifting sands of how businesses finance themselves. BEPS Action 4 on interest deductibility will drive a higher tax burden in eight of the 50 countries in our report in 2017. At the same time, though, the notion of an allowance for corporate equity (or ACE) is catching policymakers attention in a growing number of countries. Might the future of financing be centered upon equity and not debt?

Likewise, will dozens of countries signing up to the OECD’s MLI - and, therefore, one assumes, to the use of a Principal Purpose Test under Action 6 on Treaty abuse - lead to a new uptick in subjective scrutiny and therefore tax disputes and controversy? And will countries reduce withholding taxes to attract investments those might find it difficult to access double tax treaties, thereby creating a future phase of tax competition, one not necessarily envisaged within the BEPS project?

The precise shape of this future is yet to be determined, but the broad outline can be seen in the mist.

Mapping data to trends

But turning first to the immediate trends.

Corporate income tax rates

Of the 50 countries responding, 40 report no anticipated or known change to their national headline CIT rate in 2017. Two countries (Chile and Canada) forecast a known or anticipated rate increase. Canada’s increase is minor (0.3 percentage points) and is based on the average of provincial rates increasing. Chile’s rate increase, which has been passed into law, is also relatively small, from 24% to 25%. Overall, rate increases are outliers and seem to relate to specific local phenomena.

In contrast, eight countries (France, Hungary, Israel, Italy, Luxembourg, Norway, Slovakia and the United Kingdom - 16% of respondents) confirm that laws are now place that will result in lower CIT rates in 2017, slightly lower than the 18% who reduced their rates in 2016 and the 22% in 2015. Seven of these eight countries are European, indicating a rich seam of competition within Europe. Israel and the United Kingdom are the only countries reducing rates in 2017 who also reduced rates in 2016. Some - but not all - companies in Malaysia may benefit from reduced corporate income tax rates in 2017. Under a novel policy approach, companies will be levied a reduced rate if their taxable income exceeds prior year totals by more than 5%. Companies exceeding prior year income by 20%, for example, will find their tax rate reduced from 24% to 20% for the year.

Of the eight countries reducing rates, Hungary’s move from a 19% marginal rate to a 9% flat rate is by far the largest change. Italy’s change, from 31.4% to 27.9%, is the second-largest, while France’s from 38 to 34.4% is the third.

The countries reducing headline corporate tax rates – listed in order of size of decrease – are:

- Hungary, from 19% to 9% (-52.6%)
- Italy, from 31.4% to 27.9% (-11.1%)
- France, from 38% to 34.4% (-9.4%)
- Luxembourg, from 29.2% to 27.1% (-7.2%)
- United Kingdom, from 20% to 19% (-5%)
- Slovakia, from 22% to 21% (-4.5%)
- Israel, from 25% to 24% (-4%)
- Norway, from 25% to 24% (-4%)

Hungary’s rate change for 2017 – from 19% to 9% – is significant in and of itself, given that, for many years, we have seen single percentage point cuts in most countries, and little more. But perhaps more significant is the number of countries who are embarking on (or are mid-way through) multi-year

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2 See Malaysia chapter on page 206 for full detail.
3 Excluding Malaysia.
rate reduction strategies. In France, the effective rate of CIT for large companies falls from 38% to 34.43% in 2017. A 28.92% top corporate tax rate will apply to every company for fiscal years 1 January 2020 onwards.

India, likewise, has announced a multi-year strategy, with the corporate tax rate being reduced from 30% to 25% over the next three years. This will be accompanied by a gradual phasing out of incentives, which will widen the CIT base as is usually the case. Foreign companies pay higher rates than domestic companies and all must add a surcharge and education cess (an additional type of surcharge) which will increase the effective tax rate - so again, headlines may not be all they seem.

Japan, meanwhile, has seen its (effective) corporate tax rate fall from 38.01% in 2013 (which included a surcharge to fund disaster relief) to (an effective) 29.97% in 2017.

And in the United Kingdom, continuing a similar multi-year strategy, the CIT rate will fall to 17% in 2020 - a sizeable (if less dramatic than France’s, in terms of timing) decrease of 11 percentage points in 10 years.

11 of 50 countries (22%) forecast an overall increase in the CIT burden in 2017. This is slightly higher than in 2016 (18%) but lower than in 2015 (31%) and 2014 (also 31%). And importantly, while 22% of countries forecast an increased tax burden in 2017, that is outstripped by the number of companies who forecast the same; in a 15 March 2017 webcast, in excess of 40% of more than 800 poll respondents foresaw a “somewhat” or “significantly higher” tax burden in 2017.

**Rising tax burden**

The number of countries forecasting an increasing business tax burden continues to outstrip (just) those forecasting a reducing burden. 28 of 50 countries (or 55%, slightly higher than 45% in 2016) expect no overall CIT burden change in 2017.4 10 of 50 countries (20%) forecast an overall decreasing CIT burden (close in both number and composition to the 8 that have announced a rate reduction). This is lower than in 2016 (34%) but around the same as in 2015 (16%).

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4 Russia reports a “mixed” burden.
Burden increases driven by international tax changes

Tax enforcement changes and transfer pricing (TP) changes are forecast to be the two biggest drivers of tax burden increases (by incidence of changes, not necessarily by overall impact). Burden-increasing changes are forecast in 23 jurisdictions as a result of increasing tax enforcement and also in 23 as a result of changing TP rules. And, of course, the number of countries adding Action 13-related transparency and disclosure requirements grows daily, as we continue to report.5

Both enforcement and TP changes result in burden increases that outstrip those of the third, fourth and fifth highest burden increasers (Controlled Foreign Companies rules, Hybrid Mismatches and Interest Deductibility) by a factor of almost three-to-one. Webcast poll respondents also aligned to these results, but not completely - while transfer pricing changes were the leading causes of tax base broadening for companies (for 32% of poll respondents), tax enforcement changes (21%) were firmly beaten into third place by a lesser ability to deduct interest / business expenses (31% of respondents).

Eight countries – China, Greece, Israel, Netherlands, Norway, Singapore and the UK – report a higher tax burden from tighter interest deductibility rules, aligned with BEPS Action 4. Seven countries – Belgium, Canada, Chile, China, Hungary, South Africa and Vietnam – report a higher tax burden resulting from the tightening of controlled foreign company rules, aligning with BEPS Action 3. Hybrid mismatches will be an area to watch closely in 2017; on the one hand, both European Commission and BEPS (Action 2) measures have already exerted some of their desired effect. On the other hand, 7 of 50 countries indicate upcoming action in 2017, while the number of countries indicating that they feel the MLI will be used in this area would seem to signal an additional uptick in this area, come this time next year.

Increases in the area of tax enforcement seem to be split across two different, but related dimensions, report our country respondents.

- On one side come jurisdictions that continue to adopt new legislation, both general and specific in nature, that is designed to provide the tax authorities with additional tools to tackle what they view as overly-aggressive tax planning.

- On the other side comes a number of countries who report that, irrespective of available tools, due process or good faith attempts at dispute resolution, taxpayers are becoming more likely to face criminal sanctions, whether in reality or as a threat designed to change taxpayer behavior.

In terms of providing new enforcement tools, India’s 2017 Union Budget delivered multiple such new legislative instruments, including providing for secondary transfer pricing adjustments in certain cases, a long-delayed GAAR that will be effective as of 1 April 2017 and new guidance on the “substance over form” test in regard to India’s place of effective management determination. Readers may also be interested in the words of Mr. Akhilesh Ranjan, Principal Chief Commissioner of Income Tax, at India’s Ministry of Finance, and Competent Authority for India, who in a recent interview with EY signalled that “We firmly believe there never was any new and retrospective taxation (in India), just a retelling of the rules that were already clear and in place. That’s all history now. I’m not worried about the ghost of retrospective taxation anymore.”

India is not alone in providing new enforcement mechanisms; Australia’s Diverted Profits Tax will be enacted in 2017 (France’s was rejected by their Constitutional Court at the very end of the 2016), while Germany recently published the first technical draft of an Act against Harmful Tax Practices with regard to the Licensing of Rights. These are just a few examples of dozens of new anti-avoidance measures around the world in 2017, all of which are described in country chapters.

Guatemala and Costa Rica deliver more troubling messages, as examples of the more hard line approaches adopted by their tax authorities: “Guatemalan tax authorities are reported to have taken aggressive measures in collecting taxes, such as the filing of criminal charges against taxpayers for tax offenders, in order to encourage taxpayers to be in compliance with tax payments and to avoid unintended tax charges” writes our respondent, while in Costa Rica, “Accusations of criminal tax fraud have also recently been used as a mechanism to increase pressure on taxpayers. It is expected that this situation will remain or even deteriorate within the tenure of the current Government.”

Readers are therefore strongly recommended to spend time studying the enforcement developments in the specific jurisdictions in which they operate.

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5 Australia, Brazil, Canada, China, Costa Rica, Czech Republic, Greece, Hong Kong, India, Israel, Luxembourg, Malaysia, New Zealand, Panama, New Zealand, Russia, Singapore, Slovakia, South Africa, Turkey, United Kingdom, Venezuela and Vietnam.

6 See www.ey.com/taxalerts for regularly updated EY Global Tax Alerts on a range of topics.
Incentives receive a “BEPS boost”

Clearly then, we have lower rates, broader base competition, with base broadening focusing in on international and BEPS-related measures. So with harmful tax competition under such scrutiny, how are countries responding?

Innovation and patent boxes (addressed in BEPS Action 5, with BEPS plan participants agreeing to a modified nexus approach) meanwhile, continue to see reform. These measures are attractive to governments, and countries increasingly want them to continue to be available – perhaps as a more “acceptable face” of tax competition. Indeed, 2017 will be the first full year that such a “box” will be available in Israel, for example,7 while Belgium’s new innovation deduction is not limited to patents, but will extend to other IP rights, including copyright protected software.

Other incentives – supporting both R&D and broader business investment of new and continuing forms – are experiencing what could arguably be described as a positive knock-on effect in 2017. Here, the rising tide of government support for “acceptable” ways to deliver a competitive tax system will provide opportunities for business to gain support for new or enhanced investments or research activities.

Broader business incentives designed to stimulate (or sustain) investment will benefit from increased government investment in 15 of the 50 countries (Australia, Belgium, China, France, Greece, Hong Kong, Israel, Italy, Luxembourg, Malaysia, Mexico, Norway, Singapore, Russia and the United Kingdom). Examples include Italy, which is extending until 31 December 2017 its 40% extra-amortization for investments in tangible new operating assets.8 Italy is also one of many countries focused on incentivizing digital developments, offering an additional 150% amortization for investment in digital assets in 2017. Interestingly, 6 of the 13 countries extending broader business incentives (China, Italy, Luxembourg, Mexico, Norway and the United Kingdom) are also offering more generous R&D incentives in 2017.

For R&D more specifically, 11 of the 50 respondents (China, Greece, Italy, Japan, Luxembourg, Mexico, Norway, Poland, Singapore, Turkey and the United Kingdom) foresee more generous incentives in the year ahead. In Mexico, for example, the 2017 tax reform package includes a new R&D credit, equal to 30% of the qualified investments and expenses for technological R&D. Likewise, Japan’s 2017 tax reform package includes revised rules so that tax credits will not only increase in line with increases in R&D costs, but will attract a more generous credit rate and be available to a broader set of activities.

Indirect taxes

VAT, GST and sales taxes are one area meritng careful analysis. No country is forecast to propose either a rate increase or decrease in 2017, and only 18% of jurisdictions forecast a higher burden. We might have expected a more pronounced shift toward consumption taxes.

Indeed, the OECD’s Consumption Tax Trends 2016 report9 highlights that VAT revenues are the largest source of consumption tax revenues in the OECD and reached an all-time high of 6.8% of GDP and 20.1% of total tax revenue on average in 2014 (the attest year for which data is available). This is up from 6.6% of GDP and 19.8% of total tax revenue in 2012. Revenues from VAT rose as a percentage of GDP in 22 of the 34 OECD countries that operate a VAT in 2014 and fell, only slightly, in 5 countries compared with 2012.

While a pause in developments may seem at odds with official government data showing increased indirect tax revenues, revenue changes typically follow law changes, often with a lag effect. In essence, the prevalence of VAT changes made in prior years is now coming home to roost, and is coupled with economic malaise driving spending stagnation. While we may have seen a pause in the overall shift toward indirect tax changes, we should not assume that this will significantly impact the broader trend.

That broader trend will, of course, be impacted by the adoption of VAT in the Gulf Cooperation Council10 (GCC) states from 2018 onwards. Saudi Arabia was the first member of the six-member GCC to officially announce the adoption of the unified GCC VAT regime, when on 31 January 2017 officials at the Saudi Arabian Ministry of Finance indicated11 that the VAT regime will apply from 1 January 2018 and a 5% levy will apply to selected goods as set forth in the GCC agreement.

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8 Or until 30 June 2018, provided that by 31 December 2017 certain conditions are met.
10 Kuwait, Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
Although no headline VAT rate increases are forecast or known for 2017, nine jurisdictions (18% — similar to 2016, at 21%) forecast a higher burden. Many of these burden increases may be related to new indirect taxes on digital activity. Here, 2016 saw many jurisdictions enact new legislation (as recommended by the OECD), adopting the VAT recommendations set out in BEPS Action 1. From 1 July 2017 Australia’s GST is extended to Business-to-Consumer supplies of digital products, services and other intangibles, for example, while in August 2016, Taiwan’s Ministry of Finance announced its plan to amend the Business Tax Act by requiring foreign e-commerce operators who provide services to Taiwanese individual buyers, to register with Taiwan’s tax authority and pay business taxes in Taiwan. These are just two examples of many recent changes related to taxing digital activity.

Personal income taxes

Despite much recent focus on the use of tax regimes to drive higher levels of equality, the personal income tax (PIT) landscape is not yet demonstrating the changes that one may expect in this area. Five of 50 countries (Australia, Chile, Finland, Israel and Norway) have either legislated for or expect a decrease in the top marginal rate of PIT, while one sole country (Luxembourg) is increasing top marginal rates.

That said, 10 of 50 countries are forecasting or have already enacted tax measures that, on average, will decrease the overall PIT burden on taxpayers. While that may seem to conform to the trend of driving equality via tax changes, 13 of 50 countries, though, report changes that will, on average, increase the overall burden on taxpayers. So all things considered, personal income taxes remain a tax measure that, for now, do not seem to be experiencing any one clear direction.

Which countries are experiencing the most change?

- The Dominican Republic, El Salvador, Guatemala and Indonesia all forecast the fewest tax burden changes, projecting the same tax burden in 2017 as in 2016 for all 15 measures tracked in this report.
- Italy has the most changes (6 of 15 tracked measures) forecast to result in a reduced burden.
- South Africa forecasts the most burden-increasing changes (8 of 15 tracked measures).

OECD’s Multilateral Instrument

Of course, one of the pivotal developments of 2017 will be the signing ceremony of the OECD’s Multilateral Instrument, where Pascal Saint-Amans, head of the OECD’s Centre for Tax Policy and Administration unit, expects more than 60 countries to announce their intentions in June 2017.

Of the 19 EY tax policy leaders that felt comfortable expressing a view on which BEPS actions their countries may adopt via the OECD’s multilateral instrument (MLI), Action 6 (on treaty abuse) ranked first (17 of 19 countries), followed by Action 2 (on hybrid mismatch arrangements – 16 countries), Action 14 (dispute resolution - 15 countries) and Action 7 (on permanent establishment – 14 countries).

Of the 15 countries forecast to adopt Action 14 via the MLI, nine are also expected to adopt the optional provision for mandatory binding arbitration.

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12 CIT rate; interest deductibility; hybrid mismatches; treatment of losses; CGT; VAT, GST or sales tax rate; VAT, GST or sales tax base; controlled foreign companies; thin capitalization; TP changes; R&D incentives; other business incentives; changes to tax enforcement approach; top marginal personal income tax rate; and personal income tax base.
13 These are the personal views of EY’s tax policy leaders only and should not be construed as a formal assessment of the likelihood of government adoption.
The outlook for global tax policy in 2017

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Chart 1 illustrates, across the areas tracked in this report, the total incidence of changes per country, as well as whether those changes create or will create a higher or lower tax burden in 2017. Interestingly, a high incidence of change does not always correlate with a higher tax burden. In China, for example, 5 of the 11 known or forecast changes result in a lower burden, while in Italy, the figure is even higher – where 6 out of 8 changes will result in a lower burden. Indeed, some changes may result in no burden change at all and will therefore not be reflected in the chart.
What do we expect for 2017?

As Jeffrey Owens sets out on page 11, “2017 could be a pivotal year in international taxation, as the G20 moves beyond the G20/OECD’s BEPS agenda and grapples with questions of growth and tax certainty and also revisits the challenges posed by the digital economy.”

Of course, that declaration, while clearly signposting future directions of travel, should not be construed to mean that BEPS implementation is done and dusted. Indeed, with the MLI opening in mid-2017 and paving the way for four key BEPS actions,\(^{14}\) the pace of change may well see a strong uptick. We hope it will be tempered by concrete action from the G-20/OECD tax certainty and growth project.

Likewise, in the European theater, much debate will continue on tax issues. “In the area of direct taxation, attention will be given to the legislative initiatives included in a corporate tax reform package announced by the European Commission on 25 October 2016,” writes Klaus von Brocke and Steve Bill on page 15. “This will include amendments to the Anti-Tax Avoidance Directive as regards hybrid mismatches with third countries; a directive that would introduce a reinforced mandatory dispute resolution mechanism in the EU; and a two-stage proposal towards an EU-wide Common Consolidated Corporate Tax Base.”

There will always be issues we simply cannot predict, however much we would like to. The US tax reform picture remains unclear, with ongoing unexpected shifts sometimes masking the overall clarity of direction. Federal elections in France, Germany and the Netherlands (among many others) may bring unexpected impacts. And the broader implications of Brexit have yet to play out.

All in all, 2017 is shaping up to be another year of real change. And there’s the core issue; it’s not any one single issue that drives policy formation (though US tax reform is clearly a major actor). Instead, tax policy in 2017 and beyond will be the result of an intertwining of multiple strands, some long term, some immediate that, together, will give us the playing field we have to work with.

So, monitoring and assessing policy direction, as well as viewing both new and existing structures and transactions through a policy lens, is more important than ever. So good luck during the year ahead, and all eyes on the goal.

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\(^{14}\) Treaty abuse, hybrid mismatch arrangements, permanent establishment and dispute resolution.
The outlook for global tax policy in 2017
2017 could be a pivotal year in international taxation, as the G20 moves beyond the G20/Organisation for Economic Co-operation and Development’s (OECD’s) Base Erosion and Profit Shifting (BEPS) agenda and grapples with questions of growth and tax certainty and also revisits the challenges posed by the digital economy.

Germany, which holds the G20 presidency from 1 December 2016 through 30 November 2017, has indicated that its tax agenda will focus on transparency, implementation of BEPS recommendations, tax and development, tax certainty and digitization.

Promoting tax policies that generate sustainable and inclusive growth

Germany will continue to explore the so-called third plank of the G20’s tax agenda—achieving strong, sustainable, balanced and inclusive growth. Under this plank, launched by the previous G20 presidency held by China, the G20 aims to boost economic growth through a range of tax policy tools. As part of this initiative, the G20 is exploring how it can increase certainty and predictability in the tax system, as it believes such factors are critical to fostering a pro-growth environment. The G20 has asked the OECD and the International Monetary Fund to prepare a report with recommendations on tax policies and mechanisms to generate sustainable and inclusive growth; the OECD and IMF published their report on 18 March 2017. This work is likely to form an ongoing part of the G20 tax agenda for years to come.

From a conceptual standpoint, one of the key questions that must be addressed by the G20 should be: Is all tax uncertainty bad? One could argue that having some amount of uncertainty in a tax system can be beneficial for tax administrations, as it forces taxpayers to act more cautiously. At the same time, uncertainty may give taxpayers more opportunity for tax planning. The G20 will therefore have to determine what level of tax uncertainty is “good” or “bad.”

The G20 will also have to develop criteria for achieving tax certainty. In other words, what elements are needed to derive tax certainty?
Clearly, governments can pledge to take a coordinated approach when developing tax policies – for example, by engaging in dialogue with the business community, adopting well-thought out policies that are translated into clear legislation and regulations, and ensuring that tax policies are consistent with international standards. The G20 will also have to look at the role that tools like advance rulings and advance pricing agreements can play in bringing certainty to both tax administrations and taxpayers. However, given the amount of scrutiny that rulings were put under as part of the debate on BEPS Action 5 (Countering Harmful Tax Practices), touting the benefits of advance rulings could be a tricky endeavor in a post-BEPS environment.

**Tax and the digital economy revisited**

Germany has indicated that the digital economy will be a big focus of its G20 presidency. At its first presidency meeting held in Berlin on 1 December 2016, Germany asked the OECD to prepare a report for the March 2017 G20 finance ministers’ meeting on current developments within the OECD’s Task Force on the Digital Economy, and to bring forward any other potential ideas on how taxation of digital activity can be improved. The task force is co-chaired by France and the United States, which have very different views (and interests) on how to tax the digital economy.

The rapid digitization of our economies brings both challenges and opportunities for all sides, and will require an unprecedented level of cooperation – between tax administrations as well as between taxpayers and tax administrations – if tax is not to become a barrier to using these new technologies for the good of all citizens.

The debate on digitization comes at a critical time, as digital technology is transforming not just the way business is done but the way tax administrations interact with taxpayers and other tax authorities. To cope with the unprecedented amount of taxpayer data that is flowing between governments and business, tax administrations are increasingly relying on digital methods to collect and analyze this data. Many tax authorities are building sophisticated data-gathering platforms and using data analytics to help them develop a more complete picture of companies’ tax profiles. Some are even extracting data directly from corporate systems as part of VAT and GST audits.

As tax administration goes digital, companies will need to make major investments in their tax and information technology functions to ensure they can meet the challenges – and opportunities – of providing information on an almost real-time basis.

**Battle of the non-cooperative tax jurisdiction lists?**

The G20’s plans to develop a list of “non-cooperative” jurisdictions for tax transparency purposes could conflict with the European Union’s (EU’s) effort to compile its own black list of non-cooperative jurisdictions. In July 2016, the OECD, working with G20 members, agreed on a set of criteria for identifying non-cooperative jurisdictions. To avoid being considered non-cooperative, a jurisdiction must meet two of the following three criteria:

- It receives a rating of “largely compliant” or better from the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), as regards the “exchange of information on request” standard of transparency
- It commits to adopting the OECD’s automatic exchange of information standard (the Common Reporting Standard, or CRS) and beginning exchanges by 2018 at the latest
- It has signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, or it has in place a sufficiently broad exchange network providing for exchange of information on request and automatic exchange of information

At the G20 Leaders’ Summit held in Hangzhou, China, in September 2016, the G20 asked the OECD to prepare a list by the July 2017 G20 Leaders’ Summit of those jurisdictions that have not yet sufficiently progressed toward a satisfactory level of implementation of the agreed international standards on tax transparency. The G20 stated that defensive measures will be considered against listed jurisdictions.
The EU is carrying out a similar exercise. In January 2016, as part of an Anti-Tax Avoidance Package, the European Commission announced plans to create a list of third countries that do not respect tax good governance standards. The plan was endorsed in May 2016 by the Economic and Financial Affairs Council of the European Union (ECOFIN). In November 2016, ECOFIN agreed on the criteria and the process for compiling an EU list of non-cooperative jurisdictions. The jurisdictions selected for screening will be assessed cumulatively under three criteria: (i) tax transparency; (ii) fair taxation; and (iii) implementation of minimum BEPS standards.

The tax transparency standard is similar to the G20/OECD’s. A jurisdiction will be considered compliant if it has committed to and started the legislative process to implement the CRS, with first exchanges in 2018; it has a peer review rating of at least “largely compliant” from the Global Forum regarding the OECD’s exchange of information on request standard; and it has ratified, agreed to ratify, is in the process of ratifying or has committed to the entry into force of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (as an alternative to the last criterion, the jurisdiction has a network of exchange agreements covering all EU Member States that provide for exchange of information on request and automatic exchange of information).

However, the fair taxation standard goes beyond the criteria set by the G20/OECD. To be considered compliant on fair taxation, the EU’s guidelines state that the jurisdiction should have no preferential tax measures that could be regarded as harmful according to the criteria set out by the EU Code of Conduct for Business Taxation, and the jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits that do not reflect real economic activity in the jurisdiction. The guidelines further state that by January 2017, the Code of Conduct Group should evaluate the absence of a corporate tax system or imposition of a nominal corporate tax rate equal to zero or almost zero as a possible indicator of non-fair taxation.

The EU’s approach could lead to a tense debate within the G20/OECD. One could argue that a list of non-cooperative jurisdictions should be based only on criteria for which there is broad global agreement – in this case, the OECD’s tax transparency standard as it pertains to exchange of information. By contrast, there is no globally agreed standard (yet) on what constitutes “fair taxation” or what should be considered a harmful tax regime. It can be expected that the non-OECD and non-G20 countries will put pressure on the EU to align its approach with the G20/OECD and focus only on tax transparency criteria.

Achieving good tax compliance, sustainable growth and restoring citizens’ faith in globalization

The G20 is to be congratulated for broadening its agenda beyond tax compliance to include issues that are at the center of the political debate in most countries: namely, how to reduce unemployment and improve living standards in a global economy, and how to ensure that the benefits and costs of globalization and new technologies are fairly shared between all segments of society. Meeting these challenges will require a reconsideration of the structure of our tax systems and the relative reliance on different tax bases; harnessing new technologies to bring more citizens into the formal economy and to reduce the deadweight loss of collecting and paying taxes; and developing “smart” approaches to taxing capital and wealth that achieve some redistribution at the top end of the income scale, but without reducing the incentive for work, risk-taking and entrepreneurship. The German G20 Presidency has an opportunity at the 7-8 July G20 Leaders’ Summit in Hamburg to set out in more detail this ambitious agenda, so that it can be carried forward over the coming years.
The outlook for global tax policy in 2017
The EU outlook for 2017: further reform of corporate tax and VAT rules

The European Union’s (EU’s) tax agenda in 2017 will likely be dominated by efforts to further reform the EU’s corporate tax and value-added tax (VAT) rules, as well as develop a common EU list of non-cooperative tax jurisdictions.

In the area of direct taxation, attention will be given to the legislative initiatives included in a corporate tax reform package announced by the European Commission (the Commission) on 25 October 2016: amendments to the Anti-Tax Avoidance Directive as regards hybrid mismatches with third countries; a directive that would introduce a reinforced mandatory dispute resolution mechanism in the EU; and a two-stage proposal towards an EU-wide Common Consolidated Corporate Tax Base (CCCTB).

Work will also continue on other elements of the Commission’s transparency and anti-avoidance agenda. In particular, the fate of the Commission’s 12 April 2016 proposal to amend the Accounting Directive ( Directive 2013/34/EU) to require public country-by-country reporting (CbCR) should be closely watched. The Legal Service of the EU Council issued an opinion in November 2016 that the legal basis for the proposal should be Article 115 of the Treaty of the Functioning of the European Union (TFEU), and not Article 50(1) TFEU as the Commission’s proposal states. Under Article 50(1), the decision to amend a directive requires approval from only a qualified majority of the Member States; by contrast, Article 115 requires unanimous consent. However, on 12 January 2017, the European Parliament’s Committee on Legal Affairs gave an opinion that public CbC reporting is an accounting matter and therefore requires approval from a qualified majority. There are now contradictory opinions on the legal basis of this proposal and whether it will require unanimous approval or a qualified majority. A triangular body comprising all stakeholders, i.e., the Commission, European Parliament and the EU Council, are currently discussing the way forward.
In the area of indirect taxation, the focus will be on the VAT Digital Single Market package issued by the Commission on 1 December 2016. The package contained, inter alia, proposals aimed at simplifying the VAT rules for e-commerce business-to-consumer (B2C) businesses in the EU by allowing companies that sell goods online to fulfill all their VAT obligations in the EU through a digital online portal (known as One-Stop Shop). Discussions will also focus on the Commission’s proposal of 21 December 2016 to temporarily allow Member States to apply a generalized reverse charge mechanism.

Direct tax

On the direct tax side, we can divide the outlook by the two presidencies of the EU Council (EU presidency) in 2017: Malta has the EU presidency from January-June, and Estonia takes over from July-December.

Malta presidency

The focus during the first half of 2017 will likely be on:

1. Formally adopting a directive regarding hybrid mismatches involving third countries
2. Screening jurisdictions for the purposes of creating a common EU list of non-cooperative tax jurisdictions
3. Finding agreement on a mandatory dispute resolution directive
4. Continuing the work on disclosure of aggressive tax planning schemes

Hybrid mismatch directive

On 20 June 2016, the Economic and Financial Affairs Council of the European Union (ECOFIN) adopted the Anti-Tax Avoidance Directive (ATAD, Directive (EU) 2016/1164), which lays down common minimum rules in the areas of interest limitation, exit taxation, GAAR, controlled foreign companies and hybrid mismatches. However, the rules regarding hybrid mismatches are limited to hybrid instruments and hybrid entities between Member States. ECOFIN asked the Commission to put forward, by October 2016, a proposal on hybrid mismatches involving third countries in order to provide for rules consistent with and no less effective than the rules recommended by the Organisation for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting (BEPS) report on Action 2, with a view to reaching an agreement by the end of 2016.

On 25 October 2016, the Commission released a proposal to amend the ATAD that would establish a comprehensive anti-hybrid abuse framework to prevent arrangements that involve Member States and third countries (the proposal is known as ATAD 2). In addition to expanding the territorial scope, the proposal addressed hybrid permanent establishment mismatches, hybrid transfers, imported mismatches and dual resident mismatches that were not addressed by the ATAD. The proposal was then submitted to the European Parliament for consultation and to ECOFIN for adoption.

The Slovak Presidency of the Council, along with ECOFIN, presented the proposal to the Working Party on Tax Questions and then to the High Level Working Party on Tax Questions for technical analysis and discussion. During these meetings, the Slovak Presidency also identified a number of cases of hybrid mismatches that were not fully addressed by the proposal. This led to a number of changes to the compromise text in terms of some types of hybrid permanent establishment and financial instrument mismatches, as well as differences in definitions, language and scope.

At an ECOFIN meeting held on 6 December 2016, the Member States could not reach an agreement on the proposal but agreed to a stable text for most provisions, leaving just two issues to resolve: (i) rules that would allow member states to apply limited exemptions; and (ii) the date of implementation.

At ECOFIN’s 21 February 2017 meeting, the Member States agreed on a compromise proposal developed by the Maltese Presidency (which built on the outcome reached under the Slovak Presidency) that allows Member States to apply certain limited exemptions and postpones the implementation date to 1 January 2020. ECOFIN will formally adopt the ATAD 2 once the European Parliament has given its opinion. Member States will then have to transpose the ATAD 2 into their national laws and regulations by 31 December 2019, and the provisions will have to apply as of 1 January 2020 (except for the rules on reverse hybrid mismatches, which will need to be implemented by 31 December 2021 and apply as of 1 January 2022).
Screening of third countries

In January 2016, the Commission published its External Strategy for Effective Taxation, which called for the establishment of a common EU list of third country jurisdictions that do not respect tax good governance standards. The External Strategy set out a three-step process for creating this list:

1. **Scoreboard:** The Commission carries out a pre-assessment of all third countries based on neutral selection and risk indicators.

2. **Screening:** The Member States will decide, with the help of the Scoreboard, on the relevant third country jurisdictions to screen against tax good governance criteria. A screening and dialogue process will then be launched with these jurisdictions.

3. **Listing:** Third country jurisdictions that refused to cooperate or engage with the EU regarding tax good governance concerns during the screening process will be put on the EU list.

In September 2016, the Commission presented to the EU Code of Conduct Group the Scoreboard of its pre-assessment of all third country jurisdictions for tax purposes. The Member States then had to decide which third country jurisdictions should be assessed in greater detail against the tax good governance criteria.

On 8 November 2016, ECOFIN agreed on the criteria to be applied during the screening phase. The countries selected for screening will be assessed cumulatively under three criteria:

1. Tax transparency
2. Fair taxation
3. Implementation of minimum anti-BEPS measures

The next steps entail the Code of Conduct Group deciding which jurisdictions to screen, and ECOFIN endorsing the list of jurisdictions to be screened. The screening phase is expected to take place during the first few months of 2017, followed by meetings in the spring with those jurisdictions and dialogues to explore solutions. The results of the screening are expected to be discussed by the Code of Conduct Group and the EU Council in June/July.

Mandatory dispute resolution

On 25 October 2016, the Commission issued a proposal for a Council Directive on Double Taxation Dispute Resolution Mechanisms in the European Union (the proposed EU Dispute Resolution Directive, or proposed directive). In an explanatory memorandum, the Commission noted that the EU already has mechanisms in place that deal with the resolution of double taxation disputes: the mutual agreement procedure (MAP) provisions included in double taxation conventions (DTCs) entered into by Member States, and the EU Arbitration Convention, which provides for mandatory binding arbitration in double taxation cases arising from the adjustment of profits of associated enterprises.

However, the Commission said its analysis showed that there are double taxation cases that are prevented from entering existing mechanisms, are not covered by the scope of the EU Arbitration Convention or DTCs, get “stuck” without the taxpayer being informed about the reasons or are not resolved at all. The Commission’s proposed EU Dispute Resolution Directive would introduce a framework for resolving double taxation disputes that builds on existing mechanisms, including the EU Arbitration Convention. However, the scope of the proposed directive would be broader than that of the EU Arbitration Convention (which is limited to disputes involving transfer pricing and attribution of profits to permanent establishments); the proposed directive would apply to all cross-border situations subject to double income tax imposed on business profits by two (or more) EU Member States.

The dispute resolution mechanism set out in the proposed directive comprises three procedural stages:

1. **Complaint stage:** The taxpayer may initiate a complaint within three years from the notification of the action resulting in double taxation. Within six months of receiving a taxpayer complaint, the competent authorities of both Member States shall decide on its acceptance and admissibility. If the complaint is accepted, a MAP will be initiated.

2. **MAP stage:** Under the MAP, Member States shall endeavor to reach an agreement on the double taxation dispute within two years of the acceptance of the complaint. This term can be extended by up to six months, if the taxpayer and the other competent authorities agree. The competent authorities will need to inform the taxpayer on any decision reached in this phase, regardless of whether they have reached an agreement to eliminate the double taxation or not.
If an agreement has been reached at this stage, such agreement is binding on the authorities and enforceable by the taxpayer, subject to the taxpayer renouncing recourse to any domestic remedy. That decision shall be implemented irrespective of any time limits prescribed by the national law of the Member States concerned.

3. Dispute resolution stage: If no agreement is reached under the MAP, the case shall be resolved under a dispute resolution procedure, whereby an Advisory Commission set up by the competent authorities issues an opinion on eliminating double taxation in the disputed case. Once the competent authorities are notified of the Advisory Commission's opinion, they must reach an agreement within six months. The competent authorities may adopt a decision that deviates from the Advisory Commission's opinion, but if they cannot reach an agreement to eliminate the double taxation, they are bound by that opinion. The final decision, similar to the one reached under the MAP, is binding on the tax authorities and enforceable by the taxpayer, subject to the taxpayer renouncing recourse to any domestic remedy.

The competent authorities may agree to set up an Alternative Dispute Resolution Commission (ADR Commission) instead of an Advisory Commission. The ADR Commission may apply conciliation, mediation, expertise, adjudication or any other dispute resolution processes or techniques to resolve the dispute.

Taxpayers may at their request appear or be represented before the Advisory Commission or ADR Commission. It is proposed that Member States should transpose the directive by 31 December 2017 at the latest.

Given that the proposed directive is the result of longstanding debates in the EU Joint transfer Pricing Forum, and the measures are based on what was already agreed to in the Arbitration Convention in 1990, it is expected that the directive will be adopted during the Maltese presidency.

Disclosure of aggressive tax planning schemes

On 10 November 2016, the Commission launched a public consultation on whether there is a need for EU action aimed at introducing more effective disincentives for intermediaries or taxpayers engaged in operations that facilitate tax evasion and tax avoidance. The Commission noted that the European Parliament has called for tougher measures against intermediaries who assist in tax evasion schemes, and that ECOFIN, in its 25 May 2016 conclusions on an external taxation strategy and measures against treaty abuse, invited the Commission to consider legislative initiatives on mandatory disclosure rules inspired by BEPS Action 12. Solutions could range from a mere non-binding option for Member States to exchange information on such schemes to an explicit reporting obligation for those who promote, use, enable or engage in certain tax planning schemes.

In announcing the public consultation, the Commission said it is particularly interested in hearing how a mandatory disclosure scheme for tax advisers could be put in place. It noted that such rules would require intermediaries to give early information on schemes that could be viewed as aggressive or abusive planning for tax purposes and would reflect the goals of the OECD's guidelines under BEPS Action 12 for the disclosure of aggressive tax planning strategies. The Commission said the consultation will help it to decide whether it is appropriate to introduce binding rules at the EU level and, if so, what the most suitable legal instrument should be. The public consultation closed on 16 February, and the results will be published by the Commission sometime thereafter.

Minimum effective taxation and the Interest and Royalties Directive

In November 2011, the Commission issued a proposed Council Directive to amend the Interest and Royalties Directive. Among other changes, the proposed directive would add a new requirement for obtaining the tax exemption: the recipient must be effectively subject to corporate tax in the Member State of its establishment on the income derived from the interest or royalty payment. This condition was designed to ensure that tax relief is not granted when the corresponding income is not subject to tax and thereby close a loophole that could be used by tax evaders.

ECOFIN has been unable to reach unanimous agreement on the proposed amendments. Following the Commission's November 2013 proposal to amend the Parent-Subsidiary Directive by introducing a GAAR into that directive (ECOFIN adopted the proposal in January 2015), a majority of Member States wanted to split the work on the proposed amendment of the Interest and Royalties Directive by focusing first on the insertion of a GAAR (similar to the one in the Parent-Subsidiary Directive) and then discussing the remaining proposed changes. Ten Member States have called for inserting a minimum effective taxation (MET) clause into the Interest and Royalties Directive, but seven Member States have opposed adding such a provision. The debate is expected to continue in 2017.
The outlook for global tax policy in 2017

Estonia presidency

After Estonia takes over the EU presidency in July, the focus will likely turn to the final screening and listing of non-cooperative tax jurisdictions, as well as the Commission’s proposed introduction of an EU-wide CCCTB.

Final screening and listing phases

Assuming the Commission and Code of Conduct Group complete the screening and dialogue process with third countries during the first half of 2017, the results of the screening will be discussed by the Code of Conduct Group and EU Council around June and July. From July to September, they will communicate with jurisdictions to confirm any commitments made during the screening process.

In October, the Code of Conduct Group is expected to recommend to the EU Council which jurisdictions should be listed. ECOFIN will thereafter have to endorse the list and the counter-measures to be applied. Jurisdictions will then be informed of the reasons for their listing and how they can be de-listed. The entire listing phase is expected to be completed by the end of 2017.

The CCCTB

The Commission hopes to have a better outcome with its October 2016 relaunch of the CCCTB proposal, which has been repackaged as an anti-BEPS initiative. After its 2011 proposal, which was presented as a single proposition, stalled because of disagreements over the tax consolidation provision, the Commission decided to follow a staged approach. Accordingly, the proposal has been split into two directives - the first would establish the rules for a common corporate tax base (CCTB), and the second would introduce the consolidation elements of the CCCTB itself. Discussions on the draft directive relating to the CCCTB will be postponed until the elements of the CCTB are agreed. The Commission has set a very ambitious timetable; it suggests having the CCTB Directive enter into force on 1 January 2019, and the CCCTB Directive enter into force on 1 January 2021.

Indirect tax

VAT Digital Single Market package

This package is the first major set of proposals stemming from the Action Plan towards a single EU VAT area that was presented by the Commission on 7 April 2016. The package contains 3 main elements.

The first is a set of proposed new rules for a One-Stop Shop for intra-EU B2C e-commerce in goods. This measure builds upon the mechanism that already exists for online sellers of electronic services (e-services) and would mean that companies would not have to register in other Member states when they make intra-EU B2C sales, as they are currently required to do. Given the existence of the e-service precedent, it is likely that ECOFIN will be able to agree upon this element relatively quickly. Early signs are that nearly all Member States are in favor.
Secondly, in order to create a level playing field between EU and non-EU businesses, the Commission has proposed abolishing the current exemption for imports of low-value consignments from third countries. The exemption not only distorts competition but leads to tax avoidance by the routing of B2C sales through third countries. Getting agreement on this element is, however, likely to be more difficult, given that the VAT exemption cannot be treated in isolation from the customs treatment of such consignments. Rapid adoption is therefore unlikely.

Finally, the Commission has proposed that Member States should have the option to apply a reduced rate to e-publications, such as e-books and online newspapers, when they apply such a rate to their printed equivalents. Despite its optional nature, this proposal is likely to be politically sensitive, as that has always been the case with proposals to extend the scope of reduced rates.

The generalized reverse charge mechanism proposal

In response to a request from the EU Council, the Commission on 21 December 2016 issued a proposal to amend the VAT Directive (Directive 2006/112/EC) to temporarily allow Member States to apply a generalized reverse charge mechanism (GRCM) for domestic supplies of goods and services above a certain threshold. The intention is to combat the effects of carousel or missing trader fraud resulting from the current nontaxation of intra-EU supplies of goods. Under a GRCM, the payment of the VAT that would be due on the supplies made between businesses is suspended, and the VAT is instead due at the last stage of the supply chain on the total amount of the value of the final supply. The final supply is either a supply made by a business to a final consumer or a supply made by a business to another business.

The Commission stated in its explanatory memorandum that “[T]he purpose of the legislative proposal is limited in scope and in time and is without prejudice to the development of the definitive VAT system based upon the taxation of cross-border supplies.” The proposal is hedged around with conditions, so it will be interesting to see whether ECOFIN will introduce amendments to make it easier for some Member States to actually be able to apply a GRCM.

Possible further VAT proposals in 2017

As foreseen in its April 2016 Action Plan towards a single EU VAT area, the Commission in December 2016 launched a trio of public consultations on reforming other aspects of the VAT regime. These concern:

- The definitive VAT system for business-to-business (B2B) intra-EU transactions on goods
- The special rules for small and medium-sized enterprises
- The VAT rates that can be applied by Member States

The Action Plan foresees the publication of legislative proposals in each of these three areas some time in 2017. This is likely to be in the last quarter.

The financial transaction tax

Although the EU Council in January 2013 authorized the financial transaction tax (FTT) proposal to proceed under enhanced cooperation, an EU procedure that enables a minimum number of nine Member States to cooperate without the other Member States being involved, the 11 participating Member States (now 10 after the withdrawal of Estonia) have so far been unable to reach agreement on a harmonized FTT to be introduced in their respective Member States. Discussions will continue, but there does not yet appear to be any light at the end of the tunnel.
The outlook for global tax policy in 2017
The outlook for global tax policy in 2017
The outlook for US tax reform and its potential effects on global tax policy

The US tax reform picture is more dynamic and fluid than it has been for some time. In this piece, we provide an overview of the current state of the US tax reform debate. This article has been prepared for general informational purposes only. It is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

There has been a general desire for some time to reform the US tax system to increase US tax competitiveness and grow the economy.

Many reform ideas have been under development for years, but the political dynamics have made action on tax reform challenging. With Republicans in control of both chambers of Congress and a Republican president in power, the prospect of achieving significant tax reform has become much more likely, with some speculating that tax reform legislation could be enacted in the 2017-2018 timeframe. Should that happen, it is expected that the changes would be effective for 2018 forward; however, it is possible – though somewhat less likely – that changes could affect earlier tax years.

Of course, whatever the outcome, multiple parties will be impacted by the changes, with some groups potentially benefitting from reform while others could face a more challenging tax picture. And, of course, tax reform by a major trading nation like the United States will likely prompt other countries to adopt measures in response, as they adjust to the revised business and economic landscapes.
Where exactly the corporate income tax rate ends up will depend partly on revenue considerations, and what other provisions are included in tax reform to offset the revenue loss of lowering the rate.

What is the US striving for?

For Republican lawmakers controlling the legislative agenda, economic growth remains a key issue. While US economic growth is strong and unemployment is down, it is expected that reform plans will include provisions intended to increase demand for US goods and services as well as a return to capital investment in US companies. Generally, the tax reform plans under consideration share the broad goals of stimulating US economic growth by encouraging companies to invest and create jobs in the United States and to reduce their reliance on imports. The leading plans would generally lower income tax rates, broaden the US tax base by eliminating many targeted tax preferences and make changes to the international tax system that are aimed at bringing the United States more in line with other countries’ territorial tax systems.

There have also been calls from the Trump Administration and members of both political parties for legislation to increase investment in US infrastructure. As such, it is possible that some provisions designed to fund infrastructure investment could be included in tax reform legislation.

The process and timing

While Republicans control both chambers of Congress, their majority in the Senate is shy of the 60 votes needed to overcome a Democratic filibuster that could tie up a reform bill. Therefore, Republicans plan to pursue tax reform legislation through “reconciliation.” Reconciliation allows certain legislation to pass with a simple 51-vote majority, but places limits on what can be included in the legislation. House Republicans had intended to use the reconciliation process to repeal and replace the Affordable Care Act (and its associated taxes). That plan, however, is now off the table, leaving a number of issues, both political and economic, that may get folded into tax reform.

Potential tax reform elements

President Trump and congressional Republicans agree on many elements of tax reform – such as lowering tax rates and eliminating many business tax preferences. However, statements made by President Trump before the election suggested some key differences, such as the international tax regimes they propose. Trump, during his campaign, supported repealing deferral and maintaining the worldwide taxation system, while congressional Republicans have sought to move the United States more towards a territorial system of taxation.

Corporate income tax rates are likely to drop as part of the comprehensive tax reform effort in Congress, although when and by how much is uncertain. The rates being considered range from 15% – the rate President Trump proposed during his campaign (with the same rate on the business income of pass-through entities) – to 20% for corporations (and 25% for pass-through business income), which House Republicans proposed in their June 2016 tax reform “Blueprint.”

Where exactly the corporate income tax rate ends up will depend partly on revenue considerations, and what other provisions are included in tax reform to offset the revenue loss of lowering the rate. Congressional Republicans have pledged to make their tax reform effort revenue-neutral, using dynamic scoring (that factors in the economic effects of their tax cuts). While Trump’s campaign plan had been estimated to cost trillions of dollars, the president is expected to try to develop a plan that is closer to revenue-neutral. Trump has indicated he would release a comprehensive tax plan in early 2017.

While the details remain to be seen, some key features that many think will be part of any final tax reform include:

- Lower corporate/business tax rates
- Lower individual tax rates
- Elimination of many deductions, exclusions and credits
- Possible limitations on interest deductions
- Move toward a territorial system and a mandatory transitional tax to encourage accumulated foreign earnings to be repatriated to the United States
- Some provision to encourage economic activity within the United States

Details to-date

Table 1 below summarizes the key features of the Trump plan (based on his tax proposals released during the campaign) and House Republicans’ Blueprint.
Table 1: High-level comparison of Trump’s campaign plan and House Republican Blueprint

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<th>Trump campaign plan</th>
<th>House Republican Blueprint</th>
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<tbody>
<tr>
<td>Top corporate tax rate (now 35%)</td>
<td>15%, corporate AMT eliminated</td>
<td>20%, corporate AMT eliminated</td>
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<tr>
<td>Top pass-through rate (now 39.6%)</td>
<td>15% rate within the personal income tax system for pass-through entities that want to retain profits within the business</td>
<td>25%</td>
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| Taxation of future foreign earnings | In September 2015, proposed immediate worldwide taxation, repeal of deferral; unclear if he still supports | • Territorial, 100% exemption for dividends paid from foreign subsidiaries  
• Border tax adjustment mechanism |
| Mandatory tax, untaxed accumulated foreign earnings | 10%                                                      | 8.75% for cash/cash equivalents, 3.5% otherwise, payable over 8 years |
| Cost recovery                    | Expensing for manufacturers                               | 100% expensing of tangible, intangible assets except land       |
| Interest                        | Manufacturers electing to expense capital investment lose the deductibility of corporate interest expense | No current deduction will be allowed for net interest expense   |
| Other business provisions       | Calls for them to generally be eliminated, except for research credit | Calls for them to generally be eliminated, except for research credit and LIFO |
| Individual rates (now 10%, 15%, 25%, 28%, 33%, 35%, 39.6%) | 12%, 25%, 33%                                            | 12%, 25%, 33%                                                    |

The details of Trump’s campaign tax plan and the House Republicans’ Blueprint are not identical, but directionally they are similar. Some of the elements of business tax reform proposed by Republicans could form the basis for discussions with Democrats. Democrats, however, have not supported the Republican’s proposed lower tax rates for high-income individuals. If the total burden on upper-income taxpayers were unchanged, however (for example through base-broadening), Democrats may be willing to accept the individual income tax rate reductions. The parties have also disagreed on revenue issues in the past, with Democrats arguing reform should be revenue-neutral on a macro-static (as opposed to macro-dynamic) basis. However, if reconciliation is used to advance tax reform, these differences become irrelevant, as Senate Democrats would have little opportunity to change or block the legislation.

It is not clear whether the Senate, the other party in this three-way negotiation, will propose a similar plan. Senate tax leaders have indicated they plan to follow their own tax reform process, however, it remains to be seen whether any Democrats will participate in drafting a Senate plan.
The potential for wholesale elimination of the deduction for net interest expense is of particular interest given that it goes further than the interest restrictions adopted by many countries recently, with many following the recommendations of BEPS Action 4, restricting deductions to 30% of earnings before interest, taxes, depreciation and amortization.

**Key issues for global stakeholders: interest deductibility and border adjustments**

While the leading plans propose many changes that could potentially affect global tax policy (such as the overall rate reductions and shift toward territorial taxation), two tax reform proposals have sparked intense interest, and discussion by global stakeholders: limits on the deductibility of interest expense, and introduction of a border adjustment tax.

Both the Blueprint and the Trump campaign plan would restrict the deductibility of interest expense. Trump’s proposal would allow manufacturers to elect to expense capital investment; however, those manufacturers that make the expensing election would lose the ability to deduct corporate interest expense. The Blueprint would allow immediate expensing of business investment in tangible property (such as equipment and buildings, but not land) and intangible assets, but would eliminate the current deduction for interest expense on a net basis. Under the Blueprint, interest expense would be able to be deducted against interest income, but no current deduction would be allowed for net interest expense. Any net interest expense would be able to be carried forward indefinitely and allowed as a deduction against net interest income in future years.

The potential for wholesale elimination of the deduction for net interest expense is of particular significance given that it goes further than the interest restrictions adopted by many countries recently, with many following the recommendations of BEPS Action 4, restricting deductions to 30% of earnings before interest, taxes, depreciation and amortization. Indeed eight of 50 covered in this 2017 Outlook - China, Greece, India, Israel, Netherlands, Norway, Singapore and the United Kingdom - are restricting interest deductibility in some way this year.

Given this increasing lack of relief for interest expense, coupled with restrictions in the use of hybrid instruments, and the likelihood of taxation of interest income, it is possible we could see a move away from debt financing to more flexible types of equity funding.

The Blueprint contains another proposal that has generated controversy both inside and outside the United States - a border tax adjustment mechanism. A border adjustment is a way to tax imports and refund (or credit) taxes paid on business purchases used in the production of exports. Under the proposal in the Blueprint, revenue from export sales would not be taxable, and the cost of imported goods would be in the tax base (or taxed separately). If the Blueprint is enacted, the border adjustment mechanism, combined with other changes in the Blueprint, would shift the US income tax toward a consumption-based tax. Global policymakers are watching this proposal closely and are discussing what types of policy changes they may wish to make should this change become law.

Some supporters view border adjustments as a way to improve US competitiveness and the US balance of trade. For example, under current US tax law, a US exporter must pay an import tax on products sold in a foreign country where there are border adjustments (paid via the foreign country’s value-added tax, or VAT). A foreign exporter, in contrast, has no VAT liability; instead it receives a tax rebate under its border adjustment and pays no import tax to the United States.

While in the near term a country that adopts border adjustments could see a temporary increase in exports and decrease in imports (and a corresponding increase in revenue), the longer-term effects of border adjustments are likely to be different. Most economists think that the real price level would adjust to offset the effect that border adjustments might have on trade, with changes in currency values (e.g., exchange rates) the primary mechanisms for the adjustment.

How would the Blueprint’s border adjustment work?

Countries with VATs typically include border adjustments, which refund (or credit) taxes paid on business purchases used in the production of exports, and they tax imports. Border adjustments are included in VATs to transform the tax into a destination-based system that taxes domestic consumption. The provision in the Blueprint is a 20% border-adjusted cash flow tax. Under the provision, revenue from export sales would not be taxable, and the cost of imported goods would be in the tax base (or taxed separately) as it would not be deductible. The provision would apply to all domestic consumption and would exclude any goods or services that are produced domestically, but consumed elsewhere.

Do multilateral trade agreements place any restrictions on border adjustments?

There is uncertainty over whether the border adjustments as proposed in the Blueprint would be allowed under the multilateral trade rules negotiated as part of the General Agreement on Tariffs and Trade under the World Trade Organization (WTO). WTO rules allow for border adjustments under indirect taxes (e.g., VATs), but not for direct taxes, such as income taxes. The border adjustments as proposed in the Blueprint would, in effect, be administered as an income tax. The case for the Blueprint’s border adjustments being permitted is that they move the US income tax system considerably toward being a consumption tax (vs. a direct tax).

At the time this report went to press, it was unclear whether President Trump would support the border adjustment provision outlined in the Blueprint. US Treasury Secretary Mnuchin said in February, “We’re looking at it seriously – there are certain aspects of it that we’re concerned about, [and] there are certain aspects that we like.”

What might other governments be thinking about?

Tax policy never operates in a vacuum, and policy formation today is more reliant upon consideration of impacts – or “spillover” – effects than it has ever been. So with some key components of US reform on the table – but certainly not agreed upon – what are the considerations that other governments may be making while they continue to watch US policy unfold from afar?

While it is hard to predict precisely what the impact of the US tax reforms will be, the following sets out some of the issues that policymakers outside of the United States may be thinking about:

- The President has said that his tax reforms will be designed to boost the US domestic economy by supporting growth and jobs. The lower tax rates should, at least in the short- to medium-term, work to advance this goal.
- If it is part of the final tax reform bill, a border adjustment tax regime could (at least initially) favor US domestic businesses.

In addition, US reforms, if achieved, may potentially lead to responses by businesses and individuals, such as:

- Mobile businesses might consider relocating to the United States – for example, in the technology, pharmaceuticals, services and financial sectors.
- Businesses might shift their expansion and investment decisions to the United States.
- Internationally-oriented businesses currently headquartered outside the United States could consider moving their headquarters to the United States.
- Individuals might decide to relocate to or from the United States.

The medium- to long-term impacts of the tax reform proposals are difficult to predict. Some commentators have predicted that the increased stimulus to the US economy stemming from tax reform would lead to domestic inflation, which in turn could cause US interest rates to rise. This monetary effect could dampen the longer-term stimulatory effects of the tax changes.

Others have pondered the longer-term effects that the US tax reform proposals could have on the trade policies of the United States and its major trading partners. Will the border adjustment tax, if enacted, lead to “retaliatory” law changes by the United States’ major trading partners? Will this in turn lead to greater protectionist policies that could impact the global economy?

2 Id.
US tax changes create challenges for the United States’ trading partners, placing even greater importance on those countries’ reform agendas. Governments are aware of this, and many are reinvigorating their efforts in this area. This is evidenced by the data reported in this publication, including the ongoing focus on reducing corporate income tax rates and driving greater levels of economic activity via enhanced or entirely new business incentives.

**Corporate tax rates**

It is likely that many countries will be reassessing whether their headline corporate tax rate positions them as an attractive place to work, invest and save. The average OECD corporate income tax rate in 2016 was 24.7%, higher than the rate proposed by the House Republicans and by Trump during the campaign. Indeed, data in this publication shows that jurisdictions continue to desire having a competitive, “low-rate, broad-based” business tax environment, extending a trend that we have seen for some years now. Headline corporate income tax rates continue to fall – albeit in slightly fewer countries and with lower overall rate reductions than in the last few years. At the same time, the number of countries forecasting an increased overall business tax burden continues to outstrip those forecasting a reduced burden, cementing the “broad-base” component of the trend.

Many countries continue to believe that competitive tax rates can enhance growth. A number of reports and studies have supported this view, including, for example, Australia’s Henry Review which reported that “Australia’s company income tax rate, which currently stands at 30%, is high relative to other comparably sized OECD countries. The average rate for small to medium OECD economies is currently around 25%. Reducing taxes on investment would increase Australia’s attractiveness as a place to invest, particularly for foreign direct investment. Reducing taxes on investment, particularly company income tax, would also encourage innovation and entrepreneurial activity. Such reforms would boost national income by building a larger and more productive capital stock and by generating technology and knowledge spillovers that would improve the productivity of Australian businesses and employees.”

It’s not just the rate

Business tax reform for any country is not just about delivering lower tax rates. Governments must also consider their tax incentives and more general business tax settings as well – especially for innovation, R&D and capital investment, as we move through what the World Economic Forum has described as the “Fourth Industrial Revolution.” This will be particularly pertinent if the United States reshapes its tax incentives in favor of new capital invested in the United States, and if immediate expensing of capital expenditures (as proposed in the House Republicans’ Blueprint) is enacted.

We are already seeing a refreshed focus by governments in the incentives area. As set out in this publication, there has been a strong uptick in the number and scope of incentives offered by countries – from innovation and patent “boxes,” to R&D incentives and broader business incentives such as depreciation and capital investment allowances. Whether this is to counter ongoing weak economic growth, to provide a more competitive tax environment in the context of the BEPS project or is a precursor to further action in response to US reform remains unclear. But it is fair to assume that, should US reforms spur greater Foreign Direct Investment and capital spending via lower tax costs, other countries will form a response.

A new phase of anti-base erosion measures?

Both the House Republicans’ Blueprint and Trump’s campaign plan included options to limit the interest expense deduction, although the details of the proposals differ. And while many countries are indeed already moving to limit interest expenses (with India being the latest country to adopt the OECD’s BEPS Action 4 recommendations; in its recently announced Union Budget for tax year 2017-18, the Indian Government proposed imposing a limit of 30% of earnings before interest, taxes, depreciation and amortization), such a move by the United States would likely have spillover effects elsewhere. Much the same can be said if the United States makes changes to the way it taxes foreign-earned income of its multinational corporations – such as the rules governing controlled foreign companies, transfer pricing and hybrid mismatch arrangements. Should changes in these areas be enacted, the OECD and others may also want to change their approach to these rules. In effect, any base erosion and profit shifting actions by either the OECD or European Commission may be impacted by US tax law changes, and consequently rethought in the future.

---

3 The effective rate paid by companies, which includes National/Federal rates plus any state or regional taxes. Source: OECD Tax Database, accessed 28 February 2017.


5 Ibid, page 163.

6 Ibid, page 149.

7 https://www.weforum.org/about/the-fourth-industrial-revolution-by-klaus-schwab.

Concluding thoughts

Many governments are already modeling the potential impacts of US tax reform and assessing how they might shape their tax policies in response. Companies should be carrying out a similar exercise, as any change in US tax law will affect aspects of their tax strategy. To a certain degree, companies can use a similar approach to the one they used when assessing the impact of the OECD's BEPS recommendations - monitor, model and engage; the process, protocols and knowledge-sharing activities should already be in place. And as always, monitoring and assessment must be linked to (and embedded in) overall business and tax strategies.
Country chapters

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<td>Venezuela</td>
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<tr>
<td>Vietnam</td>
<td>342</td>
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</table>
1  |  Tax rates (2016-17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>35%</td>
<td>35%</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>35%</td>
<td>35%</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>21%</td>
<td>21%</td>
<td>–</td>
</tr>
</tbody>
</table>

2  | 2017 Tax policy outlook

2.1 Key drivers of tax policy change

The new Government, which took office in December 2015, has indicated their intention to progressively reduce the tax burden for companies and individuals in order to make the country more competitive, and has in practice taken some measures in this regard (such as the elimination of export duties and abrogation of tax on dividends).

Toward the end of 2016, a tax reform package was approved, which reduced the burden of income tax for individuals (through the update of tax deductions and tax scales) – a measure that has been vastly discussed in the country.

However, the significance of the public expenditure and the difficulties that the Government has had to reduce it for many reasons, have made it clear that the reduction of taxes will not be easy and will take a long time.

The multiplicity of taxation levels (federal, provincial and municipal), along with the lack of an updated co-participation system, continues to present a significant issue. The new Minister of Treasury, appointed in December 2016, has recently indicated that one of his priorities will be the reduction of public deficit and the reordering of the taxation system.
# Argentina

## 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☑ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017 ☑ N/A, as there is no Capital Gains Tax</td>
<td>☑ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017 □ N/A, as there is no VAT, GST or sales tax</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
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<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017 □ N/A, as there is no VAT, GST or sales tax</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
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<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes in 2017 □ N/A, as there is no CFC regime</td>
<td>□ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
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<tr>
<td>Tax types</td>
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<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017 ☐ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
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<td>(10) Transfer Pricing changes</td>
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</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
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<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
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<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
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<tr>
<td>(13) Changes to tax enforcement approach</td>
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<td>(14) Top marginal PIT Rate</td>
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<tr>
<td>(15) PIT base</td>
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<td>☒ Lower burden in 2017 ☐ Same burden in 2017 ☐ Increased burden in 2017</td>
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</table>
2.3 Tax policy outlook for 2017 — summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
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<tbody>
<tr>
<td>Lower</td>
<td>X</td>
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<tr>
<td>No change</td>
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<tr>
<td>Higher</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall PIT burden</th>
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<tbody>
<tr>
<td>Lower</td>
<td>X</td>
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<tr>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>Higher</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall VAT/GST/sales tax burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>X</td>
</tr>
<tr>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>Higher</td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 — detail

**Corporate income taxes**

No significant changes are expected in regard to corporate income taxes. The main distortion that the tax currently has is the lack of inflationary adjustment. The Government that took office in December 2015 has made it clear that an inflationary adjustment will not be reinstated, since their main goal is to significantly reduce inflation. Although inflation in 2016 was high, it has progressively been decreasing in the last months of the year and is expected to continue decreasing in 2017.

**Taxes on wages and employment**

No significant changes are expected in 2017. However, the Minister of Treasury has made it clear that a reduction in employment tax will be one of his priorities.

**VAT/GST/sales taxes**

No major changes are expected. The main issue with indirect taxes is the multiplicity of taxes at federal (VAT, tax on credits and debits), provincial (turnover tax, stamp tax) and municipal (municipal taxes) levels. The harmonization of these systems requires a significant effort and coordination across all levels – an effort that no recent national governments have attempted to take. The current Government has indicated that this will be one of its priorities; however, the lack of a majority at Congress may pose a doubt on whether they will achieve any improvement or not.
2.5 Political landscape

A new government (led by President Mauricio Macri) took office in December 2015, after 12 years of being ruled by the same political party (4 years by Néstor Kirchner and 8 years by his wife, Cristina Kirchner).

The new Government dedicated its initial work to, among other things, remediate several distortions received from the prior Government (foreign exchange restrictions, inability to take debt from abroad due to pending issues with holdouts, etc.). In addition, it started taking some measures to promote growth and foster foreign investment, among others. The main results of the policies did not have full effects in 2016 and are, therefore, expected in 2017 and onward.

The President does not have a majority in the Congress (as it had in the prior Government), which creates a need to negotiate many of the laws, among them the tax reforms. Hence, it is likely that any significant tax reform may take time and negotiations and might become postponed in case the Government needs to negotiate support at the Congress for other issues.

2.6 Current tax policy and tax administration leaders

- Mauricio Macri, President
- Marcos Peña, Chief of Cabinet
- Nicolas Dujovne, Minister of Treasury
- Alberto Abad, Federal Administrator of Public Revenues (Head of Tax and Customs Authorities)

2.7 What key tax policy changes did you experience in your country in 2016?

The main tax milestone of 2016 was the tax regularization and voluntary disclosure regime, which allowed taxpayers to voluntarily disclose undeclared assets in Argentina and abroad in order to regularize their tax situation. This regime also included an amnesty regime to pay outstanding tax debts and claims.

This measure was enacted in a context in which Argentina (in line with global trends) started to implement exchange information agreements with several countries; and also in the context of the multilateral agreement for the automatic exchange of information.

Although the regime is still in force until March 2017, the results of the voluntary disclosure regime have been successful, with approximately USD90 billion included in the regime by the end of December 2016. This also created a significant amount of tax collection (where the special tax on declared assets ranges from 5% to 15%).

Other tax measures taken in the year were the elimination of tax on dividends and the elimination of export duties, among other measures to improve competitiveness.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- N/A – There have been no public announcements regarding the government’s position on the MLI.

2.9 Pending tax proposals

There are no known pending proposals remaining to be addressed, except for a reform to the capital market system, which may also include some tax measures and exemptions to foster the local capital markets.

The same law that approved the voluntary disclosure regime established the creation of a committee to analyze and propose a deeper tax reform. However, after almost six months, there are no indications on when or whether such a committee will be created.
Argentina

The Government has publicly committed itself to reform taxes to promote competitiveness. Public statements have been made on the possibility of reducing employment tax and indirect tax, and to harmonize the tax system, among others. However, no proposals have yet been made in this regard.

As regards BEPS, although the country has been adopting some particular guidelines (for instance, including a Limitation of Benefits (LOB) provision in recent tax treaties), no significant proposals related to BEPS Actions are known for the coming year (for instance, CbCR may be implemented at some point of time, but no timing can be anticipated).

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

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</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>49%²</td>
<td>47%³</td>
<td>–4.1%</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>10%⁴</td>
<td>10%⁴</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2017 Tax policy outlook

2.1 Key drivers of tax policy change

- Fluctuating commodity prices made the corporate tax revenue lower than expected in the Mid-Year Economic and Fiscal Outlook (MYEFO) of November 2016.
- Current fiscal restraint programs are enough to bring the budget deficit under control as the personal tax revenue is low as well due to the low wage growth.
- 2016-17 Federal Budget reflected the limited scope to stimulate moderate growth, maintaining the themes of innovation and a transitioning economy while returning to a balanced budget. This increased the political pressure on the Government to be seen as being tough on multinational companies. Tough measures involved introduction of the Australian Diverted Profits Tax (DPT), and substantial funding and reorganization of the Australian Taxation Office (ATO) with a new Tax Avoidance Taskforce targeting avoidance by multinationals and higher wealth individuals, to raise US$3.7 billion over four years.

¹ Section 23 (2) of the Income Tax Rates Act 1986
³ Schedule 7 of the Income Tax Rates Act 1986
⁴ Section 9-70 of A New Tax System (GST) Act 1999
Australia

- The Government is interested in reducing corporate tax rates, with initial tax reductions for small businesses with aggregated turnover not exceeding AUD$10 million, but there is political resistance to these. Political pressures are also driving new tax integrity measures.
- The Government announced an Australian Diverted Profits Tax (DPT) to apply from 1 July 2017.

### 2.2 Tax burdens in 2017

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<td></td>
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<td>(2) Interest deductibility</td>
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<tr>
<td>(3) Hybrid mismatches</td>
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<td>(4) Treatment of losses</td>
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<td>(6) VAT, GST or sales tax rate</td>
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<td></td>
<td>☐ N/A, as there is no VAT, GST or sales tax</td>
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<tr>
<td>(14) Top marginal PIT Rate</td>
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</table>
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
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<th>No change</th>
<th>X</th>
<th>Higher</th>
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</thead>
<tbody>
<tr>
<td>Overall PIT burden</td>
<td>Lower</td>
<td>X</td>
<td>No change</td>
<td>Higher</td>
</tr>
<tr>
<td>Overall VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>No change</td>
<td>X</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

On 9 January 2017 Australian Government introduced a Bill into Parliament implementing three measures announced in the May 2016 Budget, including the Diverted Profits Tax.5

The three measures are:

- Australia’s DPT to allow the Australian Taxation Office to impose a penalty tax rate of 40% on diverted profits, which applies in respect of income years commencing on or after 1 July 2017 to significant global entities (SGEs – companies which are members of groups with global revenue of AUD1 billion or more)
- Incorporation of the changed OECD transfer pricing guidelines into Australia’s tax law from 1 July 2016: these arose from BEPS Actions 8 to 10 and are intended to ensure transfer pricing (TP) outcomes better reflect value creation in global supply chains
- Increased penalties for non-compliance with tax document requirements by SGEs. “Failure to lodge” penalties for SGEs can be as high as AUD525,000. SGEs can include small Australian operations of global groups and companies with purely domestic Australian operations

- The DPT, with its application from 1 July 2017, will enable the Commissioner to impose a higher penalty tax rate of 40% on certain profit shifting schemes, if (broadly):
  - The relevant taxpayer is a significant global entity – that is, broadly, a member of a group with a global parent entity whose annual global income is at least AUD1 billion
  - The relevant taxpayer obtains a tax benefit in connection with a scheme involving a foreign associate
  - The total additional foreign tax paid by the associated entities is less than 80% of the Australian tax benefit
  - It is reasonable to conclude that a scheme (or any part of a scheme) was carried out for a principal purpose of enabling the relevant taxpayer to obtain a tax benefit, or both to obtain a tax benefit and reduce a foreign tax liability
- Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016 proposes to reduce the small business company tax rate to 27.5% for businesses with a turnover of up to AUD10 million from 1 July 2016. Part of the package is the so-called corporate tax cut glide path, for a company tax rate of 25% by 2026 or 2027. The Senate is hostile on this and progress is uncertain.

5 For more information, please see http://www.ey.com/gl/en/services/tax/international-tax/alert-australias-diverted-profits-tax-bill-includes-updated-transfer-pricing-guidelines-and-increased-penalties
Australia

- Increasing focus on addressing perceived multinational company tax avoidance has resulted in the ATO being given extra funding for a Tax Avoidance Taskforce to crack down on multinational tax avoidance.
- Australia also moved into the implementation stage of the OECD BEPS measures as well as unilateral measures including the Australian version of a DPT.
- Multinational companies doing business in Australia will need to comply with the updated OECD Transfer Pricing Guidelines (BEPS Actions 8-10) as this guidance has been incorporated in Australia’s transfer pricing framework.
- Australia has adopted the OECD’s Country-by-Country (CbC) Reporting package, requiring the first lodgments of the CbC Report, Master File and Local File with the ATO from 2017 onward. The ATO’s Local File design differs from the OECD standard, and may require the submission of intercompany agreements. Australian-compliant Transfer Pricing Documentation must be separately maintained to get a reasonably arguable position for penalty protection.
- Taxpayers are also being encouraged to adopt the Board of Taxation Voluntary Tax Transparency code, which encourages company groups to make tax disclosures to show they are good corporate citizens.
- Significant global entities that are Australian residents or foreign residents with an Australian permanent establishment, will be required to lodge GPFS with the Australian Taxation Office (ATO) and Australian Securities and Investments Commission (ASIC) in respect of income years starting from 1 July 2016.
- Double Tax Treaty between Australia and Germany commences from 1 January, 1 April or 1 July 2017.

Taxes on wages and employment

- 2% budget repair levy will not apply to income year commencing from 1 July 2017, under its sunset (expiry) clause bringing the top rate back to 47% with flow on impact to Fringe Benefits Tax.
- Superannuation changes announced in May 2016 Federal Budget apply broadly from 1 July 2017 to:
  - Broaden tax deductions for personal superannuation contributions (removes 10% rule)
  - Improve superannuation balances of low-income spouses
  - Introduce a Low Income Superannuation Tax Offset (LISTO)
  - Harmonize the contribution rules for those aged 65-74
  - Working holidaymakers are treated as nonresidents for tax purposes but with a lower tax rate.
  - New single touch payroll reporting framework has been introduced for substantial employers to automatically provide payroll and superannuation information to the ATO at the time it is created.
  - Double Tax Treaty between Australia and Germany entered into force and various provisions commence from 1 January, 1 April or 1 July 2017.

VAT/GST/sales taxes

- In 2015, the Prime Minister briefly discussed revisiting GST reform but retreated once it became too politically controversial. Australia is left with forecast Federal Budget deficits and a vertical fiscal imbalance (i.e., the states have most of the spending obligations while the Federal Government has most of the taxing powers).
- B2C supplies of digital products, services and other intangibles from foreign suppliers into Australia will be brought into the GST net from 1 July 2017. The GST compliance burden could fall on an intermediary operating an “electronic distribution platform” through which those digital products are distributed to end consumers in Australia.
- GST on low-value goods (LVG): By deeming a connection with Australia, LVG sales will fall into the regular GST system from 1 July 2017 and the seller will have a GST liability, needs to register for GST and lodge regular GST returns (see below) if the value of all its Australian sales, including the LVG sales, exceeds AU$75,000 per annum. For goods forwarders and electronic market places, this AU$75,000 threshold includes all transactions they facilitate (i.e., it is not determined per seller they facilitate).
2.5 Political landscape

- The July 2016 double dissolution election confirmed Malcolm Turnbull as Prime Minister with a very narrow majority in the House of Representatives and a fragmented Senate including new minor parties and independents.
- Opposition and Greens parties continue to focus on corporate tax revenue adequacy to fund expenditure programs, resisting corporate tax rate cuts for larger businesses.
- The political landscape has seen substantial funding and reorganization of the ATO with a new Tax Avoidance Taskforce targeting avoidance by multinationals and higher wealth individuals, to raise AU$3.7 billion over four years, and has doubtless influenced ATO approaches. The political climate demands that the Government be seen as acting on aggressive tax avoidance by multinational companies.
- The ATO is more vigorously attacking any structure or arrangements they do not like, sometimes showing little regard to legal positions. The ATO has issued a number of taxpayer alerts outlining the arrangements that they do not like including restructures in response to the multinational anti-avoidance law (MAAL), which targets structures avoiding permanent establishments, as well as arrangements designed to enhance thin capitalization capacity through revaluing intangible assets.

2.6 Current tax policy and tax administration leaders

**Tax policy leaders**

- Malcolm Turnbull MP, Prime Minister
- Barnaby Joyce MP, Deputy Prime Minister
- Scott Morrison MP, Treasurer
- Kelly O'Dwyer MP, Minister for Revenue and Financial Services
- Senator Mathias Cormann, Minister for Finance
- Steve Ciobo MP, Minister for Trade and Investment
- Michael McCormack MP, Minister for Small Business

**Tax administration leaders**

- Chris Jordan AO, Tax Commissioner of the Australian Taxation Office (ATO) and Registrar of the Australian Business Register
- Neil Olesen, Second Commissioner (Client Engagement)
- Andrew Mills, Second Commissioner (Law Design and Practice)
- Jeremy Hirschhorn, Deputy Commissioner, Public Groups and International
- Mark Konza, Deputy Commissioner, Public Groups and International

2.7 What key tax policy changes did you experience in your country in 2016?

**BEPS**

- Action 1: GST on digital supplies and Low Value Threshold (LVT) changes from 1 July 2016
- Action 2: Hybrid changes announced for the future, from the later of 1 July 2018 or 6 months following royal assent, but law pending
- Action 8-10: Announced to apply from 1 July 2016 but law planned for early 2017
- Action 13: Applicable from 1 July 2016 with ATO guidance available
- MAAL (multinational anti-avoidance law): Applies to the tax benefits a taxpayer would obtain on or after 1 January 2016 in connection with the “avoided permanent establishment” scheme
- Treasury Laws Amendment (Income Tax Relief) Bill 2016: To increase the third personal income tax threshold so that the rate on taxable incomes from AU$80,001 to AU$87,000 for individuals falls from 37% to 32.5%
- The Foreign resident capital gains withholding payments law commenced for transactions after 1 July 2016. Broadly, acquirers of Australian real estate and resource project interests (and shares in companies that own such assets) from nonresident vendors need to withhold 10% of the purchase price and remit this to the ATO, unless exclusions apply or clearance certificates are obtained
> R&D, Innovation and Science Australia changes to address the need for a more coordinated whole of government approach to the Government’s investment in science, research and innovation

> Reduction in the rates of the tax offset available under the R&D tax incentive for the first AU$100 million of eligible expenditure by 1.5 percentage points – the higher (refundable) rate of the tax offset has been reduced from 45% to 43.5% and the lower (non-refundable) rate has been reduced from 40% to 38.5%

> Business tax incentive for small early-stage investments: Tax concession for investors, including 20% nonrefundable tax offset on investments (capped), and 10-year exemption on CGT where relevant requirements satisfied. This also saw new arrangements for Venture Capital Limited Partnerships.

> Excise payable for biodiesel producers phased in equal increments over 16 years, from a rate of 0% in 2015–16 to a final rate of approximately 50% of the full petrol and diesel excise rate in 2030–31

> Small business structure CGT rollover

> “Look-through” treatment for earn-out arrangements to simplify sale of business assets

> Removal of certain B2B supplies made by nonresident businesses from the Australian GST system

> State governments increasing the stamp duty rates nonresidents are charged on acquiring Australian residential real estate to 12.5% Victoria, up to 11% in NSW and 8.75% in Queensland.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- **Action 2** – Neutralizing the effects of hybrid mismatch arrangements
- **Action 6** – Preventing the abuse of treaties
- **Action 7** – Preventing the artificial avoidance of PE status
- **Action 14** – Making dispute resolution mechanisms more effective

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision.

A Treasury consultation paper on Australia’s MLI approach was released in December 2016.

2.9 Pending tax proposals

- Providing the ATO with statutory remedial power for taxpayer benefit to allow for a more timely resolution of certain unforeseen or unintended outcomes in the taxation and superannuation law

> Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016

> 27.5% corporate income tax rate and AU$10 million aggregated turnover threshold for small business tax concessions

> Mandatory disclosure of aggressive tax positions (arising from BEPS Action 12): Following an initial consultation in 2016 announced in the Federal Budget, Treasury is considering on some form of introduction of mandatory reporting.

2.10 Consultations opened/closed

**Open:**

- Implementation of anti-hybrid rules
- Application of anti-hybrid rules to regulatory capital
- Disregard of CGT for foreign trust distributions
- Lodgment of General Purpose Financial Statements – compendium of issues for future guidance with the ATO
- Consolidation “churning” by nonresidents, deductible liabilities, intragroup and securitized assets, Taxation of Financial Assets (TOFA) assets and liabilities (loopholes – integrity measures)
- Intangible asset depreciation: New option to self-assess the effective life of acquired intangible assets currently fixed by statute
Reform to inflexible rules that prevent companies from claiming losses when they seek out new opportunities to innovate and grow

Mandatory reporting by professionals of aggressive tax minimisation schemes

R&D tax incentive review: To identify opportunities to improve the effectiveness and integrity

Potential introduction of new types of collective investment vehicles (CIVs): A “look-through” corporate and a limited partnership CIV

Operation of debt-equity rules

Redesign of the TOFA framework, TOFA 2 foreign currency technical changes, TOFA 3 & 4 tax hedging rules

Loss integrity rule for tax consolidation rules affecting certain foreign groups: Eligible Tier One companies and clarify certain interaction rules for MEC groups

Extending the range of entities that can use a functional currency

Australia-Israel DTA

Non-resident CGT: Division 855 valuation of mining rights as TARP

Consultation closed, but further actions possible:

Whistleblower protection

Removal of key barriers to the use of asset-backed financing arrangements, such as deferred payment arrangements and hire purchase arrangements

Penalties relating to the lodgment of tax documents to the ATO increased by a factor of AU$100 to AU$450,000

Increased of penalties related to making false and misleading statements to the ATO

Mandatory disclosure of aggressive tax positions (arising from BEPS Action 12)

Imposing of GST on low-value (less than AU$1,000 imported goods – vendor model)

974-80 debt-equity integrity rule for related schemes provisions and equity override

CIV nonresident withholding taxes
Belgium

1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
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<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>33.99%</td>
<td>33.99%¹</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>50% + municipal tax</td>
<td>50%² + municipal tax</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>21%</td>
<td>21%³</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Article 215 Income Tax Code 92.
² Article 130 Income Tax Code 92.
³ Article 37 - 38bis VAT Code and Royal Decree nº 20.
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Lowering tax on professional income (both wages and income from self-employed activities)
- Encouraging start-ups through tax reductions for crowdfunding and incentives for first hires
- Improving international visibility with a lower nominal tax rate (budget-neutral) and EU-approved incentives for audio-visual investments and R&D
- Increasing tax competitiveness by reducing overall corporate income tax rate to a target rate of 25%

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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<td>(2) Interest deductibility</td>
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<td>(3) Hybrid mismatches</td>
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</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☑ Increased burden in 2017</td>
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<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no Capital Gains Tax</td>
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<td>(6) VAT, GST or sales tax rate</td>
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## Belgium

### 2.3 Tax policy outlook for 2017 – summary

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☐ Increased burden in 2017 |
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

The Government has clear intention to lower the nominal CIT rate. This should, however, have no effect whatsoever on the national budget.

The general withholding tax rate was increased and the CIT base will be broadened. Some incentives (such as the notional interest deduction) may be abolished. Part of the compensatory measures will consist of measures that are recommended by OECD or required by the European Commission. The Government expects to generate additional tax revenues from the implementation of the Anti-Tax Avoidance Directive (ATAD) as well as from the introduction of more detailed Transfer Pricing documentation requirements. The latter were already introduced in December 2016 and are in line with what the OECD set out in BEPS Actions 8-10.

At the same time, the Belgian Government has brought its favorable patent box tax regime in line with the BEPS guidelines and has reintroduced a so-called innovation income deduction4 that contains regulations that prevents companies from using the deduction in tax avoidance structures.

Taxes on wages and employment

In the field of PIT, the Government continues to work on the so-called “tax shift.” This plan reduces taxes on wages by reducing the tax base and providing a more important tax-exempted bracket.

VAT/GST/sales taxes

No changes are expected.

2.5 Political landscape

There are no elections foreseen in 2017. Although the different political parties constituting the Government publicly disagree on some points such as a capital gains tax on private capital gains on shares, the situation remains stable overall.

The European obligation to meet some budgetary requirements remains a challenge and might jeopardize the executions of some tax-lowering initiatives.

2.6 Current tax policy and tax administration leaders

Tax policy leader
Johan Van Overtveldt, Minister of Finance

Tax administration leader
Hans D’Hondt, Head of the Management Committee of the Ministry of Finance

2.7 What key tax policy changes did you experience in your country in 2016?

• Several tax laws were voted and implemented in the middle of 2016. An important part of these laws focuses on a more efficient recovery of taxes as well as on an improved access to information for the tax authorities. For example, Belgium already has legislation on CbCR, with the first reports required to be filed in 2017.

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4 See also ey.com/g/en/services/tax/international-tax/alert-belgium-announces-broader-innovation-deduction-to-replace-patent-income-deduction
Belgium

- New measures were introduced in PIT in the fields of crowdfunding and the sharing economy. The current special tax regime for R&D was found incompatible with the OECD guidelines (BEPS) and put on hold as of 1 July 2016. A new tax regime (innovation income deduction regime) will be installed during the course of 2017 with retroactive effect as from 01/07/2016.
- Different taxes on financial institutions and insurance companies were coordinated and centralized into a single bank tax.
- A special tax regime for the regularization of undeclared taxable income was reintroduced.
- A special tax and legal regime was installed for certain types of real estate investment vehicles (in compliance with EU law).
- Taxation of “internal capital gains” (in which after a restructuring of the family business, the built-up internal value of the company can be paid out to the owners, with a low tax burden)
- Increase of the withholding tax rate (from 27% to 30%)
- Improved collaboration with foreign tax authorities in the fight against tax evasion and tax fraud
- Special tax regime for companies working in the diamond industry

2.8 Which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) might the country sign up for in 2017?

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements; introduction ATAD directive
☐ Action 6 – Preventing the abuse of treaties
☒ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – Please explain (e.g., country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

None.

2.10 Consultations opened/closed

None.
1 | Tax rates (2016–17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

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<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>18%-19%</td>
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<td>–</td>
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</table>

2 | 2017 Tax policy outlook

2.1 Key drivers of tax policy change

- Intensification of tax collection procedures
- Intention to generate more tax revenue
- Digital tax environment—tax authorities becoming more digital
- Compliance with international tax practices (especially BEPS minimum standards)

¹ Law 9,430/1996, Article 2 and Law 7,689/88, Article 3.
2.2 Tax burdens in 2017

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</table>

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3 A new amnesty program (Programa de Regularização Tributária - or PRT) will allow the use of tax losses to reduce past tax liabilities
### Brazil

<table>
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☐ Increased burden in 2017 |
| (14) Top marginal PIT Rate | □ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
| (15) PIT base | □ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
2.3 Tax policy outlook for 2017 – summary

### Overall CIT burden

- **Lower**
  - [X] No change
  - [ ] Higher

### Overall PIT burden

- **Lower**
  - [ ] No change
  - [X] Higher

### Overall VAT/GST/sales tax burden

- **Lower**
  - [X] No change
  - [ ] Higher

2.4 Tax policy outlook for 2017 – detail

#### Corporate income taxes

- Due to the turbulent presidential impeachment process, no relevant tax changes were discussed by the Brazilian Congress or proposed by the Executive body in 2016. After the new president was appointed, the focus has been on tackling the budget deficit with spending cuts. Although not disregarded, no tax rises have yet been announced.

- Recently, Brazilian tax authorities have been focusing their attention on increasing taxpayers' ancillary obligations through the digital environment (digital bookkeeping, digital tax returns, CbCR, etc.)

- From an international perspective, some regulations were launched to adopt BEPS minimum standards and it is expected that this trend will continue in 2017.

#### Taxes on wages and employment

- **Payroll Cost Reduction Program (Law 12.546/11):** In August 2011, the Payroll Cost Reduction Program that changed the methodology of social security tax calculation in Brazil came into force. As per the program, the tax, which was previously levied on the payroll of salaries, was levied on the gross revenue of companies with some economic activities.

  In 2016, the program became optional and the rates of contribution over gross revenues increased substantially. This law is still in force for 2017. At the end of each year, companies should choose the taxation model for social security contributions. The chosen model (20% of the payroll or 1% to 4.5% of gross revenue, depending on the economic activity of the company) should be applied for the next calendar year. Based on the changes, majority of companies in Brazil tend to leave the program and again apply the social security tax calculation over the payroll of salaries.
Brazil

2.6 Current tax policy and tax administration leaders

**Tax policy leader**
Henrique Meirelles, Finance Minister

**Tax administration leader**
Jorge Rachid, Brazilian Federal Revenue Service Secretariat

2.7 What key tax policy changes did you experience in your country in 2016?

**Changes to the CFC taxation regime**
Some changes were introduced to the CFC taxation regime, most of which were beneficial to taxpayers. With the change, optional taxation methods and a presumed tax credit were made available subject to certain conditions. Another relevant change was the inclusion of concepts such as “low-tax jurisdiction” and “privileged-tax regime” in the broader definition of “low-tax regime.”

**Review of the gray and black list (BEPS Action 5)**
Brazilian low-tax jurisdictions (black list) and privileged-tax regimes (gray list) was revised to (a) include Ireland, San Martin and Curacao in the black list; (b) exclude the Dutch Antilles from the black list; (c) include holding companies established in Austria in the gray list, and (d) provide guidelines to determine whether holding companies have substantive economic activity for purposes of qualification as a privileged-tax regime, which are relevant to Danish and Dutch holding companies.

**Final beneficiary disclosure**
The tax authority issued Normative Instruction (NI) No. 1.634 which requires companies to indicate the “final beneficiary” when applying for a Federal Tax ID (CNPJ). A broad definition of “final beneficiary,” encompassing corporation and individuals, was introduced for such purposes.

**Special regime of taxation and foreign currency regularization**
This regime aimed at the voluntary declaration of funds, goods or assets remitted or kept abroad or repatriated from a lawful origin, which have not been reported or have been reported with significant mistakes or omissions. The deadline for reporting and paying any tax and fines due ended on 31 October 2016.

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2.5 Political landscape

During the impeachment trial, which ended in 31 August 2016, Dilma Rousseff was found guilty by the National Congress, opening space for the Vice President Michel Temer to be appointed as the new president until next elections occur in 2018.

The economic reforms are expected to include the limitation of public spending and implementation of an overhaul of the pension and social security system. Relevant measures to the reform are expected to be implemented.
Increased individual’s capital gain tax rates in 2017

The capital gains tax rate for Brazilian individuals has been increased from a 15% flat rate to a progressive rate system from 15% to 22.5%.

Although Brazilian tax authorities have not yet provided any guidance, this increase would potentially also apply to capital gains realized by nonresidents, as they are generally subject to the same taxation applicable to Brazilian individuals.

Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MCAA) and Multilateral Competent Authority Agreement (CRS) (BEPS Action 15 and 13)

The MCAA enables Brazil to expand its network of exchange of financial and tax information with other member countries and, therefore, strengthen the fight against tax evasion and aggressive tax planning. In addition, Brazil signed the Common Reporting Standard (CRS) Multilateral Competent Authority Agreement (MCAA), reconfirming its commitment to implementing the automatic exchange of financial account information pursuant to the OECD/G20 CRS in time to commence exchanges in 2018.

Mutual Agreement Procedure (BEPS Action 14)

The Mutual Agreement Procedure (MAP) was regulated through a Normative Instruction. Its main goal is to ensure that taxpayers with taxable presence in Brazil have access to the MAP for resolving issues related to Double Tax Treaties where Brazil is concerned.

Country-by-Country report (BEPS Action 13)

The Brazilian Federal Revenue Service issue Normative Instruction (NI) n. 1681/2016 implementing the Country-by-Country (CbCR) report aligned with BEPS recommendations. First reporting year is 2016 and filing deadline July, 2017 (within the electronical tax return “ECF”)

New Amnesty Program (Programa de Regularização Tributária - or PRT)

By means of the publication of Provisional Measure (MP) 766/2017, the Tax Regularization Program (PRT) was created, with the purpose of granting individuals and corporations the opportunity to settle their tax debts matured up to November 30, 2016, including the debits of previous rescinded or active settlements, or under administrative or judicial discussions, or arising from official postings made after the publication of the MP.

The program allows the use of tax loss carry-forwards (including the losses calculated by other Brazilian companies within the same economic group) or other tax credits to reduce past tax liabilities managed by the Federal Revenue Service of Brazil.

Further regulations shall be issued by the Federal Revenue Service of Brazil, and by the General Attorney of the National Treasury, establishing detailed requirements and conditions to adhere to the program.

Constitutional amendment #87/2015

New rules with the purpose of addressing State disputes over ICMS in e-commerce which is also applicable to interstate sales for non-taxpayers.

ICMS will be gradually transferred from the State of origin to the State of destination. It is an attempt to compensate States that do not have several distribution centers, usually concentrated in the South and Southeast regions. According to the new rules, the tax collection will be distributed as follows:

- In 2016: 40% for the destination State and 60% for the source State
- In 2017: 60% for the destination State and 40% for the source State
- In 2018: 80% for the destination State and 20% for the source State
- In 2019: 100% for the destination State

State Fund for Fiscal Balance (FEFF)

Through the Agreement 42/2016, the States and the Federal District were authorized by National Council of Finance Policy (CONFAZ) to create condition for the fruition of incentives and benefits under the State VAT (ICMS) context. The fruition of the tax benefit or tax incentives that were already granted, or that may be granted, is subject to a deposit in the State Fund for Fiscal Balance (known as “FEFF”) - the amount corresponding to 10% of the amount related to the incentive or benefit granted to ICMS taxpayers company.

New understanding on ICMS-ST tax basis

The Federal Supreme Court concluded on October 2016 that taxpayers who commercializes goods subject to the ICMS tax substitution (ICMS-ST) regime are entitled to be reimbursed of the difference between the value of the withholding tax and that actually paid at the time of sale to final consumers. Under the decision, a reimbursement will also be made for the amount of ICMS-ST payment if the sales price of a product is higher than its ICMS-ST tax basis. In this case, the ICMS-ST payment should be increased in accordance with the price actually paid by the customers.
The tax substitution regime is the mechanism that assigns the responsibility of the ICMS payment, which is levied upon the entire marketing chain, to the final consumer or to a particular entity in the chain. Under the regime, the final customer or final entity in the marketing chain must collect the tax upon goods subject to the regime, based on the estimates provided by the law of each State. The tax substitution regime is a legal principle established under Extraordinary Appeal (RE) 593849 and shall be applicable to future and retroactive transactions that are already in the judicial process.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☒ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

Casting vote in Administrative Council of Tax Appeals

Bill 6064/2016 intends to repeal the casting vote from Administrative Council of Tax Appeals. In the Federal Administrative Tax Trials, the Panel’s Chairman, who is always a representative of tax authorities, has the prerogative of the casting vote to untie the court decision. Bill 6064/2016 is motivated by the understanding that the Chairman, being a State representative, tends to have a more strict view, which is alleged to render the taxpayer in an unfair disadvantage. Pursuant to the bill proposal, in case a tiebreak is necessary, the decision should be favorable to the taxpayer.

Bill 1485 – Taxation of dividends

Among the possible sources of new revenue, the taxation of dividends is always in debate in the Brazilian Congress. On 12 May 2015, the Congress undertook the consideration of Bill 1485, which proposes the revocation of all exemptions from taxation on dividend payments, to both individual and corporate taxpayers, and impose a 15% withholding tax (WHT) on dividends received by nonresidents from Brazilian companies (25% WHT applies to residents of “favorable tax jurisdictions”). The proposal has not been approved.

Wealth Tax Bill 130/2012 – Wealth tax

Since the adoption of the Brazilian Constitution in 1988, there have been several attempts to impose a tax on high net worth individuals. The Bill 130/2012 proposes an annual tax of 0.5% to 1% on estates that exceed the threshold of approximately BRL14 million. The calculation would be based on the individual's net worth (i.e., assets less liabilities).

At the State level, there are discussions to increase the transfer tax (ITCMD) imposed on the asset transfers due to death and donation. As this proposal calls for amendments to State taxes, each State would need to implement new laws. Currently federal law limits the rates to 4%. There are discussions to increase the rate to 15% or possibly to 30%, allowing more flexibility for the States.

Project of Federal Senate Resolution #01/2013

The project intends to reduce all ICMS interstate rates (7% and 12%) to 4% for all operations, excluding goods coming from Manaus Free Trade Zone.

PIS and COFINS unification – CSS

The Government intends to unify the PIS and COFINS (social contributions). According to the proposal, PIS and COFINS will be unified in a single contribution (CSS) with a new methodology of calculation, in which all acquisitions that are subject to CSS will generate tax credits in the same amount as paid by the supplier. To avoid losses for the Government, CSS unified rates will be higher than the combined PIS-COFINS rate (9.25%). The intention is to implement the unification gradually.
Brazil

2.10 Consultations opened/closed

Open:
N/A

Closed:
A draft of the Normative Instruction were released for public consultation on the following subjects:

- Final beneficiary disclosure obligation - Normative Instruction already published
- Definition of “substantial economic activity” for the purpose of identifying Dutch and Danish holding companies as privileged tax regimes - Normative Instruction already published
- MAP - Normative Instruction already published
- CbC report - Normative Instruction's already published
- Changes in the “ruling request” requirements

Draft of the Normative Instruction released for public consultation on the requirements for a tax ruling: According to Brazilian legislation, taxpayers may file a request for ruling on the interpretation of the tax law applicable to any specific fact, provided that some requirements are met. The proposed changes refer mainly to the disclosure of group information such as direct and final controller, residency of involved parties and permanent establishments. The purpose is to align Brazilian practice with BEPS minimum standards for international exchange of rulings.

Suggestions were submitted by 16 December 2016. Normative Instruction has not yet been published.
Canada

1 | Tax rates (2016-17)

1.1 Key tax rates

Lists top federal marginal rates only.

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<thead>
<tr>
<th>Tax</th>
<th>2016 %</th>
<th>2017 %</th>
<th>Percentage change</th>
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</thead>
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<tr>
<td>Top Corporate Income Tax</td>
<td>27.84%</td>
<td>28.07%</td>
<td>0.8%</td>
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<td>(CIT) rate (national and local average if applicable)</td>
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<tr>
<td>Top Personal Income Tax</td>
<td>54.00%</td>
<td>54.00%</td>
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<td>(PIT) rate (national and local average if applicable)</td>
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<tr>
<td>Standard Value Added</td>
<td>5%-15%</td>
<td>5%-15%</td>
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Tax policy

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2.1 Key drivers of tax policy change

- Primary driving tax policy is that the Government wants to ensure that sufficient revenue is collected to fund increased government spending, while redistributing resulting tax burdens, to make sure that the highest income earners bear more and middle and lower income earners bear less.
- In the 2016 budget, the Government proposed to implement a series of measures to improve the tax system. This includes measure to improve tax compliance and integrity; modify and/or eliminate tax credits; and increase marginal personal tax rates. The Government also committed to increasing expenditures on public infrastructure projects, among other things, indicating that it would go into deficit for the next several years. Recent estimates from Finance Canada forecast about US$115 billion in deficits between 2016-17 and 2020-21, an increase from the US$83 billion predicted in the 2016 budget.

2.2 Tax burdens in 2017

<table>
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<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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</table>
2.3 Tax policy outlook for 2017 – summary

Overall CIT burden

| Lower | No change | Higher |

Overall PIT burden

| Lower | No change | Higher |

Overall VAT/GST/sales tax burden

| Lower | No change | Higher |

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- The Government will continue to address perceived aggressive tax avoidance by multinational companies by closing “tax loopholes,” as well as modifying taxes it believes to be poorly targeted or inefficient. It will also significantly increase resources dedicated to tax enforcement.
- Having campaigned on maintaining the status quo, i.e., retaining the general 15% CIT rate, the Government may broaden the tax base and make adjustments to tax deductions to increase revenues, as evidenced by its commitment to build on back-to-back loan rules and the changes it made to the small business deduction.
- Budget 2016 froze the small business tax rate at 10.5% (and eliminated the previously announced further reductions in this rate for the years 2017, 2018 and 2019, as previously announced). It also expanded tax support for particular sectors (e.g., clean energy under the Capital Cost Allowance regime).
The outlook for global tax policy in 2017

Canada

Taxes on wages and employment

- The Government’s policy objectives are to reduce taxes for the middle class, and to increase the tax burden on the top 1% of individuals.
- In 2016, the Government increased the top marginal personal income tax rate. It reduced the second tier tax rate to 20.5% from 22% and introduced a 33% tax rate on personal income greater than C$200,000.
- It also modified and/or eliminated several tax credits in Budget 2016, including the children’s fitness arts tax credit, income splitting, and the education and textbook tax credits, among others, many of which have been proposed to be eliminated in 2017.
- The Government also announced that it would be moving forward with previously announced changes to the payroll withholding compliance for nonresident employers with nonresident employees working temporarily in Canada. These will allow an exemption from the withholding requirements for certain payments by qualifying nonresident employees who are sent to Canada on a short-term basis.

VAT/GST/sales taxes

- There are ongoing efforts to have remaining provinces harmonize with the federal system, and to conduct a review of the treatment of financial services.

2.5 Political landscape

The election held on 19 October 2015 resulted in a Liberal Party majority government, a change from the last 10 years of Conservative Party Government. The Liberal Party’s election platform was based on a promise to build a “strong middle class,” as well as a commitment to be more liberal with government spending and a willingness to run deficits. The majority Liberal Party Government’s mandate will extend at least into 2019.

In the new Government’s 2016 budget, it implemented a series of measures to:

- Make the tax system “more fair,” including measures to “improve” tax compliance
- Enhance “tax integrity,” both domestically and internationally in cooperation with other members of the G20 and OECD
- Adjust or eliminate certain tax credits and make marginal rate adjustments

Prime Minister Trudeau also recently announced plans to impose a federal carbon-pricing scheme upon the provinces, in the event the provinces do not adopt their own by 2018.

The Prime Minister told the House of Commons the provinces can either adopt a cap-and-trade system or put a direct price on carbon emissions, but that either approach must meet the federal benchmark. That federal benchmark is expected to start at US$10 per tonne in 2018, rising by US$10 each year until the benchmark reaches US$50 per tonne in 2022.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Justin Trudeau, Prime Minister
- Bill Morneau, Minister of Finance
- Paul Rochon, Deputy Minister, Department of Finance
- Andrew Marsland, Senior Assistant Deputy Minister, Tax Policy, Department of Finance
- Brian Ernewein, General Director, Tax Policy, Department of Finance
- Wayne Easter, Chair of the House of Commons Standing Committee on Finance
- Gérard Deltell, Finance Critic, Conservative Party of Canada
- Guy Caron, Finance Critic, New Democratic Party of Canada

Tax administration leaders

- Diane Lebouthillier, Minister of National Revenue
- Bob Hamilton, Commissioner of the Canada Revenue Agency (CRA)
- John Ossowski, Deputy Commissioner of the CRA
- Ted Gallivan, Assistant Commissioner, International, Large Business and Investigation Branch, CRA
- Anne-Marie Lévesque, Assistant Commissioner, Domestic Compliance Program Branch
- Mireille Laroche, Assistant Commissioner, Appeals Branch
- Geoff Trueman, Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, CRA

2.7 What key tax policy changes did you experience in your country in 2016?

- Amendments to the Income Tax Act, restricting the ability of multiple entities, in particular, partnership or corporate structure, to individually access the C$500,000 small business deduction
The outlook for global tax policy in 2017

Canada

- Country-by-country reporting, applicable to multinational entities with a total annual consolidated group revenue of EUR750 million or more, with the first exchanges of country-by-country reports to occur by June 2018
- Budget 2016 proposal to invest US$444.4 million over five years for the CRA to enhance its efforts to crack down on tax evasion and combat tax avoidance by hiring additional auditors and specialists, developing robust business intelligence infrastructure, increasing verification activities, and improving the quality of investigative work that targets criminal tax evaders
- Confirmation in Budget 2016 that the Government would move forward with the BEPS minimum standard for the spontaneous exchange of certain tax rulings, with the CRA having begun exchanging files in 2016 with other jurisdictions that have committed to this standard
- Adoption of the OECD Common Reporting Standard, which covers the automatic exchange of financial account information between tax authorities

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective

- Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

2.9 Pending tax proposals

In 2016, the Government committed to move forward with a number of initiatives, some new and outstanding from the budget in 2015, such as:

- Partaking in international work to develop a multilateral instrument to streamline the implementation of treaty-related BEPS recommendations, including addressing treaty abuse
- Country-by-country reporting, applicable to multinational entities with a total annual consolidated group revenue of EUR750 million or more, with the first exchanges of country-by-country reports to occur by June 2018
- Affirmation of the OECD’s Common Reporting Standard, which covers the automatic exchange of financial account information between tax authorities
- Building on back-to-back loan rules to prevent the erosion of the Canadian tax base through the use of back-to-back arrangements with changes being proposed to extend application to rents and royalties (applicable after 2016); to add character substitution rules to the back-to-back rules (applicable after 2016); to add back-to-back loan rules to the existing shareholder loan rules (applicable after budget day); and to clarify the application of the back-to-back loan rules to multiple-intermediary structures (applicable after 2016)
- Repealing of the Eligible Capital Property (ECP) regime and replacing it with a new capital cost allowance (CCA), as well as providing rules to transfer existing cumulative eligible capital (CEC) pools to the new CCA class: Applying as of 1 January 2017, the new system will eliminate a tax deferral opportunity that comes from the current treatment of gains from the sale of ECP as active business income
- Tightening the rules for captive insurance companies by amending section 95 of the Income Tax Act (ITA) so that profits from the ceding of Canadian risks will be included in the foreign accrual property income of a foreign affiliate
- Introducing a federal carbon tax, which would be imposed upon provinces if they did not adopt their own carbon-pricing scheme by 2018 and which would serve as a floor price for provinces that did (US$50 per tonne of carbon emissions by 2022)

2.10 Consultations opened/closed

Open:
- Budget 2017, open as of 4 November 2016
- Updates to the tax system, open as of 4 November 2016
- Proposals for consultation concerning the GST/HST treatment of certain limited partnerships and investment plans, open as of 4 November 2016
- Legislative and regulatory proposals relating to the goods and services tax/harmonized sales tax, open as of 4 November 2016

Closed:
- Consultations on draft tax legislative proposals, closed on 27 September 2016
- Toward the legalization and restriction of access to marijuana, closed on 29 August 2016
### Tax rates (2016-17)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income</td>
<td>24%</td>
<td>25% or 25.5%¹</td>
<td>4.2%</td>
</tr>
<tr>
<td>Tax (CIT) rate (national and local average if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Personal Income</td>
<td>40%</td>
<td>35%²</td>
<td>−12.5%</td>
</tr>
<tr>
<td>Tax (PIT) rate (national and local average if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Value Added</td>
<td>19%</td>
<td>19%³</td>
<td>−</td>
</tr>
<tr>
<td>Tax (VAT) rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Depending on which taxation regime each taxpayer opts for. As of 2017, corporate taxpayers must choose between two different regimes (“attributed” regime and “partially integrated” regime). See Section 14A and 14B of the Chilean Income Tax Law (CITL).

² Section 52 CITL.

³ Section 14 of the Chilean VAT Law.
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

Ongoing tax reform in Chile has received extensive criticism from the private sector — especially due to its complexity and heavy compliance burden — but the Government has already announced that no further legal modifications are considered in the near future. Nonetheless, the Government has opened several consultation channels with different private sector players (including the Big Four) in order to lessen eventual implementation issues via administrative instructions. Finally, a “productivity agenda” bill was passed in October 2016 that included a number of tax incentives for exporters and the financial sector.

Another big focus has been put in BEPS-related initiatives. A sworn statement aimed to identify companies’ “taxpayer’s profile” was launched at the beginning of the year and country-by-country obligations are expected to be released in late December 2016. An increase in international information exchange, especially for Chilean-based multinationals, is also expected.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017†</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>Change proposed or known for 2017†</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017†</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017†</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017†</td>
</tr>
</tbody>
</table>

† The income tax rate will increase (from current 24% to 25% or 25.5%), depending on the regime selected by taxpayers.

Deductibility rules will not change but penalties arising from disallowed expenses (which includes interest deductions) will increase.
<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no Capital Gains Tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☐ Same burden in 2017&lt;br&gt;☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes in 2017&lt;br&gt;☐ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☒ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017</td>
<td>☒ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

2.3 Tax policy outlook for 2017 – summary

**Overall CIT burden**

- Lower: No change  [X]  Higher

**Overall PIT burden**

- Lower: No change  [X]  Higher

**Overall VAT/GST/sales tax burden**

- Lower: No change  [X]  Higher
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- Introduction of the two new corporate tax regimes
- Increase in corporate income tax rate from 24% to 25% (attributed regime) and 25.5% (partially integrated regime)
- Increase in disallowed expenses penalties
- End of the carry-back loss use (only carry-forward from 2017 onward)
- Focus on international operations of multinationals

The above changes were included in the 2014 and 2015 reform bills, but are entering into effect in 2017 (the rest of the tax reform changes already took place during 2015 and 2016). The main goal of the reform is to increase revenue, especially toward education.

Taxes on wages and employment

- Decrease in personal top marginal rate from 40% to 35%

This rate decrease was also established in the 2014 and 2015 bills.

VAT/GST/sales taxes

- No changes

2.5 Political landscape

Much has changed in the political environment since the tax reform was enacted in 2014 and 2015 (supplementary bill).

- There has been significant pressure on revenue due the economy performing quite below the estimations, a sustained increase in public expense and fiscal deficit.
- After losing a significant number of city halls in this year’s municipal elections, the Government and its coalition keep struggling with an overwhelmingly negative public opinion and facing internal division. The opposition, however, does not seem to do better as both coalitions’ pre-presidential candidates are yet to win public sympathy in polls.

All of the above has led the Government to refuse to continue further tax legislative discussions, leaving everything instead to the Tax Administration’s regulatory powers. The dire need for revenue, moreover, has triggered aggressive audit plans against taxpayers, while the Tax Administration prepares itself to fully embrace the revenue opportunities that the BEPS initiative (especially CbC reporting) and CRS, both to be initiated shortly, represent.

2.6 Current tax policy and tax administration leaders

- Fernando Barraza, Chilean Revenue Service Director
- Víctor Villalón, Chilean Revenue Service, Head of GAAR and high income individuals divisions, also with a key role in automated exchange of information

2.7 What key tax policy changes did you experience in your country in 2016?

Tax policy changes are mainly characterized by the following:

- A major tax overhaul that came into effect in September 2014: The key driver for this reform is to fund the Educational Reform, already being discussed in the Congress, alongside many key tax policy issues, such as incorporation of GAARs, CFC rules, a whole redesign of the corporate taxation system (including a substantial rate increase), VAT to real estate sales and more powers to the Tax Authority.
- Creation of two new corporate taxation regimes (entering into effect as of January 2017): One is called the “attributed” system, which has a 25% rate but levies shareholders with withholding or personal taxes at the same time revenue is generated by the corporate entity. The other is called the “partially integrated system,” which has a 27% rate (as of 2018, whereas in 2017 the rate is 25.5%) but levies shareholders only upon profit distribution. Moreover, the partially integrated regime encompasses an ETR of 44.45% (vs. 35% of the attributed regime) as it allows shareholders to use only part of corporate tax credits.
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Chile

These issues filled the tax policy debate during 2014 and 2015, and today both taxpayers and the Chilean Tax Authorities face the challenge of preparing themselves for the full implementation of the new regimes as of 2017.

› The Tax Reform (enacted in 2014 with a supplementary bill in 2015) entered into effect in a progressive fashion.

› New regulations – such as CFC rules (unbeknownst to Chilean legislation, and part of the BEPS Action 3); modifications to the thin capitalization rules (BEPS Action 4); new definitions of “harmful tax jurisdictions” (BEPS Action 5); new real estate capital gain rules, and tax amnesty for goods and income abroad – became effective.

› Two new corporate taxation regimes (entering into effect as of January 2017) that taxpayers must choose from were introduced.

› Chile signed off the multilateral agreements that will enable the automatic exchange of information between tax administrations. The agreements include the Competent Authority Agreement on the Automatic Exchange of Country-by-Country Reports (beginning 2017) and the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (CRS), whereby Chile has committed to be in the “second wave” of CRS adoption (thus beginning reporting in 2018 for operations taking place in 2017).

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective

☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

Even though the Government has officially “closed” legislative discussion on taxes, it has not confirmed whether it would be open to sign multilateral agreements it has not already committed to.

2.9 Pending tax proposals

No new tax proposals are pending as the current administration has already stated that no further changes in the law will be proposed to Congress.

2.10 Consultations opened/closed

As of January 2015, the Chilean Tax Administration must open to non-binding consultation every ruling, instruction or resolution that may affect taxpayers in general (as opposed to specific taxpayers). It is not mandatory to the Tax Administration to even reply to the public’s suggestions, but it must publish drafts in advance.

Open: One consultation (Circular Letter on new regulations on financial instruments)

Closed: 32 consultations (most of them refer to the new instructions issued as per new regulations contained in the tax reform such as GAAR rules, CFC, new taxation regimes, new small and medium businesses regimen, thin capitalization, and new Tax Administration powers to audit by electronic means)
### 1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%&lt;sup&gt;2&lt;/sup&gt;</td>
<td>25%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

IIT rates are based on categories of income. Top rates for each type of income:

- 45% – employment
- 40% – independent service
- 35% – self-employment
- 20% – interest, dividend, capital gain, royalty and other income

IIT rates are based on categories of income.<sup>3</sup> Top rates for each types income:

- 45% – employment
- 40% – independent service
- 35% – self-employment
- 20% – interest, dividend, capital gain, royalty and other income

---

<sup>1</sup> This submission does not cover related tax policy and controversy updates in Hong Kong Special Administrative Region (SAR), Macau SAR and Chinese Taipei

<sup>2</sup> Order of the President [2007] No. 63 - Chapter 1, Article 4

<sup>3</sup> Order of the President [2011] No. 48
2.1 Key drivers of tax policy change

**General direction**

- The key drivers of tax policy change are the intention to maintain sustainable economic growth; strengthen international cooperation; and support capacity building of developing countries.

- In March 2016, the National People’s Congress announced the 13th Five-Year Plan (2016–20). Key economic goals of the Five-Year Plan: 5
  - YoY GDP growth at a rate of 6.5% (reduced from 7% of the previous five-year plan)
  - Urbanization reaching 60%
  - Service content of GDP reaching 56%
  - The Sixth Plenary Session of the 18th Communist Party of China (CPC) Central Committee was held from 24 to 27 October 2016. It reported that China aims to build a new path of development with an inclusive and “green” economy as well as a harmonious society.

- Actions undertaken by China in 2016 to drive the above national policy:
  1. Encouraging innovation, start-ups and incentives for the following:
     - Corporations extending super deductions to wider industry sectors (CS[2015]119)
     - Corporations and individuals, and contribution of technology as capital investment in domestic Chinese tax resident corporations (CS[2016]101)
     - Individual tax deferral for stock incentives for qualifying stocks
  2. Fully rolling out VAT in 2016 in order to reduce indirect tax costs across the supply chain
  3. Introducing Environmental Protection Tax (EPT) (draft) to increase the cost of excessive emission

---

4 The Interim Regulations of the People’s Republic of China on Value Added Tax (effective as of 1 January 1994) provides VAT rates of 17%, 13% and 0% (for specific exported goods). The 17% rate applies to most VATable goods. The 13% rate applies to taxpayers who sell or import the goods listed in the Interim Regulations. The VAT Reform was rolled out gradually to nationwide on 1 August 2013. New rates of 11% and 6% were introduced for certain industries. (Source: Circular MOF/SAT Caishui [2013] 37). Railway transport (applicable tax rate of 11%) and postal industries (applicable tax rate of 11%) were included in the VAT Reform from 1 January 2014. (Source: Circular MOF/SAT Caishui [2013] 106). Telecommunications industry was included from 1 June 2014 with applicable rates of 11% and 6% for basic telecommunication services and value added services respectively. (Source: Circular MOF/SAT Caishui [2014] 43; Caishui [2015] No 118 has set out the VAT zero rating treatment for selected VATable services). The final stage of VAT Reform started on 1 May 2016 (Source: Circular MOF/SAT Caishui [2016] 36) and the scope of the VAT Reform was further expanded to cover the Construction Industry (applicable tax rate of 11%), Real Estate Industry (applicable tax rate of 11%), Finance Industry (applicable tax rate of 6%) and Life Style service Industry (applicable tax rate of 6%). Since then, the Business Tax was phased out in PRC.

## 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (1) Headline CIT rate                  | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017                                                                                     | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017                                                                                   |
| (2) Interest deductibility            | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017                                                                                     | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |
| (3) Hybrid mismatches                 | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017                                                                                     | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |
| (4) Treatment of losses               | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017                                                                                     | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |
| (5) Capital Gains Tax*                | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017                                                                                     | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |
| (6) VAT, GST or sales tax rate        | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
☑ N/A, as there is no Capital Gains Tax                                                                                   | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |
| (7) VAT, GST or sales tax base        | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
☑ N/A, as there is no VAT, GST or sales tax                                                                                   | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |
| (8) Controlled Foreign Companies (CFC)| □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
☑ No changes in 2017  
☑ N/A, as there is no CFC regime                                                                                     | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017                                                                                     |

* Capital gains are taxed as ordinary income under CIT.
### Tax types

<table>
<thead>
<tr>
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<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<td></td>
<td>☐ No changes expected in 2017</td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no thin capitalization regime</td>
<td></td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
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<td>☐ Lower burden in 2017</td>
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<td></td>
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<td>☑ Increased burden in 2017</td>
</tr>
</tbody>
</table>
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
<th>Lower</th>
<th>No change</th>
<th>X</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall PIT burden</td>
<td>X</td>
<td>No change</td>
<td></td>
<td>Higher</td>
</tr>
<tr>
<td>Overall VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>X</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

CIT

No significant changes in the tax rate or tax base are expected, but there may be more tightening of rules in relation to interest deductions, thin capitalization, CFC and tighter scrutiny of outbound payments of royalties and services.

There must also be a tighter scrutiny of permanent establishments by translating certain BEPS recommendations into domestic rules on anti-fragmentation, anti-contract splitting and delivery of goods in China; these may result in a higher CIT burden.

R&D super deduction incentive to continue to enhance the country’s innovation capability

In August 2016, the State Council issued a work plan for reducing the cost of enterprises (Guofa [2016] No. 48), calling for the implementation of a series of preferential policies, including extending the 150% super deduction for qualifying expenditures, to a wider range of industries.

Transfer pricing and new guidelines for advance pricing agreements (APA)

Please see Section 2.7 for details.

Thin capitalization

In June 2016, the State Administration of Taxation (SAT) released Public Notice No. 42 (PN 42), providing significant rules on related party transaction disclosures and contemporaneous transfer pricing documentation. According to PN 42, special item files are required for taxpayers falling under the prescribed ratio of the thin capitalization requirements.

Tightening of enforcement and post-filing tax audits expected

A general tightening of enforcement and post-filing tax audits are expected in 2017. This includes the 1,000 large enterprise tax programs, the tax audit source and target administration, joint tax audits between the state and local tax bureaus, sharing of taxpayer information, and analyzing tax data using enhanced IT and data analytics techniques.

IIT reform

• In March 2016, China announced the 13th Five-Year Plan (2016-2) for National Economic and Social Development, in which the idea to reform the IIT law was proposed.

---

Under the proposed reform, the active income, such as employment and independent service income, are expected to be assessed annually, whereas passive income and other incomes will continue to be reported and assessed separately.

**IIT Incentives for start-ups and innovation**

- In September 2016, the Ministry of Finance (MOF) and SAT jointly issued Caishui [2016] No.101 to provide preferential income tax treatment for stock incentive plans to individuals, as well as incentives to corporations or individuals for the contribution of technology as capital in domestic tax resident companies to promote start-ups and innovation.

**Environmental Protection Law (EPT)**

On December 25, 2016, the EPT was passed to be effective Jan 1, 2018.

**Revised draft of Tax Collection and Administration Law (currently under review for approval)**

The discussion draft of Tax Collection and Administration Law (TCAL) was released on 5 January 2015 for public comment till 3 February 2015. The pending TCAL is expected to set the framework for future tax administration, outline the rights of taxpayers and tax authorities, set the time limit for tax confirmation and appeals, introduce advance rulings, and address how China may collect and administer tax information exchange. This potential law will not change the tax rate or the tax base, but provide more certainly for tax administration.

**Property tax**

The property tax (referred to as real estate tax in China) pilot program has been introduced in selected cities including Shanghai and Chongqing since 2011. China is expected to continue to explore measures by rolling out the program to other cities nationwide.

**Other taxes**

- **Law of the PRC on Tonnage Tax (discussion draft)**
  - The draft was released in October 2016 and public consultation was closed on 17 November 2016. It contains 21 articles that cover the taxable items of tonnage tax, the applicable tax rates and relevant tax administrative measures.

- **Tobacco tax law of the PRC (discussion draft)**
  - The draft was released in October 2016 and public consultation was closed on 16 November 2016. It covers the persons subject to the charge, scope of the charge, tax basis, applicable tax rate and relevant administrative measures.

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**2.5 Political landscape**

- No changes are expected in 2017.

**2.6 Current tax policy and tax administration leaders**

- Tax policy in China supports the national economic policy set by the National People’s Congress and executed through the State Council and its ministries.

- Tax policies are set by the MOF as well as the SAT, in conjunction with the other ministries where appropriate, e.g., incentives on R&D involves the Ministry of Science and Technology, The SAT is a ministerial level department in China vested with tax administration. It is supported by 12 functional departments and the Auditing Bureau within its administration. 7 Xiao Jie, Minister of Finance, Wang Jun, Commissioner General of the SAT. 8

  - For listed pollutions to the air, water, sound and solid wastes.

**2.7 What key tax policy changes did you experience in your country in 2016?**

**Major tax administrative procedural change - from pre-approval process to “Filing for Records” process (Guo Fa [2015] No. 27), increased post tax filing audit risks.**

**New guidance on administration of APAs**

- On 18 October 2016, SAT issued Public Notice [2016] No. 64 (PN 64) on issues related to improving the administration of APA, which became effective from 1 December 2016.

PN 64 signals a strong commitment by the SAT to further develop its APA program.
Significant new rules on related-party transaction disclosures and contemporaneous transfer pricing documentation

- On 29 June 2016, the SAT issued SAT PN [2016] No. 42\(^{10}\) (PN 42) with new measures on related-party transaction reporting, documentation requirements, cost-sharing agreements documentation and thin capitalization documentation, setting new annual related-party transaction forms of enterprises.
- The provisions in PN 42 apply for fiscal year 2016 onward. PN 42 marks the beginning of a new era for related-party transaction disclosures and contemporaneous transfer pricing documentation in China. It marks an era of unprecedented requirements for transfer pricing information disclosure that are more comprehensive, more detailed and more thorough than those required under Circular 2, in terms of both breadth and depth. Certainly, these changes will have a wide-ranging impact on taxpayers with respect to information collection, financial data conversion, and group transfer pricing policy making, global supply chain analysis and many other areas.
- This demonstrates China’s commitment to adopt the BEPS recommendation. Nevertheless, China continues to emphasize areas of particular concerns, including value chain analysis and location-specific advantages, as evidenced in the circular.

To encourage entrepreneurship and innovation – preferential income tax policies for stock incentive plans and investments with technologies as capital contribution

- On 20 September 2016, the MOF and SAT jointly issued Caishui [2016] No. 101\(^{11}\), providing preferential tax policies on stock or stock option plans to further encourage entrepreneurship and innovations. The main preferential policies include tax deferral for individuals receiving stock incentives, as well as tax incentives for corporations or individuals contributing technologies as capital in domestic Chinese tax resident companies.

Regulations on the issuance of Certificate of Chinese Tax Resident

- The SAT released PN [2016] No. 40\(^{12}\) to streamline procedures for the issuance of Certificate of Chinese Fiscal Resident to support outbound investments.

Resource tax reform

- The MOF and the SAT released Caishui [2016] No. 53 (Circular 53)\(^{13}\), Caishui [2016] No. 54 (Circular 54)\(^{14}\) and Caishui [2016] No. 55 (Circular 55)\(^{15}\) on 9 May 2016 to promote the launch of the resource tax (RT) reform on 1 July 2016 to streamline existing collection of administrative charges and extend the current tax scope of RT. In addition, Circular 54 sets out the tax basis of RT on minerals by means of ad valorem, and the extension of preferential RT policies applicable to minerals. In the meantime, a pilot run of RT reform on water resources shall be launched in Hebei Province according to Circular 55.

Final stage of VAT pilot reform

- The nationwide VAT pilot reform became effective from 1 May 2016. The intent of the VAT reform was to extend VAT system to the service sectors, and not to raise tax. The final stage of VAT reform was launched on 1 May 2016 by Circular MOF/SAT Caishui [2016] 36 to cover the last batch of industries to be incorporated in the VAT system – construction industry (11%), real estate industry (11%), finance industry (6%) and life style service industry 6%.
- The nationwide overall VAT burden will be reduced due to the introduction of VAT input credit system for the service sectors, except that VAT burden for certain sectors (e.g., real estate developers) may be increased.

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2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

Implementation Measures for Special Tax Adjustments

- The “Implementation Measures for Special Tax Adjustments" which would replace the existing Guoshuifa [2009] No. 2 (Circular 2) on GAAR is being drafted and undergoing internal review procedures.

Individual Income Tax (IIT) reform

- It has been reported that the IIT system is being considered for reform.

Tax Collection Administration Law (TCAL)

- The Discussion Draft of TCAL was released on 5 January 2015 for public comments. Consultation closed on 3 February 2015. The new law is expected to set the framework for tax administration, outline the rights of taxpayers and tax authorities, set time limitation for tax confirmation and appeals, introduce advance ruling system and facilitate the collection of information for the exchange of information with other governments.

Property tax

- The property tax or referred to as real estate tax in China) pilot program has been introduced in selected cities including Shanghai and Chongqing since 2011. It is expected that this would be rolled out to other cities nationwide.

Tonnage Tax Law and Tobacco Tax Law

- The discussion drafts of these two laws have been released. Public consultation was closed in November.

2.10 Consultations opened/closed

Open: None

Closed: Administrative Measures on Due Diligence of Financial Account Information related to Tax Matters of Non-residents

- The SAT released the “Administrative Measures on Due Diligence of Financial Account Information related to Tax Matters of Non-residents (Discussion Draft)”16 in October 2016 for public opinion. FIs shall perform due diligence procedures from 1 January 2017 and the SAT will use information collected for sharing with other countries/jurisdictions no later than September 2018. With the implementation of administrative measures, it may bring far-reaching impacts on nonresidents, especially on entities and individuals with high net worth accounts. Public consultation closed on 28 October 2016.

Tonnage tax law

- This Draft17 was published in October 2016 for public opinion. Public consultation was closed on 17 November 2016. It contains 21 articles that cover the taxable items of Tonnage Tax, the applicable tax rates and relevant tax administrative measures.

Tobacco tax Law

- The Draft PRC Tobacco Tax Law18 was release in October 2016, which contains 14 articles that cover the taxpayers of Tobacco Tax, scope of charge, tax basis, applicable tax rate and the relevant tax administrative measures, etc. Public consultation was closed on 16 November 2016.

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17 http://tfs.mof.gov.cn/zhengwuxinxi/ponzuotongzhi/201610/t20161018_2437617.html
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>30%</td>
<td>30%(^1)</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate(^2) (national and local average if applicable)</td>
<td>25%</td>
<td>25%(^3)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>13%</td>
<td>13%(^4)</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- The Costa Rican Tax authorities continue to be aggressive in dealing with taxpayers as Costa Rica’s fiscal deficit has continued to rise, triggering downgrades by international rating agencies. However, the Congress has been facing challenges in reaching a consensus to approve significant tax reforms and measures to curb public spending.

- The aggressiveness of the tax authorities also stems from a 2012 reform of the Tax Code, in which Section 144 of the Tax Code was challenged on constitutional grounds. As a result, in September 2014, the Constitutional Chamber of the Supreme Court of Justice of Costa Rica ordered the tax authorities to temporarily suspend the issuance of letters of determination while the case on the matter was pending. The case was finally resolved but not until August 2016. During this period, the tax authorities requested taxpayers to make extrajudicial payment agreements at the administrative level in order to avoid being indicted for tax fraud.

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1 Section 15 a) of the Income Tax Law
2 Applies to self-employment and business income
3 Section 15 c) of the Income Tax Law
4 Section 10 of the Sales Tax Law
The Government’s intention to join the OECD has been driving tax policy since July 2015. As part of this, Costa Rica on 20 December 2016 enacted a law against tax fraud, demonstrating the Government’s willingness to be accepted as an OECD member. This law provides the tax authorities with new mechanisms to fight tax fraud and requires the creation of a centralized registry of ultimate beneficiary owners for any legal entity within the country.

Costa Rica’s Government is also aiming to raise tax collection by reforming critical parts of tax legislation. In 2015, the Executive Branch sent two significant bills to Congress with a view to replacing the Income Tax Law in its entirety with a new law and substituting the Sales Tax Law with a VAT Law. The bills have not yet been formally discussed in Congress due to the abovementioned lack of political consensus toward tax reforms without concurrent measures taken to cut public spending.

2.2 Tax burdens in 2017

For each tax type, please indicate if a change has been proposed/known, and/or if additional change is possible/somewhat likely in 2017, or if no change is expected. Also mark what the expected tax burden is for 2017.

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017&lt;sup&gt;5&lt;/sup&gt;</td>
<td>□ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☒ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☒ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☒ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no Capital Gains Tax</td>
<td>□ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

<sup>5</sup> There are currently two bills in Congress: a reform of the Income Tax Law and a reform of the Sales Tax Law. We do not expect the first one to be enacted any time soon (in 2017). The reform of the Sales Tax Law is more likely to occur this year.
### Costa Rica

<table>
<thead>
<tr>
<th>Tax types</th>
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<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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</thead>
</table>
| (6) VAT, GST or sales tax rate | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017  
   □ N/A, as there is no VAT, GST or sales tax | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
| (7) VAT, GST or sales tax base | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017  
   □ N/A, as there is no VAT, GST or sales tax | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC) | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017  
   □ N/A, as there is no CFC regime | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
| (9) Thin capitalization | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017  
   □ N/A, as there is no thin capitalization regime | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
| (10) Transfer Pricing changes | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017 | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
| (11) Research and Development (R&D) incentives | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017 | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | □ Change proposed or known for 2017  
   □ Additional change possible or somewhat likely in 2017  
   □ No changes expected in 2017 | □ Lower burden in 2017  
   □ Same burden in 2017  
   [x] Increased burden in 2017 |
2.3 Tax policy outlook for 2017 — summary

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</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
</tbody>
</table>

Overall CIT burden

- **Lower**: No change
- **Higher**

Overall PIT burden

- **Lower**: No change
- **Higher**

Overall VAT/GST/sales tax burden

- **Lower**: No change
- **Higher**
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- On 10 August 2015, Costa Rica’s Executive Branch sent to the Congress a bill to replace the Income Tax Law (Income Tax Reform). Currently the bill is under review at the Commission of Treasury Affairs of the Congress.

- The key changes proposed by the Income Tax Reform include changes in the capital income and capital gains tax, corporate income tax, withholding tax on remittances abroad and extended territoriality:
  
  - **Capital income and capital gains tax:**
    - Capital income and capital gains of Costa Rican source will be subject to a new tax of 15%.
    - **Extended territoriality** The Income Tax Reform would maintain the territoriality of the Costa Rican tax system but with two significant exceptions:
      - (i) services rendered abroad but used in Costa Rica: the income from services used within the Costa Rican territory will be treated as locally sourced income and will be subject to taxation at a rate of 15%6; and
      - (ii) taxation of passive income repatriated to Costa Rica: passive income generated abroad and repatriated to Costa Rica will be subject to taxation at a rate of 15%.
  
  - **Withholding tax**
    - Withholding tax rates applicable to payments abroad of Costa Rican source income generally would be subject to a standard rate of 15%, instead of rates currently ranging from 5.5% to 50%.
  
  - **Corporate income tax**
    - Thin capitalization rules with a debt-to-equity ratio of 2:1 would be introduced. Transactions that would not be subject to these rules include: (i) loans with financial entities supervised by SUIC (General Superintendence of Financial Institutions), the local regulator of financial entities and (ii) vendor financing between nonrelated parties.
    - Expenses paid to entities that are residents of designated tax havens or non-cooperating jurisdictions would not be deductible. The scope of the transactions subject to this rule, however, is unclear.
    - The Income Tax Reform includes an express reference to the arm's-length principle for transfer pricing purposes and a definition of "related parties."

- **Taxes on wages and employment**
  - The Income Tax Reform7 also includes changes to employment income taxation, which according to the bill, would be subject to two additional tax brackets with rates of 20% and 25%. The highest rate is currently 15%.
  - On 22 January, 2017, the Resolution of Common Reporting Standard due diligence procedures were approved.

- **VAT/GST/sales taxes**
  - On 10 August 2015, the Executive Branch also sent to Congress another bill that would substitute the existing Sales Tax Law with a VAT Law. Currently the bill is under study at the Commission of Treasury Affairs of the Congress.
  - The bill intends to tax the most dynamic sector of the Costa Rican Economy (i.e., the services), which is, for the most part, not affected by the current sales tax.
  - VAT would generally apply to the sale of goods and the supply of all types of services within Costa Rica, as opposed to a very limited number of services under the current sales tax system.
  - Under the proposed VAT Law, services would generally be taxable, and only a certain amount of goods and services would be exempted.
  - The VAT rate would gradually increase from the current 13% to 14% for the first year, following the coming into force of the VAT Law, and 15% for the second and subsequent years.

2.5 Political landscape

- The current Government is in the second half of its term.
- Despite the Presidential electoral promises of not increasing or approving new taxes, several administrative resolutions and bills have been issued.
- The tax authorities have demonstrated aggressiveness in their interpretation of the law and their positions, even after such positions not being upheld when challenged by taxpayers at the judicial level.
- Accusations of criminal tax fraud have also recently been used as a mechanism to increase pressure on taxpayers. It is expected that this situation will remain or even deteriorate within the tenure of the current Government.

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7 See footnote 5 for information on potential timing.
Costa Rica

There are also expectations of approval of at least one of the two main tax bills that are currently under discussion in the Congress (Income Tax Law bill and VAT Law Bill).

2.6 Current tax policy and tax administration leaders

Tax policy leaders
- Luis Guillermo Solís, President of the Republic of Costa Rica
- Helio Fallas, Minister of Finance
- Fernando Rodríguez, Vice-minister of Finance
- Priscila Piedra, Director-General of Finance
- Sussy Calvo, Tax Fraud Deputy Director

Tax administration leaders
- Carlos Vargas, Director-General of Taxation
- Benito Coghi, Director-General of Customs

2.7 What key tax policy changes did you experience in your country in 2016?

- On 26 August 2016, the transfer pricing information return regulations, administrative resolution N° DGT-R-44-2016 was issued.
- On 31 August 2016, the Constitutional Chamber of the Supreme Court of Justice, through ruling N° 2016-012496, ruled unconstitutional the Section 144 of the Tax Code. The Section mentioned required the taxpayers who underwent a tax examination and received a letter of determination to pay, regardless of whether they decided to challenge the tax assessment before the administrative Tax Code.
- On 20 December 2016, the Law against Tax Fraud was enacted.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status

2.9 Pending tax proposals

- VAT Law Bill, file N° 19.678
- Income Tax Law Bill, file N° 19.679
- Annual Tax on Legal Entities Bill, file N° 19.818
- Annual Tax on Legal Entities Bill, file N° 18.818 (already approved in the first of two debates to become a law at the Congress)

2.10Consultations opened/closed

Open: N/A
Closed:
- Common Reporting Standard due diligence procedures draft resolution, closed on 16 June 2016
- Transfer pricing information return regulations draft resolution, closed on 22 July 2016
- Mutual Agreement Procedure draft resolution, closed on 16 August 2016
- Electronic vouchers draft resolution, closed on 19 August 2016
- Mandatory Use of Electronic Vouchers, closed on 27 September 2016
- Transfer pricing documentation guidelines draft resolution, closed on 11 January 2017
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rate Description</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top corporate income tax (CIT) rate (national and local average if applicable)</td>
<td>12.5%</td>
<td>12.5%</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>35%</td>
<td>35%</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>19%</td>
<td>19%</td>
<td>-</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

The Government aims to:

- Promote economic development
- Encourage creation of business substance
- Improve tax regime in a fiscally viable way, without resulting in a reduction of tax revenues
- Improve Cyprus’ international competitiveness as a location of choice for multinational companies doing businesses in Central South Europe, the Commonwealth of Independent States (CIS), the Middle East and North Africa

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
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<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td>☐ Additional change possible or somewhat likely in 2017</td>
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<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
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<td>☐ Increased burden in 2017</td>
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<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
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<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<tr>
<td>(6) VAT, GST or sales tax rate</td>
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</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
</tbody>
</table>
## Cyprus

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (7) VAT, GST or sales tax base                | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017  
☐ N/A, as there is no VAT, GST or sales tax | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC)        | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes in 2017  
☐ N/A, as there is no CFC regime | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (9) Thin capitalization                       | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017  
☐ N/A, as there is no thin capitalization regime | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (10) Transfer Pricing changes                 | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (11) Research and Development (R&D) incentives| ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
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☒ Same burden in 2017  
☐ Increased burden in 2017 |
### Tax types

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

### 2.3 Tax policy outlook for 2017 – summary

#### Overall CIT burden

- **Lower**: No change
- **Higher**

#### Overall PIT burden

- **Lower**: No change
- **Higher**

#### Overall VAT/GST/sales tax burden

- **Lower**: No change
- **Higher**
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes
- Headline rates not expected to change
- Reduction of Government spending prioritized over increasing tax revenues
- Tax revenue considerations and economic growth to strike a fair balance

Taxes on wages and employment
- Headline rates not expected to change
- Tax revenue considerations and economic growth to strike a fair balance

VAT/GST/sales taxes
- Headline rates not expected to change
- Tax revenue considerations and economic growth to strike a fair balance

2.5 Political landscape
There are no immediate elections or political developments that are expected to affect the national tax policy.

2.6 Current tax policy and tax administration leaders

Tax policy leader
Haris Georgiades, Minister of Finance

Tax administration leader
Yiannis Tsangaris, Commissioner of Taxation

2.7 What key tax policy changes did you experience in your country in 2016?

On 1 November 2016, Cyprus signed the Multilateral Competent Authorities Agreement (MCAA) that facilitates exchange of information with other tax authorities.

Cyprus aligned its IP Box Regime with the recommendations of the OECD BEPS project on Action 5, introducing the “modified nexus approach.” There are grandfathering provisions for the application of the previous IP Regime until July 2021.

Cyprus is an early adopter of the OECD Common Reporting Standard and as of 1 January 2016, relevant legislative provisions are in place.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)
2.9 Pending tax proposals

Cyprus is expected to introduce domestic legislation that will execute the provisions of Directive 2011/16/EU (DAC4)\(^2\), to implement within the EU the OECD BEPS Action 13 country-by-country reporting requirements regarding the disclosure of information to tax authorities.

2.10 Consultations opened/closed

**Open:** While no formal consultation was held, the Ministry of Finance, the tax authorities and the Institute of Certified and Public Accountants of Cyprus have ongoing collaboration for the purpose of introducing a new tax legislation.
### 1.1 Key tax rates

*Lists top federal marginal rates only.*

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<tr>
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<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
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<td><strong>Top Corporate Income Tax (CIT) rate</strong> (national and local average if applicable)</td>
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</tr>
<tr>
<td><strong>Top Personal Income Tax (PIT) rate</strong> (national and local average if applicable)</td>
<td>Basic tax rate of 15% applied on “super-gross salary” (i.e., including social security and health insurance paid by the employer), leading to an effective tax rate of approximately 20% Solidarity surcharge of 7% levied on employment and business income exceeding approximately EUR44,000 per year¹</td>
<td>Basic tax rate of 15% applied on “super-gross salary” (i.e., including social security and health insurance paid by the employer), leading to an effective tax rate of approximately 20% Solidarity surcharge of 7% levied on employment and business income exceeding approximately EUR50,000 per year²</td>
<td>–</td>
</tr>
<tr>
<td><strong>Standard Value Added Tax (VAT) rate</strong></td>
<td>21%³</td>
<td>21%⁴</td>
<td>–</td>
</tr>
</tbody>
</table>

---

¹ Czech Income Tax Act, effective as of 1 January 2017.  
² Czech Income Tax, effective as of 1 January 2016.  
³ Czech VAT Act, effective as of 1 January 2016.  
⁴ Czech VAT Act, effective as of 1 January 2017.
2.1 Key drivers of tax policy change

- Generally, the main drivers of tax policy change are resourcing tax collection and providing guidance and clarification in the areas where the interpretation has not previously been clear.
- The ongoing and further anticipated changes support and are in line with the BEPS initiative.
- Other drivers include:
  - More intensive action against tax fraud and tax evasion, with a key focus on VAT fraud
  - Enhancements to mutual assistance and exchange of tax information procedures by the tax authorities
  - Efforts to increase the effectiveness of tax collection and administration
  - Efforts to improve attractiveness for foreign investment
  - Efforts to decrease the repatriation of profits of foreign investors

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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### Czech Republic

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<td></td>
<td>☐ N/A, as there is no Capital Gains Tax</td>
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<td>(6) VAT, GST or sales tax rate</td>
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<td>☐ Increased burden in 2017</td>
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<tr>
<td></td>
<td>☐ N/A, as there is no CFC regime</td>
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<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017</td>
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<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
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<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

94 | The outlook for global tax policy in 2017
## Tax policy outlook for 2017 – summary

### Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
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</tr>
</thead>
</table>

### Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

▷ An entirely new Income Tax Act is expected to be introduced for negotiation in late 2017. The purpose of the new Income Tax Act will be to simplify some of the wording in the current Income Tax Act and eliminate unnecessary tax exemptions.

▷ Further, the Ministry of Finance will start a discussion on amending the Income Tax Code in a way that the taxpayers perform self-assessment of all taxes. Currently, official tax assessments are performed by the Tax Authorities after the taxpayers submit tax returns. The purpose of this amendment is to reduce the administrative burden and target resources towards tax audits instead. The amendment, however, will not be effective before 2020.

▷ The Ministry of Finance is currently considering whether to extend the use of a flat tax to the companies whose annual income does not exceed CZK5 million (the tax is agreed (as a lump-sum payment) with the Tax Authorities in January for the current year, based on estimates). The Ministry of Finance is considering extending the use of a flat tax (an amount pre-agreed between the tax payer and the Tax Authorities based on estimated financial results for the year) to the companies whose annual income does not exceed CZK5 million. This amendment was introduced by the Government in 2016 and will be negotiated in the Parliament in January 2017. If approved, it will become effective from April 2017.

Taxes on wages and employment

No significant changes.

VAT/GST/sales taxes

The scope of supplies that are subject to the new “electronic evidence of revenue” (EER) has been gradually extended. The EER is an online sales reporting system covering payments in cash, by cards or vouchers by retailers.

2.5 Political landscape

In the Czech Republic, tax policy is governed centrally by the Cabinet, with the Ministry of Finance playing a key role and responsibility in this area. The Ministry drafts the majority of tax laws and initiates the legislative process.

Since December 2013, a seemingly stable center left government is in power. As such, the legislation process has become rather smooth and quick.

The next election should take place in October 2017 which might bring changes to the current agreements and coalitions.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

▷ Bohuslav Sobotka, Prime Minister
▷ Andrej Babis, Minister of Finance
▷ Alena Schillerova, Deputy Minister of Finance

Tax administration leader

▷ Martin Janecek, General Director of the General Financial Directorate

2.7 What key tax policy changes did you experience in your country in 2016?

Corporate Income Tax


Exchange of information

In April 2016, an amendment broadening the international exchange of information for tax purposes became effective.

VAT ledgers

As of 2016, taxable persons registered for Czech VAT (VAT payer) became obliged to file VAT ledgers – a special tax return form with the details of the summary data reported in the regular VAT return.
The VAT ledgers replaced the local purchase lists and local sales lists (reports of received and supplied local and domestic taxable supplies subject to reverse-charge).

**Taxation of real estate transfers**

There were significant changes in the taxation of real estate transfers. Generally, the scope of taxable transfers of real estate is extended. Also, the taxpayer is now solely the acquirer of the property.

**Electronic evidence of revenue (EER)**

A new electronic evidence of revenue (EER) law has been adopted and will be launched in phases (first phase already launched in December 2016). The EER is an online sales reporting system covering payments in cash, by cards or vouchers. Under the EER, bank transfers or receivable setoffs (with certain exceptions) do not have to be registered. The revenue subject to EET is generally based on the concept of income for income tax purposes. EET applies, for example, to income of VAT non-payers and to income of Czech tax residents that is generated abroad.

The amount of recorded revenues does not need to correspond to the amount of taxable income.

The EER should be further supported by a “receipt lottery” (wherein individuals would register their receipts to qualify for a contest or lottery). Rules and other details are still in discussion and should be announced by mid-2017.

2.8

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

The Czech Republic has so far made no public statement in regard to which MLI elements are likely to be adopted.

2.9 Pending tax proposals

Minor amendments to the VAT Act, Income Taxes Act and Tax Code are commonly made. At the present time, an amendment to all three Acts is in negotiation and the approval process is ongoing. (The first proposal was introduced by the Government in July 2016, with the final wording is still to be agreed upon.)

2.10 Consultations opened/closed

Open: An entirely new (as not an amendment of the Act that has been in place since 1993) and significantly simplified Income Tax Act is expected to be introduced for negotiations in late 2017.

Closed: None
1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

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<td>25%</td>
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<td>−</td>
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</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- The intention to reduce taxation of employment income in order to boost the economy and make it more attractive to be employed
- The desire to improve taxpayers’ rights
### 2.2 Tax burdens in 2017

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<td>-----------</td>
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</tr>
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<td>(14) Top marginal PIT Rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;□ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017</td>
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<tr>
<td>(15) PIT base</td>
<td>□ Change proposed or known for 2017&lt;br&gt;□ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017</td>
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</tr>
</tbody>
</table>
2.3 Tax policy outlook for 2017 – summary

| Overall CIT burden |  
|--------------------|---
| Lower | X | No change | Higher  
| Overall PIT burden |  
| Lower | X | No change | Higher  
| Overall VAT/GST/sales tax burden |  
| Lower | X | No change | Higher  

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

On 30 August 2016, the Danish Government presented a comprehensive 2025 plan with the aim of improving Danish economy. The plan proposes several reforms including tax initiatives that should make it more attractive to invest in Denmark. Among other things, the Government would like to introduce an allowance for corporate equity (ACE), increase tax deductions for research and development (R&D) and lower the marginal tax rate. The proposals will be subject to negotiations in Parliament and the final outcome is unknown.

The ACE initiative, if enacted, would grant a company a deduction of up to 3% of increases in its equity. For example, if a company raises equity of 500 in order to finance the acquisition of new machinery, a tax deduction of up to 15 would be available. The details of the ACE will need to be worked out by a committee and would be effective as of 2019.

Companies are currently entitled to claim an upfront tax deduction of 100% of R&D expenses including acquisitions of patents and knowhow. The tax deduction would be increased to 150% for small and medium sized companies and 125% for large companies. This initiative would be effective during the period of 2017-2025.

Taxes on wages and employment

Under the above plan, the marginal tax rate for individuals would be reduced from approximately 55% to 50% for income up to DKK1 million. This initiative would gradually be introduced in 2017 and 2018.

VAT/GST/sales taxes

No major changes are proposed for 2017.
2.5 Political landscape
N/A

2.6 Current tax policy and tax administration leaders

**Tax policy leader**
Karsten Lauritzen, Minister of Taxation

2.7 What key tax policy changes did you experience in your country in 2016?
N/A

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- **Action 2** – Neutralizing the effects of hybrid mismatch arrangements
- **Action 6** – Preventing the abuse of treaties
- **Action 7** – Preventing the artificial avoidance of PE status
- **Action 14** – Making dispute resolution mechanisms more effective
- Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – Denmark has made no formal indication of plans around use of the MLI.

2.9 Pending tax proposals
N/A

2.10 Consultations opened/closed

Open: None
Closed: None
The outlook for global tax policy in 2017 | 103

Denmark
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
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<td>Top Corporate Income Tax (CIT)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT)</td>
<td>18%</td>
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<td>-</td>
</tr>
<tr>
<td>rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- International cooperation and transparency, including:
  - Intention to comply with international standards (e.g., BEPS) - no formal change has been proposed
  - The exchange of tax information
  - Minimizing inequality in the effective implementation of current tax rules
  - Effective control and implementation of benefits granted to entities operating under a special tax regime

---

1 Article 297(l) of the Dominican Tax Code (DTC).
2 Article 296 of the DTC.
3 Article 23 of the Law No. 253-12.
## 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
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### Dominican Republic

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<td>□ Change proposed or known for 2017&lt;br&gt; □ Additional change possible or somewhat likely in 2017&lt;br&gt; □ No changes in 2017&lt;br&gt; □ N/A, as there is no CFC regime</td>
<td>□ Lower burden in 2017&lt;br&gt; ⃝ Same burden in 2017&lt;br&gt; □ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
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Dominican Republic

### 2.3 Tax policy outlook for 2017 – summary

#### Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
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<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes
A potential integrated tax reform package has been discussed. However, no formal proposal has been made by the Government. Draft proposals have been put forward by the private sector, but such proposals are not binding or definitive.

Taxes on wages and employment
There are no changes known or expected for 2017 regarding taxes on wages and employment. Nonetheless, the inflation adjustment will be applicable to the amounts established in the tax brackets for the determination of the income tax.

VAT/GST/sales taxes
There are no changes known to date for VAT, GST and sales taxes for 2017.

2.5 Political landscape
Danilo Medina has been reelected as the president in the election held in May 2016. National Congress members’ elections were also held in May 2016.

The general director of the tax authorities was removed and Magín Díaz was appointed in his place. Many of top officials within the tax authority were also replaced.

2.6 Current tax policy and tax administration leaders
» Magín Díaz, General Director of the Tax Authorities
» Eric Medina, Head of Legal Department of the Tax Authorities
» Sylvia Báez, Head of the Collection Department of the Tax Authorities
» Patria Taveras, Head of the Audit Department of the Tax Authorities
» Rita Mena, Head of the Planning and Development Department of the Tax Authorities

2.7 What key tax policy changes did you experience in your country in 2016?
BEPS Action 5: In October 2016, a proposal was sent to the National Congress for approval with regard to the administration of special tax regimes in the Dominican Republic. The proposal referred to issues concerning transparency, substance and other relevant economic measures. This law proposal has not been approved yet.

In June 2016, the Dominican Republic signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☒ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
The Dominican Republic is a member of the Ad Hoc Group set up by the OECD for the development of the multilateral instrument. However, there is no public information on the implementation of specific BEPS recommendations.

2.9 Pending tax proposals

A tax proposal was made with regard to the administration of special tax regimes. However, this proposal has not been approved by Congress.

A tax reform package is expected in the future; however, no official proposal has yet been published.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

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<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>13%</td>
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<td>–</td>
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</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Raising and improving levels of execution and quality of public investment
- Improving the effectiveness of social programs and subsidies
- Increasing tax collection and reducing tax evasion
- Ensuring sustainability of public finances in the medium and long term
- Reforming the pension system

Moreover, El Salvador’s fiscal deficit status has driven the Tax Authorities to become more aggressive in their audits. The Tax Authorities have proposed amendments to the Tax Code and Criminal Code aimed at increasing tax collection.
### 2.2 Tax burdens in 2017

For each tax type, please indicate if a change has been proposed/known, and/or if additional change is possible/somewhat likely in 2017, or if no change is expected. Also mark what the expected tax burden is for 2017.

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- Additional change possible or somewhat likely in 2017  
- No changes in 2017  
- N/A, as there is no CFC regime | Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (9) Thin capitalization          | Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017  
- N/A, as there is no thin capitalization regime | Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (10) Transfer Pricing changes    | Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | Lower burden in 2017  
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- Additional change possible or somewhat likely in 2017  
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- Same burden in 2017  
- Increased burden in 2017 |
2.3 Tax policy outlook for 2017 – summary

**Overall CIT burden**
- **Lower**
  - X: No change
  - Higher

**Overall PIT burden**
- **Lower**
  - X: No change
  - Higher

**Overall VAT/GST/sales tax burden**
- **Lower**
  - X: No change
  - Higher
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes
There are no changes known or expected.

Taxes on wages and employment
There are no changes known or expected.

VAT/GST/sales taxes
There are no changes known or expected.

2.5 Political landscape

The composition of the Supreme Court of Justice’s Administrative Chamber, i.e., the authority in charge of determining the outcomes at a judicial phase of tax litigation proceedings against Salvadoran Authorities, including the Tax and Customs Authorities, recently changed. Criteria in the resolutions issued prior to this change for similar tax disputes are being altered by the new members of this decision-making body.

2.6 Current tax policy and tax administration leaders

Tax policy leaders:
- Salvador Sánchez Cerén, President of the Republic of El Salvador
- Tharsis Salomón López, Ministry of Economy
- Roberto Lorenzana, Technical Secretary of the Presidency

Tax administration leaders:
- Carlos Enrique Cáceres, Ministry of Treasury
- Sergio de Jesús Gómez Pérez, Tax Authorities Director
- Ernesto Antonio Gómez Valenzuela, Customs Authorities Director
- Yoni Adalberto Girón, President of the Administrative Board of Appeals

2.7 What key tax policy changes did you experience in your country in 2016?

The Special Tax for large taxpayers was due for the first time in April 2016. An entity with an annual net income of USD500,000 or more is required to report it to the Tax Authorities and pay the Special Tax at a rate of 5% by filing a specific tax return.

In practice, the tax applies only to the taxpayers classified by the Tax Authorities as large taxpayers.

In September 2016, the Tax Authorities issued Resolution No. DG-001/2016, which is an annual guide (the Guide) on transactions with tax havens. The Guide sets out a revised list of countries, states or territories that are considered to be preferential tax regimes, low- or nil-tax jurisdictions and tax havens for Salvadoran tax purposes. This revised list should be effective for fiscal year 2017. The consequence of being a tax haven included in the Guide’s list is that payments made from El Salvador to individuals or legal entities domiciled or located in such jurisdictions are subject to an increased withholding tax rate of 25%, which is considered as a final income tax payment in accordance with Section 158-A of the Salvadoran Tax Code.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- N/A – El Salvador signed the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters in June 2015. However, it has not yet been ratified by the Salvadoran Congress that conditions its entry into force. No date has been communicated as to when this could occur.
2.9 Pending tax proposals

In August 2016, the Ministry of Finance submitted two bills to Congress.

One proposes amendments to the Criminal Code to close some loopholes and facilitate the prosecution of tax fraud cases. More specifically, the sections relating to tax crimes and fraud would be amended. Section 249-A of the Criminal Code would also be amended in a way that broadens the crime of defrauding the Tax Authorities. The actions of simulation, concealment or any other form of fraud resulting in an undue advantage would also be added to this crime. These new actions are not specifically defined, thus leaving their interpretation to the law enforcer.

The other proposes amendments to the Tax Code. It is intended to incorporate a whole new regulation in the Tax Code on transfer pricing. Through this reform, the Salvadoran Government expects to be able to offset tax avoidance and evasion behaviors from taxpayers and transactions made between related parties. Also, the bill includes amendments to promote the strengthening of the Tax Authorities' powers with taxpayers that hinder tax examination audits by not submitting information or accounting records. More specifically, the amendments include the following:

a) Accountants, auditors, consultants or collaborators that have power of decision over a legal entity's matters, would be jointly liable with the entity's representatives when they are actively involved in the breach of tax obligations.

b) The new transfer pricing framework would include matters relating to methods, content, obligations and penalties. The amendment introduces the taxpayer's obligation to submit a transfer pricing study. It would prohibit the designated external tax auditor in a given financial year from elaborating the transfer pricing study in that same financial year.

c) New requirements would be added to be considered as domiciled in El Salvador for tax purposes.

d) The period granted for the payment of additional taxes resulting from a tax audit process would now be counted from the date of notification of the resolution instead of the date when the resolution becomes final, thereby reducing the period to pay and entailing that the payment must be made even if the resolution is still under review if appealed by the taxpayer.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
### Finland

#### Tax policy and controversy

**Jukka Lyijynen**  
jukka.lyijynen@fi.ey.com  
+358 40 844 7522

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#### 1 | Tax rates (2016-17)

**1.1 Key tax rates**

*Lists top federal marginal rates only.*

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<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>0%-46.96% (for income ranging EUR0-EUR120,000)</td>
<td>0%-46.59% (^2) (for income ranging EUR0-EUR120,000)</td>
<td>approx. -0.8%</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>24%</td>
<td>24% (^3)</td>
<td>–</td>
</tr>
</tbody>
</table>

---

\(^1\) Income Tax Act, article 124.  
\(^2\) Act for the Income Tax Scale, article 1.  
\(^3\) Value Added Tax Act, article 84.
## 2017 tax policy outlook

### 2.1 Key drivers of tax policy change

- Maintaining an affluent society
- Equalizing inequality in income
- Aiming to increase economic growth

### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
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<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
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<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
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</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017 ☒ N/A, as there is no Capital Gains Tax</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Finland

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☐ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☐ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes in 2017&lt;br&gt;☐ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☐ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☐ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☒ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
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<tr>
<td>-----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| (11) Research and Development (R&D) incentives | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017                                                                 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017                                                                 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (13) Changes to tax enforcement approach       | ☒ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017                                                                 | ☒ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
| (14) Top marginal PIT Rate                     | ☒ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017                                                                 | ☒ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
| (15) PIT base                                  | ☒ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017                                                                 | ☒ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall PIT burden</td>
<td>Lower</td>
<td>No change</td>
<td>Higher</td>
</tr>
</tbody>
</table>

A slight relief on progressive taxation of wages and employment is expected in 2017.

| Overall VAT/GST/sales tax burden | Lower | No change | Higher |

2.4 Tax policy outlook for 2017 – details

Corporate income taxes

No changes that would affect corporate income tax rate are expected in 2017. A regulation change that will come to force in 2017 concerns transfer pricing documentation and is based on OECD's guidelines and the EU Directive.

Taxes on wages and employment

A slight relief on progressive taxation of wages and employment is expected in 2017.

VAT/GST/sales taxes

No changes affecting general VAT rates are expected in 2017. Excise duty on motor gasoline, diesel and liquid fuels used for heating purposes is proposed to be raised in the near future.

2.5 Political landscape

Slow economic growth and the budget deficit limit Finnish fiscal policy. There are a few already-agreed changes that will lower the tax burden in Finland.

There will be local elections in 2017, although such elections have no direct influence on tax policy of Finland.

2.6 Current tax policy and tax administration leaders

Tax policy leaders:

- Juha Sipilä, Prime Minister
- Petteri Orpo, Finance Minister
- Paula Lehtomäki, Secretary of State
- Terhi Järvikare, Director-General, Ministry of Finance (Tax Department)
- Timo Kalli, Chairman, Parliament's Finance Committee
2.7 What key tax policy changes did you experience in your country in 2016?

BEPS Action 13: Regulation regarding transfer pricing documentation and country-by-country reporting has been prepared during 2016. Finland adopted the new reporting rules into law on 1 January 2017.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

☑ N/A

It is expected that Finland will sign up for the multilateral instrument in 2017; however, the scope has not yet been decided.

---

1 | Tax rates (2016–17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate</td>
<td>38%</td>
<td>38.43%1</td>
<td>-9.4%</td>
</tr>
<tr>
<td>(national and local average if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate</td>
<td>45%</td>
<td>45%</td>
<td>-</td>
</tr>
<tr>
<td>(national and local average if applicable)</td>
<td>53%, including social security taxes (CSG/CRDS)</td>
<td>53%, including social security taxes (CSG/CRDS)</td>
<td></td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>20%</td>
<td>20%</td>
<td>-</td>
</tr>
</tbody>
</table>

1 Please note that a progressive decrease of the corporate income tax rate has been enacted, leading to a top corporate income tax rate of 28.92% for companies whose turnover does not exceed €1bn for fiscal year opened as from 1 January 2019. The 28.92% top corporate tax rate will apply to every company for fiscal year opened as from 1 January 2020.
2017 tax policy outlook

2.1 Key drivers of tax policy change

- Budget constraints and deficits
- EU pressure to reduce public expenditure
- Fight against tax fraud, aggressive tax planning and BEPS (simplification of the procedural requirements to be complied with by the FTA, CBCR, transfer pricing filing requirements)
- Responsibility and solidarity pact (aim: reducing burdens on companies, reducing constraints on business in order to create more hiring and make companies more competitive)
- Security pact (increase public expenditures)

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
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</tr>
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<td>(6) VAT, GST or sales tax rate</td>
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</tr>
<tr>
<td>(9) Transfer Pricing changes</td>
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<tr>
<td>(10) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017</td>
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### 2.3 Tax policy outlook for 2017 – summary

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<tbody>
<tr>
<td>(12) Changes to tax enforcement approach</td>
<td>□ Change proposed or known for 2017  □ Additional change possible or somewhat likely in 2017  ✕ No changes expected in 2017</td>
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</tr>
<tr>
<td>(13) Top marginal PIT Rate</td>
<td>□ Change proposed or known for 2017  □ Additional change possible or somewhat likely in 2017  ✕ No changes expected in 2017</td>
<td>□ Lower burden in 2017  ❑ Same burden in 2017  □ Increased burden in 2017</td>
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<tr>
<td>(14) PIT base</td>
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<td>□ Lower burden in 2017  ❑ Same burden in 2017  □ Increased burden in 2017</td>
</tr>
</tbody>
</table>

#### Overall CIT burden
- **Lower** ✕ No change  Higher

#### Overall PIT burden
- **Lower** ✕ No change  Higher

#### Overall VAT/GST/sales tax burden
- **Lower** ✕ No change  Higher
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes
The corporate income tax rate will be progressively reduced to 28% for fiscal year opened as from 1 January 2017.

- Pursuant to the decision rendered by the Constitutional Council on 8 July, 2016, the voting right condition to benefit from the French parent-subsidiary regime has been removed.
- Modification of the computation of the 4th CIT instalment which should be based on the estimated tax result of the company if the turnover exceeds €250m.
- Increase in the rate of the 4th CIT installment up to 98% of the estimated tax result if the turnover exceeds €5bn.
- Increase in the rate of tax credit for encouraging competitiveness and jobs from 6% to 7%.

3% tax on distributions
- Extension of the 3% tax on distributions exemption to dividends distributed to EU parent companies provided that the conditions to be part of a tax consolidated group are met (e.g., held at 95% or more).

Transfer pricing filing requirements
- Extension of the transfer pricing filing requirement to companies whose gross assets or turnover exceed €50m.

Tax on financial transactions
- Increase of the rate of the tax on financial transactions from 0.2% to 0.3%.

Other taxes
- Creation of an additional contribution to the “company social security contribution,” based on the turnover and that can be offset against the “company social security contribution.”

VAT/GST/sales taxes
- Implementation of the new authorization requirement regarding the reverse-charge procedure of the VAT upon importation

2.6 Political landscape
Two national elections will occur in 2017:
- Presidential election in early May
- Legislative election in June

2.7 Current tax policy and tax administration leaders
Minister of Finance · Michel Sapin
Director of the General Office of Public Finances · Bruno Parent

2.8 What key tax policy changes did you experience in your country in 2016?

Tax consolidation
Following the decision of the European Court of Justice of the European Union (CJEU) in the Steria case rendered on 2 September 2015, the amending Finance bill introduced a 1% add-back on dividends from French tax consolidated subsidiaries and from EU subsidiaries provided that the conditions to be part of a tax consolidated group are met (e.g., held at 95% or more).

Corporate income tax
- Increase of the allowance applicable to the computation of the French “company social security contribution” from €3.35m to €19m.

Filing requirements
- Implementation of CBCR

Parent-subsidiary regime
- Introduction of a new exclusion to the parent-subsidiary regime. The regime should no longer apply to dividends paid in the frame of an arrangement or a series of arrangements put into place to obtain a tax advantage that defeats the object or purpose of the parent-subsidiary regime.

The Amended Finance Bill for 2015 introduced the following changes:
- Reintroduction of some exclusions to the regime which were deleted by the Amending Finance Bill for 2014
- Inclusion of a safeguard clause for dividends paid by companies territories
France

- Extension of the parent-subsidiary regime to bare ownership's rights
- Updating of the minimum level of ownership in order to benefit from the withholding tax exemption
- Benefit of the withholding tax exemption on dividends paid to parent companies having their center of effective management in a state party to the Agreement on the European Economic Area that has concluded a convention on administrative assistance to combat tax evasion and avoidance

2.10 Pending tax proposals

3% tax on distributions

An interlocutory question dealing with the compatibility of the 3% tax on distribution with the EU parent-subsidiary directive is currently pending before the CJEU. Depending on the outcome of this decision, a modification of this tax could be expected.

Besides, depending on who will be the next president and what will be the majority within the National Assembly, new tax proposals may occur in FY17, notably as regards personal income tax and social security charges.

2.11 Consultations opened / closed

Open: None

Closed: Public consultation from 7 June 2016 to 7 July 2016 on the general anti-abuse rule to be complied with in order to benefit from the withholding tax exemption on dividends paid to EU parent companies pursuant to the EU parent subsidiary regime.
### 1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th>Tax policy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hermann Gauss</strong></td>
<td><a href="mailto:hermann.gauss@de.ey.com">hermann.gauss@de.ey.com</a></td>
</tr>
<tr>
<td></td>
<td>+49 30 25471 16242</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax controversy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Juergen Schimmele</strong></td>
<td><a href="mailto:juergen.schimmele@de.ey.com">juergen.schimmele@de.ey.com</a></td>
</tr>
<tr>
<td></td>
<td>+49 211 9352 21937</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>Top federal (national) corporate tax rate: 15% (plus solidarity surcharge of 5.5%)</td>
<td>Top federal (national) corporate tax rate: 15% (plus solidarity surcharge of 5.5%)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Trade tax (local): 7%-19.25%</td>
<td>Trade tax (local): 7%-19.25%</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Total average: ~30%</td>
<td>Total average: ~30%</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>45% (plus solidarity surcharge of 5.5% for a total 47.48%)</td>
<td>45% (plus solidarity surcharge of 5.5% for a total 47.48%)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>19% (reduced rate of 7% applies in many areas)</td>
<td>19% (reduced rate of 7% applies in many areas)</td>
<td>–</td>
</tr>
</tbody>
</table>

---

1. Sec. 23, para. 1, KStG (Corporation Tax Act).
2. Sec. 4, SolzG (Solidarity Surcharge Act).
3. Sec. 11 and Sec. 16 GewStG (Trade Tax Act); two negligible municipalities with less than 100 inhabitants have higher trade tax rates
4. Sec. 32a, para. 1, EStG (Personal Income Tax Act).
5. Sec. 4, SolzG (Solidarity Surcharge Act).
6. Sec. 12, para 1, UStG (VAT Act).
2017 Tax policy outlook

2.1 Key drivers of tax policy change

- International tax policy agenda: Germany supports the extension of anti-avoidance rules (implementation of BEPS and EU Anti-Tax Avoidance Directive measures into national law) and the OECD as a standard-setter in taxation
- Introduction of digital technologies into the taxation process; adaptation of the tax rules to the internet (e.g., mandatory electronic cash registers, automated tax audits)
- Increased focus on tax evasion and tax transparency
- Openness to EU-wide harmonization; ongoing willingness to transfer additional legislation competencies to the EU level (common corporate tax base)
- Preservation of the euro as currency and strengthening European institutions being top priorities for the German Government
- Reduction of government debt prioritized over tax breaks: From 2016, the German Constitution allows a maximum structural deficit of 0.35% of GDP for the federal budget (so-called “debt brake”); a similar rule will apply to the German states starting in 2020 with no structural debt allowance at all
- Federal election in September 2017, putting big tax policy projects on hold; refugee and EU debt collectivization topics overshadowing tax topics

2.2 Tax burdens in 2017

<table>
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<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| (6) VAT, GST or sales tax rate                | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no VAT, GST or sales tax                                                           | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (7) VAT, GST or sales tax base                | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no VAT, GST or sales tax                                                           | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC)        | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes in 2017  
□ N/A, as there is no CFC regime                                                                       | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (9) Thin capitalization                       | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no thin capitalization regime                                                           | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (10) Transfer Pricing changes                 | ☑ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017                                                                            | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (11) Research and Development (R&D) incentives | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017                                                                            | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017                                                                            | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
### Germany

#### 2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Tax type</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
</tbody>
</table>

#### Overall CIT burden

- **Lower**: No change
- **Higher**

#### Overall PIT burden

- **Lower**: No change
- **Higher**

#### Overall VAT/GST/sales tax burden

- **Lower**: No change
- **Higher**
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- Anti-Tax Avoidance Directive implementation is scheduled to take place in 2018, with major Transformation Tax Acts to be expected for CFC rules and hybrid mismatches. A first draft bill will likely be published by summer 2017.

Taxes on wages and employment

- The basic income-tax-free allowance will be increased by EUR180 to EUR 8,820 in 2017 and by a further EUR180 to EUR9,000 in 2018. In addition, the taxation brackets will be shifted lower by 0.73% in 2017 and by a further 1.65% in 2018, resulting in lower taxes on the same income.
- The 25% flat income tax on capital gains has recently come under criticism (among others by the SPD, one of the mainstream political parties) and may be reincorporated into the general progressive tax regime; changes would happen at the earliest in 2018.

VAT/GST/sales taxes

- No significant changes expected in 2017.

2.5 Political landscape

Germany saw five elections at the state level in 2016. While the political situation is becoming increasingly fragmented with highly different parliament compositions in each state, identifiable trends include a higher turnout among the electorate, a stunning success of Alternative for Germany (AfD) originally founded to abolish the euro as the common currency, and a significant decline of the two traditional mainstream parties CDU and SPD.

The sudden appearance of a liberal-conservative party to the right of the CDU is already beginning to have an impact on current policymaking as the Government tries to adopt some of the new political player’s core policy goals. Most notably, the initial open-door policy in the refugee crisis was abandoned due to increasing political pressure accompanied by soaring poll results for the AfD.

In addition to the AfD, the liberal democrats (FDP) will probably rejoin the new Federal Parliament as of 2017 after a four-year absence, a first since post-war Germany was founded. The FDP has traditionally been the party with the clearest pro-business agenda and was part of the Merkel Government from 2009 to 2013, but did not exceed the 5% threshold at the last federal elections in 2013.

If these trends persist in 2017, a difficult coalition-building process can be expected at the federal level after the election due in autumn 2017. A continuation of the current so-called “grand coalition” between CDU and SPD may be the only viable two-party option, but the SPD, as the likely junior partner, might decide to be better off in opposition instead of appearing to be the trailblazer for unpopular policies proposed by the Merkel-led government.

If a grand coalition were to continue, no major change of direction in tax policy matters could be expected. Due to the rise of the AfD, a three-party coalition of SPD, Greens and Lefts (that would be possible under the current allocation of parliamentary seats) has become less likely. However, if such a left-wing federal coalition is established as of 2017, a significant turn toward higher taxation of high-income individuals and presumably businesses can be expected. On the other hand, for any other coalition, any room for lowering the tax burden would be limited by the constitutional requirement to maintain a balanced budget. Even with the recent success to create balanced budgets, government debt of EUR2 trillion remains well above 60% of GDP, the stability threshold prescribed by Art. 126 TFEU.

Three more state elections will be held before the federal election — among them, the election in North-Rhine-Westphalia is considered to be an important gauge for the mood in the country as more than a fifth of the German population lives there.
Germany

2.6 Current tax policy and tax administration leaders

Tax policy leaders

› Dr. Angela Merkel (CDU), Chancellor
› Peter Altmeier (CDU), Head of the Chancellery
› Dr. Wolfgang Schäuble (CDU), Federal Minister of Finance
› Sigmar Gabriel (SPD), Vice Chancellor, Federal Minister of Economics and Energy, and SPD Party Chairman
› Ralph Brinkhaus (CDU), Deputy Chairman of the CDU/CSU Parliamentary Group
› Carsten Schneider (SPD), Deputy Chairman of the SPD Parliamentary Group
› Ingrid Arndt-Brauer (SPD), Chairman of the Bundestag Finance Committee
› Finance policy speakers of the Bundestag Parliamentary Groups
› Markus Söder (CSU), Bavarian State Minister of Finance
› Dr. Norbert Walter-Borjans, State Minister of Finance of North Rhine-Westphalia
› Martin Kreienbaum, OECD Chair of the Committee on Fiscal Affairs (from January 2017)
› The “Big 8” business associations and other representative bodies

Tax administration leaders

› Johannes Geismann, State Secretary, Federal Ministry of Finance
› Dr. Michael Meister, Parliamentary State Secretary, Federal Ministry of Finance
› Michael Sell, Head of the Tax Division of the Federal Ministry of Finance
› 16 heads of tax departments at state level

2.7 What key tax policy changes did you experience in your country in 2016?

› A new sec. 8d of the Corporate Tax Act was introduced to expand the possibilities to preserve a tax loss carryforward in the event of a greater than 25%/50% ownership change, provided that the company’s field of operations remains unchanged.

› A new rule to prevent specific double-dip structures with respect to partnerships exploiting hybrid mismatches (sec. 4i-draft Income Tax Act) was implemented and will be applicable as of 2017.

› Transfer pricing: New CbC reporting standards will come into force for fiscal years starting 1 January 2017 and after (local file and master file).

› Due to a violation of the constitutional principle of fair taxation, a large reform of the Inheritance Tax Act was necessary. The current preferential regime for company assets has seen significant cutbacks as of 1 July 2016; however, certain tax breaks remain in place especially for heirs of smaller family businesses. Heirs of large companies will be subject to an inheritance tax at a higher rate through the expansion of the tax base. The scope for reduced or even suspended taxation has been trimmed, and the prerequisites needed to obtain preferential treatment have been raised. The reform was long caught up in a political stalemate for fears that excessive taxation could lead to the breakup of healthy businesses.

› 2016 saw one of the most significant overhauls of the fiscal code in recent decades. The main driver for the reform was the need to give automated fiscal procedures a legal foundation. A number of other changes were implemented at the same time, such as the general deadline for tax returns, the filing of tax-relevant data by third parties or the issuance of automatically generated electronic tax assessments.

› The Investment Tax Act underwent a renewal in 2016. Compared to the current taxation system, the renewed approach is more complex than the old system and expands the differentiation between public funds and specialty funds.
Germany

- Anti-cum/cum legislation: “Cum/cum” deals were for a while a well-established practice whereby a bank would borrow shares from a foreign shareholder shortly before the dividend due date and thus save him the withholding tax on such proceeds (which can be reclaimed by banks for their own assets but not by conventional shareholders). This method of circumventing the capital gains tax is no longer possible after a new law has been passed prescribing a minimum holding period of 45 days during which the bank needs to bear at least 70% of the risk brought about by falling share prices.

- Cum/ex-deals: Such deals can lead to a double certification of a capital gains tax paid only once. This model was practiced for many years and is deemed to have inflicted lost tax receipts of several billion euros. It was deemed to be legal until a change of the relevant tax rules in 2012. In February 2016, the Green and Left parties appointed a parliamentary enquiry committee to clarify the role of the German tax and supervisory authorities as well as that of the ruling coalition.

- A new law requires all businesses using cash registers and possibly also taximeters to comply with certain security standards that are meant to prevent any untraceable changes to the accounting data. The new rules will apply from 2020.

- Tax-break extension: Cars with an electric motor were already benefitting from a five-year tax-free period; the period has been retroactively extended to 10 years and hybrid cars are also now eligible for the benefit.

- CbCR implementation (non-public): The tax proposal will transform the recommendations given by the OECD on reporting requirements for big multinational companies (CbCR template, and local file and master file).

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status

With one exception: Germany has signaled that it will not join the rules on the permanent establishment established through an agent because it considers those too wide; other than that, Germany is in favor of the measures under BEPS Action 7.

- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

- N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)
Germany

2.9 Pending tax proposals

- On 25 January 2017, the German Federal Government released a Government bill against Harmful Tax Practices with regard to Licensing of Rights. The purpose of the draft legislation is to introduce a new section in the German Income Tax Act (Sec. 4 j ITA) restricting the tax deduction of royalties and similar payments made to related parties if such payments are subject to a non-OECD compliant preferential tax regime (IP Box) in the jurisdiction of the recipient, and are effectively taxed at a rate below 25%. The bill will likely be enacted by summer 2017 and is planned to be applicable as of 2018.

- Panama package: This refers to a set of rules intended to make tax evasion more difficult, including extended statutory limitation periods, new reporting obligations for taxpayers having business contacts with domiciled companies, and stricter obligations for banks with such customers.

- Reform of company pension schemes: The aim is to make such schemes more attractive by way of a more generous tax deductibility for companies. Additionally, the incentives for workers to provide for their own old-age needs have been improved.

- Land tax: Due to decades of legislative inaction, the current appraisal system used for determining the tax base is under pressure and deemed to be unconstitutional by some experts. To gain a head start over the constitutional court, the states have initiated a new bill that would put the valuation on a completely new footing, with the notable reintroduction of six-year appraisal intervals, a process that was abolished more than 50 years ago. The whole process will take several years and the bill would effectively be not be applied until 2027.

2.10 Consultations opened/closed

Open: see section 2.4
Closed: see section 2.9
1 | Tax rates (2016-17)

1.1 Key tax rates

Lists top federal rates only.

<table>
<thead>
<tr>
<th>Tax rates (2016-17)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>29</td>
<td>29¹</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>45% increased by a special solidarity tax, for which top individual rate is set at 10%. (Please note that different income bands apply for each tax.)</td>
<td>45% increased by a special solidarity tax, for which top individual rate is set at 10%. (Please note that different income bands apply for each tax)²</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>24%( as of 1 June 2016 - rate was 23% prior to that date)</td>
<td>24%³</td>
<td>-</td>
</tr>
</tbody>
</table>

¹ As per the provisions of par. 1, Article 58 of the Greek Income Tax Code (Law 4172/2013), the business profits of corporations and/or legal entities are taxed at 29%.
² As per the provisions of par. 1, Article 15 of the Greek Income Tax Code (Law 4172/2014), as amended by par. 1, Article 112, Law 4387/2016, a progressive tax scale for individuals with salary and pension income has been introduced. Freelancer income is also taxed according to the abovementioned progressive tax scale after being accumulated with any salary or pension income of the individual. In addition, as per the solidarity tax provisions (introduced in the Greek Income Tax Code by virtue of Article 43A), solidarity tax rates are applied progressively per income band.
³ As per the provisions of par. 1, Article 21 of the Greek VAT Code (Law 2859/2000), as amended by par. 1, Article 52, Law 4389/2016, the standard VAT rate is increased from 23% to 24% as of 1 June 2016 onward.
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Fiscal consolidation, a main driver in light of the Greek sovereign debt crisis
- Restoration of fiscal sustainability
- Satisfaction of requirements and financial goals of Greece, as per the bailout packages aiming at financial recovery and structural reforms

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☒ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☒ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
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<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☒ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
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<tr>
<td>-----------</td>
<td>-------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017 ☐ N/A, as there is no VAT, GST or sales tax</td>
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<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes in 2017 ☐ N/A, as there is no CFC regime</td>
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<tr>
<td>(9) Thin capitalization</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017 ☐ N/A, as there is no thin capitalization regime</td>
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</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☑ Same burden in 2017 ☒ Increased burden in 2017</td>
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<td>(12) Other business incentives – including depreciation/amortization</td>
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<tr>
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<td>☐ Lower burden in 2017 ☑ Same burden in 2017 ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☑ Same burden in 2017 ☒ Increased burden in 2017</td>
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<tr>
<td>(15) PIT base</td>
<td>☐ Change proposed or known for 2017 ☒ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
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</tr>
</tbody>
</table>
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Overall PIT burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Overall VAT/GST/sales tax burden</th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- It is anticipated that tax audits will increase and tax auditors will keep a rather aggressive approach in this respect considering the need for increased tax revenues.
- Extension of the 5 year tax loss carry forward rule is possible based on latest discussions with some company in the market.
- Pursuant to the thin capitalization rule, applicable to all loans irrespective of their origin (intercompany or not, banking etc.), the amount of net interest paid by a company is tax deductible up to 30% of the earnings from 1 January 2017 (as opposed to 40% applicable for 2016) before interest, taxes, depreciation and amortization (EBITDA) after tax adjustments.
- Market players are currently leading an initiative, based on which a uniform flat investment incentive applicable for all enterprises might be introduced, acting as super deduction.

Taxes on wages and employment

E-payments as a prerequisite for income tax deduction for individuals:

As of 1 January 2017, individuals should make electronic payments for the purchase of goods or the receipt of services (through credit/debit cards/bank account transfers) so as to qualify for an income tax deduction. The minimum annual requirement for e-payments depends on the total taxable income of the respective year, as per the below progressive scale:

<table>
<thead>
<tr>
<th>Taxable income (in EUR)</th>
<th>Required e-payments (as a percentage of taxable income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 10,000</td>
<td>10%</td>
</tr>
<tr>
<td>10,001 - 30,000</td>
<td>15%</td>
</tr>
<tr>
<td>30,001 and above</td>
<td>20% (capped at 30,000 EUR)</td>
</tr>
</tbody>
</table>

In case that the taxpayer does not meet the above mentioned minimum e-payment requirement, the annual income tax to be assessed will be increased by 22% on the difference between the minimum requirement and the actual e-payments.

---

4 Withholding tax rate on dividends will be increased from 10% to 15%, on payments made as of 1 January 2017.
The outlook for global tax policy in 2017

Greece

VAT/GST/sales taxes

VAT potential developments

Bad debt relief: There are discussions ongoing on VAT bad debt relief. To this end, there is a respective provision in the Greek VAT Code, which is not yet applied in practice. It is anticipated that amendments will be introduced to the tax code to enable enterprises to claim for bad debt relief in case of customers winding up and/or being subject to pre-bankruptcy processes.

Amendments of Customs Code

- Consumption tax: As of 1 January 2017, a consumption tax has been imposed on certain products imported from non-EU countries, acquired from other EU Member States or produced in Greece, such as liquid for refilling electronic cigarette or special refilling containers, etc., roasted and non-roasted coffee, instant coffee as well as on preparations with a basis of these extracts, essences or concentrates.
- New car registration duty rates are in effect as of 1 July 2016 for private passenger cars ranging from 4% to 32%, based on the car’s taxable price and the criterion of cubic capacity is abolished. Luxury tax imposed on passenger cars is abolished as well.
- Increase in tax on cigarettes as of 1 Jan 2017: As of 1 Jan 2017, the proportional tax rate on cigarettes has been increased from 20% to 26%, whereas the excise duty rate imposed on fine-cut tobacco, used to make self-made cigarettes by hand, is increased from EUR156.70 to EUR170 per kg of net weight.
- The tax (3%) on the value of sold beer has been abolished as of 27 May 2016, but the excise duty on beer has been increased from 1 June 2016.
- Excise duty on fuels has been increased as of 1 January 2017.
- As of 15 October 2016, amendments on the excise duty on heating oil have been introduced.
- Similarly, amendments have also been introduced on the excise duty for natural gas.

Other amendments

- Tax on landline telephony subscribers: As of 1 January 2017, a proportional tax has been imposed on landline telephony subscribers, which is calculated as 5% of the total monthly bill including the fixed charge for the enterprise providing landline telephony services before VAT.
- Tax on cable TV: As of 1 June 2016, a proportional tax has been imposed on cable TV, which is calculated as 10% of the total monthly bill including the fixed charge for the enterprise providing cable TV services before VAT.

2.5 Political landscape

The political landscape in Greece is shifting. Syriza, the political party that won the last Greek elections, has formed a coalition government with the right-wing Independent Greeks (ANEL) that has the majority of seats in the parliament. However, the government is still facing serious pressure due to the debilitated public finances.

In principle, though, please note that the next general election cannot be held later than Sunday 20 October 2019 as per related Greek constitution provisions.

2.6 Current tax policy and tax administration leaders

As of 1 January 2017, an independent administrative authority without legal personality has been constituted under the name “Independent Authority for Public Revenues” (Α.Α.Δ.Ε.) as the successor of the abolishing General Secretariat for Public Revenues. The said authority is autonomous with independent operations, free-of-state monitoring and is further responsible for the determination, assessment and collection of tax, customs and other public revenues. To be noted that said change is of great significance from a tax policy viewpoint.

2.7 What key tax policy changes did you experience in your country in 2016?

- Parent-Subsidiary Directive: In 2016, by virtue of Law 4387/2016, Greece incorporated the amendments of the Parent-Subsidiary Directive. As per the amendments, the intragroup dividends received from 1 January 2016 onward by a Greek tax resident legal entity shall be exempt from tax, only if these profits have not been deducted as expenses at the level of the EU subsidiary. If the distributed profits have been recognized as tax deductible expenses at the level of the subsidiary, e.g., as interest on an intercompany hybrid loan, they will be taxed at the level of the Greek parent regardless of fulfilling the typical exemption conditions. This Targeted Anti Avoidance Rule (TAAR) aims to stop the double non-taxation of said dividends. Furthermore, a provision has been introduced, according to which the exemptions provided in Parent-Subsidiary Directive cease to apply in case the relationship between these group companies does not meet commercial purposes but is mainly designed in order to gain a tax advantage.
Greece

- **Tax certificate**: The procedure of a tax certificate issued by the certified auditor signing the financial statements, is extended indefinitely on an optional basis, since the current law does not provide for penalties for the companies not opting for the tax certificate audit procedure. The above amendment is in force for tax certificates issued for tax years starting from 1 January 2016 onward.

- **Ratification of the Multilateral Competent Authority Agreement (MCAA) on Automatic Exchange of Financial Account Information**: By virtue of Law 4428/2016, the legal basis for the practical application of the automatic exchange of information has been set and Greece has incorporated into national law the draft MCAA on Automatic Exchange of Financial Account Information, which was developed by the OECD and the Council of Europe. It is noted that the CRS had already been incorporated into Greek legislation through Law 4378/2016. Greece will conduct the first automatic exchange of financial account information in 2017, with regard to information pertaining to the tax year 2016. Official guidelines on the specification of the reporting rules and due diligence procedures with which the financial institutions are obliged to be aligned, will be issued by the Independent Authority for Public Revenues.

- **Voluntary Disclosure Programme (VDP)**: A new VDP is introduced for undeclared funds of previous years providing for special conditions and significantly reduced penalties and surcharges. The VDP, that entered into force on the 22 December (publication date of the law in point) and will be applicable up to 31 May 2017, does not constitute a tax amnesty regime, since it requires the filing of standard tax returns for all tax objects by offering as an incentive just the reduction of the surcharges and penalties as well as the alleviation of any criminal sanctions.

- **Reinforcement of electronic transactions**: New requirements are introduced for electronic transmission of invoices by entrepreneurs. Payroll expenses incurred as of 22 December 2016 would not be tax deductible, unless the partial or total payment is made by the use of electronic means of payment.

<table>
<thead>
<tr>
<th>Taxable income (in EUR)</th>
<th>Required e-payments (as a percentage of taxable income)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 10,000</td>
<td>10%</td>
</tr>
<tr>
<td>10,001 - 30,000</td>
<td>15%</td>
</tr>
<tr>
<td>30,001 and above</td>
<td>20% (capped at 30,000 EUR)</td>
</tr>
</tbody>
</table>

In case that the taxpayer does not meet the above mentioned minimum e-payment requirement, the annual income tax to be assessed will be increased by 22% on the difference between the minimum requirement and the actual e-payments.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
- Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

2.9 Pending tax proposals

N/A

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax policy</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT)</td>
<td>25%</td>
<td>25%(^1)</td>
<td>-</td>
</tr>
<tr>
<td>rate (national and local average</td>
<td>or 5% or 7%</td>
<td>or 5% or 7%</td>
<td></td>
</tr>
<tr>
<td>if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT)</td>
<td>25%</td>
<td>25%(^3)</td>
<td>-</td>
</tr>
<tr>
<td>rate (national and local average</td>
<td>or 5% or 7%</td>
<td>or 5% or 7%</td>
<td></td>
</tr>
<tr>
<td>if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT)</td>
<td>12%</td>
<td>12%(^5)</td>
<td>-</td>
</tr>
<tr>
<td>rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) The 25% rate applies to taxpayers registered under the Regime on Profits from Business Activities. (Section 36 of the Tax Legislation Update, Decree 10-2012 of Guatemalan Congress-TLU).
\(^2\) Taxpayers under the Simplified Optional Regime on revenue from business activities are subject to 5% over the first GTQ300,000 (approximately US$40,040), and the exceeding amount will be subject to a 7% rate. (Section 44 of the TLU).
\(^3\) Section 36 of the Tax Law Update.
\(^4\) Compensation paid to employees is taxed at a 5% rate over the first GTQ300,000 (approximately US$40,040) of taxable income and a 7% over the exceeding amount. Section 44 of the TLU.
\(^5\) Section 10 of the Value Added Tax Law, Decree 27-92 of Guatemalan Congress.

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

Guatemalan Tax Authorities are reported to have taken aggressive measures in collecting taxes, such as the filing of criminal charges against taxpayers for tax offences, in order to encourage taxpayers to be in compliance with tax payments and to avoid unintended tax charges.

- Decree 37-2016 of the Guatemalan Congress recently entered into force to address the following tax policy related issues:
- Changes in the organizational structure of the Tax Authorities with an aim to assign a complete new personnel for the resolution of the administrative appeals in case of tax audit adjustments.
2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>No changes expected in 2017</td>
<td>Same burden in 2017</td>
</tr>
</tbody>
</table>

- Lifting of bank secrecy for administrative audit procedures carried out by the Tax Authorities
- Taxpayers are obligated to register in its accounting records of all bank accounts and investments, whether on local or foreign banks
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☒ No changes expected in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☒ No changes expected in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

**Corporate income taxes**
No changes are expected to the corporate income tax regime in 2017. However, the Executive Body has been working on potential tax reforms in order to increase tax revenue; notwithstanding, such changes are uncertain.

**Taxes on wages and employment**
No changes are expected on wages and employment in 2017. However, the Executive Body has been working on potential tax reforms in order to increase tax revenue; notwithstanding, such changes are uncertain and could only come into effect if approved before the beginning of 2017 (which is not likely to happen).

**VAT/GST/sales taxes**
No changes are expected to VAT in 2017. However, the Executive Body has been working on potential tax reforms in order to increase tax revenue; notwithstanding, such changes are uncertain and could only come into effect if approved before the beginning of 2017 (which is not likely to happen).
2.5 Political landscape

- The current Guatemalan Government took office on 14 January 2016. Consequently, several changes in the personnel of the Tax Authorities occurred during 2016. No further changes are expected for 2017.
- However, in 2016, the Decree 37-2016 came into force and established a new procedure for the appointment of the members of the Board of Directors of the Tax Authorities (effective when the new Board of Directors of the Tax Authorities takes possession).
- Additionally, the Tax Authorities are currently taking very aggressive positions in their audit procedures and interpretation due to several tax fraud scandals in which government officers were prosecuted.

2.6 Current tax policy and tax administration leaders

- Juan Francisco Solórzano Foppa, Superintendent of the Superintendence of Tax Administration (SAT)
- Abel Francisco Cruz Calderón, Intendent of Collection
- Werner Florencio Ovalle Ramírez, Intendent of Customs
- Leonel Augusto Villamar Quiroa, Intendent of Auditing
- Adrián Zapata Alamilla, Intendent of Legal Affairs
- Sergio Danilo Estrada Farfán, Intendent of Attention to the Taxpayer
- Additionally, the Board of Directors of the Tax Authorities Directorate is integrated by the following:
  - Julio Héctor Estrada Domínguez
  - Juan Francisco Solórzano Foppa
  - Jorge Enrique Dávila Martínez
  - Carlos Enrique Nuñez Alvarez
  - Adriana Estévez Clavería
  - Mario Leonel Velasco López.

2.7 What key tax policy changes did you experience in your country in 2016?

- Decree No. 19-2016 made a series of changes to the current tax incentive regimes and added a couple of new regimes (within the Drawback Regime and Free Trade Zone Regime). The purpose of the law is to limit the access to benefits.
- The Decree 37-2016 established a new procedure for the appointment of the members of the Board of Directors of the Tax Authorities.
- Additionally, a new Administrative Court of Tax and Customs was created in order to solve administrative appeals and other procedures derived from tax and customs matters.
- Moreover, the Decree includes provisions related to the procedure that the Tax Authorities should follow in order to obtain taxpayer’s banking information during the administrative phase.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – The Government has not issued any public statements, or any information regarding its stance in relation to BEPS, however, the Tax Authorities has engaged in regional consultations from the OECD regarding BEPS.

2.9 Pending tax proposals

There are no pending tax proposals in process. However, the Executive Body has been working on potential tax reforms in order to increase tax revenue; notwithstanding, such changes are uncertain and could only come into effect if approved before the beginning of 2017 (which is not likely to happen).

2.10 Consultations opened/closed

There are currently no open public consultations.
### Tax rates (2016-17)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>25%(^1)</td>
<td>25%</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>25%(^2)</td>
<td>25%(^3)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>15%(^4)</td>
<td>15%(^5)</td>
<td>–</td>
</tr>
</tbody>
</table>

1. In addition, an alternate minimum income tax is applicable on the entities domiciled in Honduras with a gross income equal to or greater than HNL10 million (~USD426,165) at a rate of 1.5% of gross income. The income tax must be computed by applying the ordinary rate of 25% to net income and by applying the alternate minimum tax rate to gross income. The income tax payable is the higher amount resulting from the calculations. Lastly, any taxable income exceeding HNL1 million (~USD42,616) is subject to an additional 5% income tax rate described as a temporary social contribution. The temporary social contribution tax is a nondeductible expense for income tax purposes.

2. Section 22 of the Income Tax Law.


4. Section 6 of the Sales Tax Law.

5. A special sales tax rate of 18% is imposed on the sale of certain specific products (e.g., beer, cigarettes and liquor). Section 6 of the Sales Tax Law.
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- The economic downturn has increased the need for higher tax revenues.
- The Honduran National Congress approved on December, 2016, a new Tax Code which is one of the main aspects of the Government’s so-called 20/20 plan that aims at increasing foreign investments, creating economic growth and jobs.
- On 16 March 2016, The Tax Authorities (Dirección de Ingresos, DEI) ceased to exist and a new administrative authority was created (Servicios de Administración de Rentas, SAR). New powers were granted to SAR and it is in the process of contracting its employees. This transition period is creating some uncertainties.
- There is a project to put in place an entirely new Tax Code (see overview in section 2.7 below), which is one of the main aspects of the Government’s so-called 20/20 plan that aims at increasing foreign investments, creating economic growth and jobs.
- On 16 March 2016, The Tax Authorities (Dirección de Ingresos, DEI) ceased to exist and a new administrative authority was created (Servicios de Administración de Rentas, SAR). New powers were granted to SAR and it is in the process of contracting its employees. This transition period is creating some uncertainties.

2.2 Tax burdens in 2017

For each tax type, please indicate if a change has been proposed/known, and/or if additional change is possible/somewhat likely in 2017, or if no change is expected. Also mark what the expected tax burden is for 2017.

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[ ] Additional change possible or somewhat likely in 2017</td>
<td>[ ] Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[x] No changes expected in 2017</td>
<td>[ ] Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[ ] Additional change possible or somewhat likely in 2017</td>
<td>[ ] Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[x] No changes expected in 2017</td>
<td>[ ] Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[ ] Additional change possible or somewhat likely in 2017</td>
<td>[ ] Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[ ] No changes expected in 2017</td>
<td>[ ] Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[ ] Additional change possible or somewhat likely in 2017</td>
<td>[ ] Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[x] No changes expected in 2017</td>
<td>[ ] Increased burden in 2017</td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017 □ N/A, as there is no Capital Gains Tax</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017 □ N/A, as there is no VAT, GST or sales tax</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017 □ N/A, as there is no VAT, GST or sales tax</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes in 2017 □ N/A, as there is no CFC regime</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017 □ N/A, as there is no thin capitalization regime</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
<td>□ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
</tbody>
</table>
## Tax policy outlook for 2017 — summary

### Overall CIT burden

- **Lower**
  - Change proposed or known for 2017: No change
  - Additional change possible or somewhat likely in 2017: None
  - No changes expected in 2017: Lower burden in 2017
  - What is the expected tax burden in 2017, as compared to 2016?
    - No change in 2017
    - Higher in 2017

### Overall PIT burden

- **Lower**
  - Change proposed or known for 2017: No change
  - Additional change possible or somewhat likely in 2017: None
  - No changes expected in 2017: Lower burden in 2017
  - What is the expected tax burden in 2017, as compared to 2016?
    - No change in 2017
    - Higher in 2017

### Overall VAT/GST/sales tax burden

- **Lower**
  - Change proposed or known for 2017: No change
  - Additional change possible or somewhat likely in 2017: None
  - No changes expected in 2017: Lower burden in 2017
  - What is the expected tax burden in 2017, as compared to 2016?
    - No change in 2017
    - Higher in 2017
2.4 Tax policy outlook for 2017 – detail

**Corporate income taxes**
No changes are known or expected in 2017.

**Taxes on wages and employment**
No changes are known or expected in 2017.

**VAT/GST/sales taxes**
No changes are known or expected in 2017.

2.5 Political landscape
Presidential elections will take place in November 2017. The change of Government may drive new tax laws and reforms.

2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Juan Orlando Hernandez, President of the Republic of Honduras
- Wilfredo Cerrato, Finance Secretary

**Tax administration leaders**
- Miriam Guzmán, Internal Revenue Minister
- Angela Madrid, Tax Administration Presidential Commissioner

2.7 What key tax policy changes did you experience in your country in 2016?
Honduras enacted Decree No. 170-2016 (the Tax Code), which entirely replaces the previous tax code published in 1997 and its amendments. The Tax Code was enacted and published in the Official Gazette on December 28, 2016. It is effective January 1, 2017.

One of the key changes introduced by this Tax Code is the shift from a tax system based on worldwide taxation to one based on territoriality. Amongst others, it includes a chapter on the rights of taxpayers, new penalties, new statutes of limitations and an amnesty program. In addition, transfer pricing dispositions are included. The Tax Code requires the Executive Branch, through the Ministry of Finance and with the assistance of the Tax and Customs Authorities, to submit to Congress bills to reform the Income Tax Law and Sales Tax Law by year-end.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.
- [ ] Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- [ ] Action 6 – Preventing the abuse of treaties
- [ ] Action 7 – Preventing the artificial avoidance of PE status
- [ ] Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – Honduras has so far made no public statement in regard to which MLI elements are likely to be adopted.
Honduras

2.9 Pending tax proposals
None.

2.10 Consultations opened/closed
Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>16.5%</td>
<td>16.5%</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>2%-17% with personal allowances or 15% without personal allowances (whichever is the smaller)</td>
<td>2%-17% with personal allowances or 15% without personal allowances (whichever is the smaller)</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Hong Kong strives to uphold a simple and low tax regime to maintain its overall competitiveness, and policymakers have been very cautious when considering tax deductions or relief proposals of any kind. One-off measures, including tax reductions, increases in allowance, waivers of government fees and subsidy grants, have been introduced to try to ease the burden and pressure on both enterprises and individuals in response to specific economic situations.
Introduction of corporate treasury centers: The Government gazetted on 3 June 2016 the Inland Revenue (Amendment) (No. 2) Ordinance 2016 (the Amendment Ordinance).

The Amendment Ordinance enables, under specified conditions, the deduction of interest payable on the money borrowed by a corporation carrying on an intragroup financing business in Hong Kong. It further provides for a concessionary profits tax rate at 8.25% for qualifying corporate treasury centers.1

BEPS: On 20 June 2016, Hong Kong accepted an invitation from OECD to join as an associate member in the inclusive framework for implementation of the BEPS package.2 On 26 October 2016, the Government launched a consultation paper on measures to counter BEPS.3

Continue to expand its Comprehensive Double Tax Agreement networks

The Government is considering using tax incentive to boost aircraft leasing business. The relevant details have not been announced yet.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td></td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
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<td></td>
<td>in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td></td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
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<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td></td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td></td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
</tbody>
</table>

---


### Hong Kong

#### Tax types

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☐ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☐ Same burden in 2017 ☐ Increased burden in 2017</td>
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<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
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<td>☐ Lower burden in 2017 ☐ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>
## Hong Kong

### Tax types

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13)</td>
<td>Changes to tax enforcement approach</td>
<td>□ Change proposed or known for 2017  ✔ Additional change possible or somewhat likely in 2017  □ No changes expected in 2017</td>
<td>□ Lower burden in 2017  □ Same burden in 2017  ✔ Increased burden in 2017</td>
</tr>
<tr>
<td>(14)</td>
<td>Top marginal PIT Rate</td>
<td>□ Change proposed or known for 2017  □ Additional change possible or somewhat likely in 2017  □ No changes expected in 2017</td>
<td>□ Lower burden in 2017  □ Same burden in 2017  □ Increased burden in 2017</td>
</tr>
<tr>
<td>(15)</td>
<td>PIT base</td>
<td>□ Change proposed or known for 2017  □ Additional change possible or somewhat likely in 2017  □ No changes expected in 2017</td>
<td>□ Lower burden in 2017  □ Same burden in 2017  □ Increased burden in 2017</td>
</tr>
</tbody>
</table>

### 2.3 Tax policy outlook for 2017 – summary

#### Overall CIT burden

- **Lower**
  - No change
  - X Higher

#### Overall PIT burden

- **Lower**
  - X No change
  - Higher

#### Overall VAT/GST/sales tax burden

- **Lower**
  - X No change
  - Higher

No introduction of VAT, GST or similar tax perceived in the near future, although the Government has made some soft remarks in the past that these will be considered.
2.4 Tax policy outlook for 2017 – detail

CIT

- To maintain Hong Kong’s competitiveness, the need for a simple, stable and relatively low tax regime remains unchanged. The CIT rate will likely remain at 16.5% for corporations and 15% for unincorporated businesses (e.g., sole proprietorship and partnerships) for 2016-17.

- Qualifying corporate treasury centers will enjoy concessionary CIT rate at 50% of the prevailing CIT rate (i.e., 8.25% for 2016-17) on qualifying profits.

- Hong Kong announced in the 2017 Policy Address that tax concessions will be offered to attract companies to domicile their aircraft leasing business in Hong Kong. Following the announcement, a briefing paper was presented to the Legislative Council outlining a proposed dedicated tax regime to implement the tax concessions.

Taxes on wages and employment

- The Financial Secretary also proposed in the 2016-17 Budget to increase basic allowance and single parent allowance from HKD120,000 to HKD132,000; allowances for maintaining a dependent parent or grandparent aged between 55 and 59 from HKD20,000 to HKD23,000; allowances for maintaining a dependent parent or grandparent aged 60 or above from HKD40,000 to HKD46,000; and to increase deduction ceiling for elderly residential care expenses to HKD92,000 from fiscal year 2016-17 onward.

VAT/GST/sales taxes

- N/A

2.5 Political landscape

- Leung Chun-ying, the Chief Executive of Hong Kong, assumed office on 1 July 2012. In his manifesto, he said that Hong Kong’s key advantage — its simple and low-tax system — is being eroded due to intense competition from surrounding areas in terms of talent, taxation, efficiency, and software and hardware facilities.

- He reinforced the importance of “maintaining a low-tax approach to Hong Kong’s fiscal policy, following the principle of keeping expenditure within the limits of revenue and striving to achieve a fiscal balance in accordance with the provision of the Basic Law.”

Even with the upcoming Chief Executive election in 2017, it is not expected that Hong Kong will change its existing tax regime.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Paul, Chan Mo-po, Financial Secretary, GBS, MH, JP
- Prof. K C Chan, Secretary for Financial Services and the Treasury, GBS, JP

Administration of tax law

- Hong Kong tax law is administrated by the Hong Kong Inland Revenue Department (IRD) under the leadership of the Commissioner of Inland Revenue (CIR).

- From time to time, the IRD issues Department Interpretation and Practice Notes (DIPN) to explain how the IRD would interpret the legislation and enforce the law in practice which is not binding in courts.

- The CIR also publishes advance ruling cases to share the IRD’s view of common issues.

---


2.7 What key tax policy changes did you experience in your country in 2016?

The Inland Revenue (Amendment) (No.2) Ordinance 2016 was passed by the Legislative Council on 26 May 2016 and gazetted on 3 June 2016. It provides a concessionary profits tax rate (reduced by half) for qualifying corporate treasury centers for qualifying profits accrued on or after 1 April 2016. It also allows a corporate borrower carrying on an intragroup financing business in Hong Kong to deduct from its assessable profits an interest payable in respect of the money borrowed from a non-Hong-Kong-associated corporation under specified conditions.

The Inland Revenue (Amendment) (No.3) Ordinance 2016 was passed on 22 June 2016 to put in place a framework to implement Automatic Exchange of Financial Account Information (AEOI) which came into effect on 30 June 2016.8

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☑ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

2.9 Pending tax proposals

On 4 November 2016, the Government announced that the Stamp Duty Ordinance would be amended to increase the ad valorem stamp duty (AVD) rates for residential property transactions to a flat rate of 15%. Subject to the enactment of the relevant legislation, any instrument executed on or after 5 November 2016 for the sale and purchase or transfer of residential property, unless specifically exempted or provided otherwise, will be subject to the proposed new AVD rate.9

2.10 Consultations opened/closed

Open: N/A

Closed:

☐ Consultation paper on measures to counter BEPS closed on 31 December 2016.10 Higher rates of stamp duty land tax (SDLT) on purchases of additional residential properties.

---

## Tax rates (2016-17)

### 1.1 Key tax rates

*Lists top marginal rates only.*

<table>
<thead>
<tr>
<th>Tax Policy</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>10% or 19%: 19% is the standard CIT rate. The 10% rate applies to the first HUF500 million (approximately USD2 million) of taxable income.</td>
<td>Single tax rate of 9%</td>
<td>-52.6%</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>15%</td>
<td>15%¹</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>27%</td>
<td>27%²</td>
<td>-</td>
</tr>
</tbody>
</table>

¹ Section 8(1) of Act CXVII of 1995 on Personal Income Tax.

² Section 82(1) of Act CXXVII of 2007 on the Value Added Tax.
## 2017 tax policy outlook

### 2.1 Key drivers of tax policy change

- Decreasing corporate and personal taxes, stimulating investments
- BEPS implementation, e.g., implementation of Modified Nexus Approach, information exchange

### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☒ Change proposed or known for 2017</td>
<td>☒ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| (6) VAT, GST or sales tax rate         | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017  
[ ] N/A, as there is no VAT, GST or sales tax | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
| (7) VAT, GST or sales tax base         | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017  
[ ] N/A, as there is no VAT, GST or sales tax | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC) | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes in 2017  
[ ] N/A, as there is no CFC regime | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
| (9) Thin capitalization                | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017  
[ ] N/A, as there is no thin capitalization regime | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
| (10) Transfer Pricing changes          | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017 | [ ] Lower burden in 2017  
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[ ] Increased burden in 2017 |
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[ ] Additional change possible or somewhat likely in 2017  
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[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017 | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
### Tax policy outlook for 2017 — summary

#### Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes
- Single tax rate of 9% applicable as of 1 January 2017
- Increased focus on controlled foreign companies, tax avoidance and BEPS
- Increased tax allowance for start-up investments and investments/ in/restoration of historical buildings

Taxes on wages and employment
- Changes in connection with the non-wage benefits and certain specified benefits

VAT, GST and sales taxes
- The tax rate of some staple food items will decrease from 27% to 5% as of 1 January 2017.
- The tax rate of internet services will be decreased to 18%.
- Threshold of individual VAT exemption will be raised to the annual amount of 8 million HUF from 6 million HUF.
- Administrative and possibly online real-time data transfer burden in connection with invoices will be increased.

2.5 Political landscape
- Stable governing party but without a 2/3 majority.
- The public spending will be increased in 2018 because of the elections.
- Focus on reducing taxes on wages.

2.6 Current tax policy and tax administration leaders

Mihály Varga, Minister for National Economy
András Tállai, State Secretary responsible for Parliamentary and Tax Affairs

2.7 What key tax policy changes did you experience in your country in 2016?

More focus on BEPS, with the introduction of the Modified Nexus Approach of Action 5 in mid-2016.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
  - N/A – Negotiating policies are not public
<table>
<thead>
<tr>
<th>Section</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.9 Pending tax proposals</td>
<td>None</td>
</tr>
<tr>
<td>2.10 Consultations opened/closed</td>
<td>Open: N/A</td>
</tr>
<tr>
<td></td>
<td>Closed: N/A</td>
</tr>
</tbody>
</table>
### 1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Domestic company:</strong>&lt;br&gt;Regular tax: 34.608%, inclusive of surcharge and education cess&lt;br&gt;• 33.063% where the total income is more than INR10 million and up to INR100 million&lt;br&gt;• 30.9% where the total income is equal to or less than INR10 million</td>
<td><strong>A) Domestic company:</strong>&lt;br&gt;Regular tax: 34.608%, inclusive of surcharge and education cess&lt;br&gt;• 42.024% where the total income is more than INR10 million and up to INR100 million&lt;br&gt;• 41.2% where the total income is equal to or less than INR10 million</td>
<td>–</td>
</tr>
<tr>
<td><strong>B) Foreign company:</strong>&lt;br&gt;Regular tax: 43.26%, inclusive of surcharge and education cess&lt;br&gt;• 42.024% where the total income is more than INR10 million and up to INR100 million&lt;br&gt;• 41.2% where the total income is equal to or less than INR10 million</td>
<td><strong>B) Foreign company:</strong>&lt;br&gt;Regular tax: 43.26%, inclusive of surcharge and education cess&lt;br&gt;• 42.024% where the total income is more than INR10 million and up to INR100 million&lt;br&gt;• 41.2% where the total income is equal to or less than INR10 million</td>
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<tr>
<td><strong>Top Personal Income Tax (PIT) rate (national and local average if applicable)</strong>&lt;br&gt;30%</td>
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<td>–</td>
</tr>
</tbody>
</table>

---

2017 tax policy outlook

2.1 Key drivers of tax policy change

- Introduction of the GST
- Economic growth revival
- Facilitation of a greater flow of resources for productive purposes and investment
- Measures to curb black money
- Job creation through revival of growth and investment and promotion of domestic manufacturing and “Make in India”
- Making domestic companies more competitive by reducing the corporate tax rate (to be accompanied by phase-out of incentives)
- Improvement in the ease of doing business through minimum government and maximum governance; Facilitation of start-ups and entrepreneurship
- Rationalization and simplification of the tax regime

2.2 Tax burdens in 2017

<table>
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<tr>
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<td>☑ Lower burden in 2017 ☑ Same burden in 2017 ☑ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Tax policy outlook for 2017 — summary

#### Overall CIT burden
- **Lower**
  - [x] No change
  - Higher

#### Overall PIT burden
- **Lower**
  - [x] No change
  - Higher

#### Overall VAT/GST/sales tax burden
- **Lower**
  - [x] No change
  - Higher
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

› Corporate tax rate will be reduced from 30% to 25% over the next three years. This will be accompanied by a gradual phase-out of incentives which will widen the CIT base.

› Measures will be implemented by the Government to curb black money, tighten tax administration, bring certainty in taxation and reduce tax litigation to unlock the sums tied up in disputes.

On 1 February 2017, the Indian government issued its 2017 Union Budget. The budget including, among others, the following measures:

› Reduction in tax rates for smaller taxpayers: Indian companies having revenues of less than INR500m (US$7.5m) in the tax year 2015-16 are subject to a reduced 25% corporate tax rate (plus surcharges); whereas a 30% rate (plus surcharges) applies to all other companies.

› Restriction on interest deduction in certain cases: In line with the recommendations of the Organisation for Economic Co-Operation and Development (OECD) Base Erosion and Profit Shifting Action Plan 4, interest expenses paid or payable, whichever is lower, to related party enterprises is restricted to 30% of earnings before interest, taxes, depreciation and amortization. The provision permits an eight-year carry forward of disallowed interest expense, subject to the 30% cap discussed above.

› Secondary transfer pricing (TP) adjustment in certain cases: In order to align TP provisions with the OECD TP Guidelines and international best practices, the Budget 2017 allows the tax authorities to make secondary TP adjustments. If a primary TP adjustment is made voluntarily by the taxpayer or by the tax officer and is accepted by taxpayer, or the adjustment results from an advance pricing adjustment or mutual agreement procedure, the adjustment will be deemed to be an advance by the taxpayer to the related party and interest will be computed, unless the difference is repatriated to India within the time limit (to be prescribed).

› Rationalization of indirect transfer tax provisions: Indirect transfer provisions are not applicable to a transfer of investments in certain categories of Foreign Portfolio Investors, effective retroactively from 1 April 2011.

› General Anti-Avoidance Rules (GAAR): GAAR will be effective as of 1 April 2017.

› Reduction in withholding tax rates on debt: A concessional withholding tax rate of 5% (plus surcharges) is applicable to the interest earned by nonresident taxpayers for external commercial borrowings/rupee denominated bonds issued through 30 June 2020.

› Minimum Alternate Tax (MAT) computation: A MAT currently applies if 18.5% of book profits exceed tax liability under regular domestic tax provisions. The Budget 2017 revises the computation method by using new Indian accounting standards, if such standards are applicable to the relevant Indian company. The current 10-year MAT credit carry forward period is extended to 15 years.

› Clarification on nonresident capital gains tax: Indian tax provisions have been retroactively amended from 1 April 2012, clarifying that the rate of long-term capital gains tax on sale of shares of an Indian private company is reduced to 10% (plus surcharges) from 20%.

› Tax neutral conversion of preference shares to equity shares: Conversion of preference shares to equity shares will be exempt from capital gains tax, since the conversion will not to be treated as a transfer. Acquisition cost and holding period of the original preference shares will roll over. Unless otherwise specified, the above proposals will be effective as of 1 April 2017, subject to passage of the finance bill, outlining the provisions, in both Houses of Indian Parliament followed by the Presidential assent.

Taxes on wages and employment

› The Government may generate more revenues from greater control and monitoring of cash transactions.

VAT/GST/sales taxes

› The Government is targeting to roll out GST by April 2017.

2.5 Political landscape

› The current political opposition to sudden demonetization has the risk of delaying the passage of the GST bills.

› The states of Uttar Pradesh and Punjab are scheduled to hold elections in the year 2017. Both states are important for determining the course of national politics.
2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Arun Jaitley, Finance Minister
- Santosh Kumar Gangwar, Minister of State for Finance
- Arjun Ram Meghwal, Minister of State for Finance
- Hasmukh Adhia, Revenue Secretary
- Arvind Subramanian, Chief Economic Adviser

**Tax administration leaders**
- Sushil Chandra, Chairman, Central Board of Direct Taxes (CBDT)
- Najib Shah, Chairman, Central Board of Excise and Customs (CBEC)

2.7 What key tax policy changes did you experience in your country in 2016?
- The Constitution (One Hundred and First Amendment) Act, 2016, was passed in the Upper House of the Parliament to introduce GST in India.
- Corporate tax rate was reduced to 25% for domestic companies, if setup and registered after 1 March 2016 and does not claim any tax incentives.
- Corporate tax rate was reduced to 29% for domestic companies if total turnover or gross receipts in the financial year 2014–15 do not exceed INR50 million.
- The Government recently stripped INR500 and INR1,000 notes of its legal tender to fight black money and corruption.
- The Income Declaration Scheme was introduced by the Government that allowed people to declare undisclosed income or investment in any asset representing undisclosed income. The CBDT has collected INR650 billion till date from this scheme.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
- Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals
- The GST Laws proposed to be introduced in the Winter Session (December 2016) of the Parliament
- Final Rules on GAAR to be notified
- Final rules to be announced for the determination of Place of Effective Management

2.10 Consultations opened/closed

**Open:**
- Consultations by a government Committee on the simplification of the income tax law
- Consultation on the simplification of income tax returns forms
- GST laws made public for comments
- Pre-budget consultation

**Closed:**
- Consultation on Minimum Alternative Tax (MAT) on Foreign Institutional Investors (FIIs)
- Consultations on Indian Financial Reporting Standards (IFRS)
- Consultation on GAAR Rules
- Draft of Determination of Place of Effective Management Rules
1. **Key tax rates**

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>25%¹</td>
<td>25%¹</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>30%²</td>
<td>30%²</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% for domestic deliveries and 0% for export of goods and certain services</td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>10% for domestic deliveries and 0% for export of goods and certain services³</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Article 17 (2a) of Indonesian Income Tax Law No. 36 of 2008.
² Article 17 (1a) of Indonesian Income Tax Law No. 36 of 2008.
³ Article 7 of Indonesian Value Added Taxes Law No. 42 of 2009.
2.1 Key drivers of tax policy change

- Revenue collection for state budget
- Improvement of tax ratio by expanding tax base
- Being more competitive from a foreign direct investment perspective
- Demand for a new taxation system that can provide justice and legal certainty to support development
- Transparency in the global financial system and intensified exchange of information that has made it difficult for taxpayers to hide their assets overseas

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>[ ] Change proposed or known for 2017</td>
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<td>[ ] Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>[X] No changes expected in 2017</td>
<td>[ ] Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
<tr>
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<td>[X] No changes expected in 2017</td>
<td>[ ] Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
<tr>
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<td>[ ] Additional change possible or somewhat likely in 2017</td>
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</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
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</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>[ ] Change proposed or known for 2017</td>
<td>[ ] Lower burden in 2017</td>
</tr>
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<td></td>
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<tr>
<td></td>
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</tbody>
</table>
### Indonesia

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (6) VAT, GST or sales tax rate    | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017  
☐ N/A, as there is no VAT, GST or sales tax | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (7) VAT, GST or sales tax base    | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017  
☐ N/A, as there is no VAT, GST or sales tax | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC) | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes in 2017  
☐ N/A, as there is no CFC regime | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (9) Thin capitalization           | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017  
☐ N/A, as there is no thin capitalization regime | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (10) Transfer Pricing changes     | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
### Indonesia

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (11) Research and Development (R&D) incentives | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (13) Changes to tax enforcement approach      | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (14) Top marginal PIT Rate                     | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (15) PIT base                                  | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower No change Higher</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall PIT burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower No change Higher</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower No change Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

**Corporate income taxes**
No major changes are proposed for 2017.

**Taxes on wages and employment**
No major changes are proposed for 2017.

**VAT/GST/sales taxes**
No major changes are proposed for 2017.

2.5 Political landscape

On 27 July 2016, when Ms. Sri Mulyani took over the Ministry of Finance from Mr. Brodjonegoro, there were drafts of the new General Tax Provision Law, Income Tax Law and VAT Law prepared by the previous ministry.

The draft of the General Tax Provision Law had been in the process in Legislative Council (DPR). However, Ms. Sri Mulyani decided to revoke the draft from DPR and re-review it. Therefore, in 2017, no new tax laws are expected to be enacted.

2.6 Current tax policy and tax administration leaders

Mr. Ken Dwijugiasteadi, Director General of Taxes

2.7 What key tax policy changes did you experience in your country in 2016?

The issuance of the Tax Amnesty Law and its related regulations: Tax Amnesty is a waiver of tax due, tax administration sanction and tax criminal sanction, by disclosing assets for a period up to FY 2015 and making a redemption payment and levy.
2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

➢ New General Rules and Procedures of Taxation Law
➢ New Income Tax Law
➢ New VAT Law

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
### Tax rates (2016-17)

#### 1.1 Key tax rates

(Guidance: Please list top federal marginal rates only. Please also add narrative regarding any subnational rates, and provide an average effective rate)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</strong></td>
<td>12.5% rate</td>
<td>12.5%²</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A 25% rate</td>
<td>A 25%³</td>
<td></td>
</tr>
<tr>
<td></td>
<td>applies in some circumstances¹</td>
<td>applies in some circumstances</td>
<td></td>
</tr>
<tr>
<td><strong>Top Personal Income Tax (PIT) rate (national and local average if applicable)</strong></td>
<td>40%</td>
<td>40%⁴</td>
<td></td>
</tr>
<tr>
<td></td>
<td>11% Universal Social Charge (Top rate for self-employed)</td>
<td>11%⁵ Universal Social Charge</td>
<td></td>
</tr>
<tr>
<td></td>
<td>See Section A in EY Worldwide Personal Tax Guide</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Standard Value Added Tax (VAT) rate</strong></td>
<td>23%</td>
<td>23%⁶</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduced rates 9% and 13.5%</td>
<td>Reduced rates 9% and 13.5%</td>
<td></td>
</tr>
</tbody>
</table>

1. See Section A of EY’s EY Worldwide Corporate Tax Guide.
5. Section 531AN Taxes Consolidation Act 1997.
7. Section 46 Value Added Tax Consolidation Act 2010.
2.1 Key drivers of tax policy change

In October 2016, the Irish Department of Finance issued an update on Ireland’s International Tax Strategy (The International Tax Strategy\(^9\) sets out a charter with the principles and objectives underlying Ireland’s international tax policy).

- Ireland is committed to full exchange of tax information with its tax treaty partners.
- Ireland is committed to global automatic exchange of tax information, inline with existing and emerging EU and OECD rules. Ireland actively supported work at EU level on a third, fourth and fifth iteration of the Directive on Administrative Cooperation to facilitate the automatic exchange of information on cross-border tax rulings, country-by-country reports and to ensure that tax authorities have access to anti-money laundering information.
- Ireland is committed to actively contributing to the OECD and EU efforts to tackle harmful tax competition. Ireland agreed the Anti-Tax Avoidance Directive with fellow EU Member States to implement a number of BEPS Actions consistently across the EU. Ireland continues to engage constructively on EU tax files, Ireland remains engaged in the OECD’s BEPS project and the new BEPS Inclusive Framework.
- Ireland is committed to engage constructively and respectfully with developing countries in relation to tax matters, including by offering assistance wherever possible.

A shortage of affordable residential accommodation remains a key policy concern for the Government and several policy responses were included in Finance Act 2016, particularly aimed at first-time buyers. The Finance Act also introduced new measures designed to ensure that gains on disposals of Irish real estate and income therefrom are subject to an appropriate level of Irish taxation irrespective of the investment vehicle used. These latter measures were influenced by news in 2016 that many overseas investors benefited from the significant upturn in the Irish property market and reaped the rewards of higher rental income without a commensurate increase in taxation.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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<td>(1) Headline CIT rate</td>
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<td>□ Additional change possible or somewhat likely in 2017</td>
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<td></td>
<td>□ No changes expected in 2017</td>
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<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017</td>
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\(^9\) Update on Ireland’s International Tax Strategy October 2016.
<table>
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<td></td>
<td>in 2017</td>
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<td></td>
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<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017</td>
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<tr>
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<td>☒ No changes expected in 2017</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td>(7) VAT, GST or sales tax base</td>
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<td>(8) Controlled Foreign Companies (CFC)</td>
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<td>in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes in 2017</td>
<td></td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no CFC regime</td>
<td></td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td>-----------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
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□ Increased burden in 2017                          |
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☑ Same burden in 2017  
□ Increased burden in 2017                          |
| (14) Top marginal PIT Rate                    | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017                      | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017                          |
| (15) PIT base                                 | ☑ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017                      | ☑ Lower burden in 2017  
□ Same burden in 2017  
□ Increased burden in 2017                          |
2.3 Tax policy outlook for 2017 — summary

2.4 Tax policy outlook for 2017 — detail

Corporate income taxes

- The Irish Government remains committed to the 12.5% rate of corporation tax.
- The Irish exchequer returns for 2016 have reported a close to balanced budget. On this basis, no major fiscal developments are expected for the rest of 2017.

While Finance Bill 2017 will likely be published in October 2017, its fiscal measures will not be expected to apply until 2018.

New withholding taxes may apply to disposals of and income from Irish real estate. See Section B in the EY Worldwide Corporate Income Tax guide.

Taxes on wages and employment

The marginal rate of income tax remains at 40%.

Universal Social Charge (USC)

0.5% decrease in rate (to .5%) for income up to €12,012

0.5% decrease in rate (to 2.5%) for income between €12,012 and €18,772

0.5% decrease in rate (to 5%) for income between €18,772 to €70,044

No change to higher USC rates.

VAT/GST/sales taxes

Headline VAT remains at 23%

Retention of 9% targeted (broadly tourism sector) VAT rate

Excise increase on tobacco products

2.5 Political landscape

The current Irish Government is a “partnership” minority Government, which consists of Fine Gael (center-right), the Independent Alliance and independent TDs (Teachta Dála-Member of Dail Eireann). The Government relies on the support of the largest opposition party with which a “Confidence and Supply Arrangement” is in place.
2.6 Current tax policy and tax administration leaders

Tax policy leaders:
- Michael Noonan, Minister for Finance
- Paschal Donohoe, Minister for Public Expenditure and Reform
- Derek Moran, Secretary General Department of Finance

Tax administration leaders:
- Niall Cody, Chairman, Revenue Commissioners
- Liam Irwin, Revenue Commissioner
- Gerry Harrahill, Revenue Commissioner

2.7 What key tax policy changes did you experience in your country in 2016?
- Ireland implemented country-by-country reporting and transposed the Directive for the exchange of cross-border tax rulings.
- Ireland also announced that from 1 May 2017, the benefits of qualifying disclosures (e.g., lower penalties) will not be available in respect of taxpayers seeking to voluntary disclose “offshore matters.” This is being driven by the additional financial information now being received under the Common Reporting Standard (CRS).
- Ireland introduced a withholding tax (IREF) for investment funds investing in Irish real estate (subject to conditions and exemptions).
- The Finance (Tax Appeals) Act 2015 became effective from 21 March 2016. This introduced new tax appeals procedures and provides for greater disclosure of decisions handed down.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.
- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

☐ N/A – While Ireland will be signing the MLI, at this time the Irish Government has not revealed its policy preferences under the MLI.

2.9 Pending tax proposals
There are currently no pending tax proposals as the Finance Act was signed into law on 25 December 2016. The implications of, and policy responses to, BEPS reports and EU Directives are likely to be considered further in 2017.

2.10 Consultations opened/closed
Open: None
Closed:
- August 2016 Double Tax Treaty with the United States of America
- May 2016 Taxation of Share Based Remuneration
- April 2016 Invitation for submissions on European Commission proposals on public tax transparency rules for multinationals
- January 2016 Consultation on the use of Intermediary-Type Structures and Self-employment Arrangements
### Tax policy and controversy

**Gilad Shoval**  
gilad.shoval@il.ey.com  
+972 3 623 2522

---

## 1 Tax rates (2016-17)

### 1.1 Key tax rates

*Lists top marginal rates only.*

<table>
<thead>
<tr>
<th>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>24%&lt;sup&gt;2&lt;/sup&gt;</td>
<td>-4%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top Personal Income Tax (PIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%&lt;sup&gt;3&lt;/sup&gt; + 2% surtax&lt;sup&gt;4&lt;/sup&gt;</td>
<td>47%&lt;sup&gt;5&lt;/sup&gt; + 3% surtax&lt;sup&gt;6&lt;/sup&gt;</td>
<td>-2.1%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Value Added Tax (VAT) rate</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>17%&lt;sup&gt;7&lt;/sup&gt;</td>
<td>17%</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

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## 2 2017 tax policy outlook

### 2.1 Key drivers of tax policy change

- Addressing state budget requirements
- Mitigating tax avoidance, including aggressive tax strategies and the black market economy
- Incentivizing local production and export

---

1. Section 126 of the Income Tax Ordinance (ITO).
2. According to a pending legislation proposal, which is expected to be fully enacted in the Israeli parliament on 31 December, 2016.
3. Section 121 of the ITO.
4. Section 121B of the ITO – surtax will apply when an individual’s yearly taxable income is above NIS803,520.
5. According to a pending legislation proposal which is expected to be fully enacted in the Israeli parliament on 31 December, 2016.
6. According to a pending legislation proposal which is expected to be fully enacted in the Israeli parliament on 31 December, 2016 – surtax will apply when an individual’s yearly taxable income is above NIS639,996.
7. Section 2 of the VAT Law.
# 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017</td>
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<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ Additional change possible or somewhat likely in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>☒ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
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<td>☒ Lower burden in 2017</td>
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<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
<td>☒ Lower burden in 2017</td>
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<tr>
<td></td>
<td>☒ Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017</td>
<td>☒ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☐ Same burden in 2017</td>
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<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☐ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
</tbody>
</table>

The ITA may issue a circular in this regard.
### The outlook for global tax policy in 2017

**Israel**

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
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<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>□ Change proposed or known for 2017&lt;br&gt;□ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes in 2017&lt;br&gt;□ N/A, as there is no CFC regime</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>□ Change proposed or known for 2017&lt;br&gt;□ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017&lt;br&gt;□ N/A, as there is no thin capitalization regime</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;□ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>□ Change proposed or known for 2017&lt;br&gt;□ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;□ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;□ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;□ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;□ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;□ Increased burden in 2017</td>
</tr>
</tbody>
</table>

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9 The change depends on the possibility to implement the BEPS regime in this regards in 2017.
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>

Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Overall VAT/GST/sales tax burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
</tr>
<tr>
<td>Lower</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- CIT rate is reduced from 25% to 24% (to be further reduced to 23% starting 1 January 2018).
- Under the innovation box regime, 6% CIT rate and 4% withholding tax on dividends will apply to qualifying companies with consolidated revenues of over ILS10 billion (approximately US$2.5 billion). Other qualifying companies would be subject to 12% CIT and 4% dividend withholding tax. The proposal is aimed at the companies based on intellectual property (IP), in particular, technology companies.
- The Israeli Finance Ministry has acknowledged that in a post-BEPS era, technology multinationals may view Israel as an opportunity to consolidate IP and substance due to the hundreds of research and development (R&D) centers currently operating in the country. Accordingly, the innovation box regime will apply to multinational companies that convert their existing R&D centers into IP hubs or establish new ones. The tax incentives will also apply to existing Israeli companies that qualify for the new regime.
- With respect to BEPS, over the past few years, the Israeli Tax Authorities (ITA) have increased their assertiveness in enforcing the existing transfer pricing rules and have taken aggressive approaches to permanent establishments and treaty shopping schemes. However, it is currently unclear what the leading implementation priorities for the Government are, if any.

Taxes on wages and employment

- No major changes are expected in 2017.

VAT/GST/sales taxes

- No major changes are expected in 2017.

2.5 Political landscape

- There has been little changes in the political landscape of Israel in the recent years.
- Following the general elections in 2015, the core government coalition will continue for a further 4-year term.
It is currently unclear what the leading policy implementation priorities for the Government are, if any.

No elections are expected in 2017.

2.6 Current tax policy and tax administration leaders

The ITA, as part of the Ministry of Finance, is the governmental body which normally assesses and forms new tax policy recommendations.

2.7 What key tax policy changes did you experience in your country in 2016?

The ITA increased its aggressive tax inspections during 2016.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision:

- N/A

Israel has no current plans to implement the above topics in 2017.

2.9 Pending tax proposals

None - recent proposals passed into law on 15 December 2016 and apply for tax year 2017 onwards (See section 2.4)

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
The outlook for global tax policy in 2017

1.1 Key tax rates

Lists top federal marginal rates only.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>31.4%</td>
<td>27.9%</td>
<td>~11.1%</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>47.23%</td>
<td>47.23%</td>
<td>~0%</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>22%</td>
<td>22%</td>
<td>~0%</td>
</tr>
</tbody>
</table>

---

1. EY Worldwide Corporate Tax Guide, April 2016. The legislative disposal for corporate income tax is Article 77 of the Presidential Decree, 22 December 1986, n. 917 while the disposal for regional tax is Article 16 of the Legislative Decree, 15 December 1997, n. 446. The corporate income tax (imposta sul reddito delle società, or IRES) rate is 27.5%. A 6.5% surcharge (increasing the total tax rate to 34%) had been 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 2011-13, the surcharge was 10.5%, increasing the total tax rate to 38%). On 9 February 2015, the Italian Constitutional Court issued Decision No. 10/2015, which declared that the surcharge was unconstitutional and consequently the surcharge was repealed, without retroactive effect.

A Regional tax on productive activities (imposta regionale sulle attività produttive, or IRAP) is imposed on the net value of production and the basic tax rate is 3.9%. Different rates apply to certain sectors. In any case, 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.

2. EY Worldwide Corporate Tax Guide, April 2016. The corporate income tax (imposta sul reddito delle società, or IRES) rate is 27.5%. However, the 2016 Budget Law provides that, except for banks and other financial entities, the IRES rate is reduced to 24%, effective from the 2017 fiscal year (fiscal years beginning after 31 December 2016).

3. EY Worldwide Personal Tax Guide, September 2016. The legislative disposal for individual tax is Article 11 of the Presidential Decree, 22 December 1986, n. 917. The rate includes an additional regional tax ranging from 0.7% to 3.33% (based on the region) and an additional municipal tax ranging from 0% to 0.9%. The rate does not include a solidarity tax of 3% (deductible from income subject to ordinary taxation) applicable on income in excess of EUR300,000, as well as does not include the additional income tax of 10% imposed on employees working in the credit sector on their variable remuneration (which may be represented by cash bonuses, stock options or shares) exceeding the yearly fixed remuneration.


5. EY Worldwide VAT, GST & Sales Tax Guide, April 2016. According to the Budget Law for 2016 (Law n. 208 of 28 December 2015), the current VAT rates would be increased, effective for FY2017. In particular, the law provided that:
   - The VAT rate of 10% will increase to 13% effective 1 January 2017.
   - The VAT rate of 22% will increase to 24% effective 1 January 2017 and to 25% effective 1 January 2018. However, the Budget Law 2017 has postponed the increase of VAT rate to 2018. More precisely, the current VAT standard rate of 22% will increase to 25%, and 25.9% in 2019, while the reduced rate of 10% will increase to 13%.
2.1 Key drivers of tax policy change

Recent tax measures by the Government are aimed at promoting and supporting the country's economic growth and competitiveness of the companies as well as strengthening the essential services such as health, education and security through the following:

- Cutting of expenditure and increasing of tax revenues with increase in VAT and voluntary disclosure
- Reduction of IRES tax rate to 24%
- Introduction of IRI (tax on business income of individual companies and partnerships)
- Reduction of NID rate
- Deductions for anti-seismic measures
- Extension of 40% extra-depreciation for investment in machinery until 31 December 2017 or until 30 June 2018
- Introduction of 150% extra-amortization for investment in digital assets (250% is the total amount subject to depreciation)
- Extension of the tax credit for R&D until 30 December 2020
- Transition from the accrual method to the cash method for individual companies and partnerships with simplified accounting

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
<td>☒ Lower burden in 2017 ☐ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
<td>☒ Lower burden in 2017 ☐ Same burden in 2017 ☐ Increased burden in 2017 *for banks - but contributes to an overall lower burden</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
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<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| (5) Capital Gains Tax                         | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no Capital Gains Tax  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (6) VAT, GST or sales tax rate                | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no VAT, GST or sales tax  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017* |
| (7) VAT, GST or sales tax base                | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no VAT, GST or sales tax  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC)        | ☒ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes in 2017  
□ N/A, as there is no CFC regime  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (9) Thin capitalization                       | ☒ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes in 2017  
□ N/A, as there is no thin capitalization regime  
*This change refers to Italy’s NID.  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (10) Transfer Pricing changes                 | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (11) Research and Development (R&D) incentives| ☒ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017  
☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | ☒ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
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2.3 Tax policy outlook for 2017 – summary

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</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
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<tr>
<td>(15) PIT base</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

The Italian Budget Law for 2016 (Law No. 208/2015) provided a reduction of the applicable IRES rate from 27.5% to 24%, effective for 2017 and subsequent years. The rate for banks and other financial entities will remain at 27.5%.

The Budget Law for 2017 was published in the Official Gazette No. 297 of 21 December 2016. The most relevant tax measures contained in the Law relate to:

- Decreasing of the tax rate of ACE deduction for 2017 and 2018 at 2.3% and 2.7% respectively from the current NID of 4.75%. Specific limitation will be introduced from 2017, with reference to extraordinary transactions. In particular, the limits already provided for the carry-forward in the
The outlook for global tax policy in 2017

Italy

succeeding tax years of tax losses and interest expenses in case of reorganization transactions are extended to the exceeding NID.

- Extending the 40% extra-amortization for investments in tangible new operating assets which will be realized until 31 December 2017 or until 30 June 2018, provided that by 31 December 2017 certain conditions are met. The 40% extra-amortization (i.e., up to a total of 140% tax amortization) for tangible assets was introduced by the Budget Law 2016. Real estate assets, asset whose amortization rate for tax purposes is lower than 6.5%, pipelines, rolling stock and airplanes were excluded from the measure. The 2017 Budget Law has also provided for the possibility to increase by 150% (i.e., up to a total of 250% tax amortization) the depreciable cost of certain tangible assets functional to digital and technological transformation, specifically listed in an Annex of the budget law. Similarly to the 40% extra-amortization bonus, the investments in digital asset have to be realized within 31 December 2017 or 30 June 2018, provided that by 31 December 2017 the same conditions are met (i.e., i) an order accepted by the seller; ii) an advance payment equal to at least 20% of the purchase cost). In addition to the above, the Budget Law provides that for the entities which benefit of the 250% extra-amortization and that, in the same period, realize investments in certain intangible assets (e.g., software, systems, platforms, etc.), the acquisition cost of such intangibles can be increased by 40%.

- Confirming the R&D tax credit – available to companies performing qualified R&D activities – providing an increase of the rate which will rise to 50% for all expenditures, unlike the provisions set up for 2016, which provided for a 25% tax credit for qualified expenditures related to the costs for depreciation of laboratory equipment and for a 50% tax credit for the employment of high-qualified personnel and R&D activities outsourced to universities and similar bodies. The Budget Law has also provided for an increase of the annual maximum limit of investment from EUR5 million to EUR20 million (with a minimum expense of EUR30,000). This measure is in force from FY17 until FY20.

- Introducing IRI (tax on business income of individual companies and partnerships)
- Transitioning from the accrual method to the cash method for individual companies and partnerships with simplified accounting
- Modifying the first period of Article 96, par. 5-bis of Presidential Decree No. 917/1986, providing that the interest expenses incurred by the insurance companies and the parent companies of insurance groups and by the management companies of mutual funds are deductible to a limit of 96% of their amount, while the interest expenses incurred by banks and financial institutions are fully deductible.

- Changing the treatment of Controlled Foreign Companies: The minimum tax rate applicable to foreign income, which will be attributed for transparency to the resident shareholder, will be equal to 24% from 2017.

- Allowing start-up companies funded by listed companies may attribute the tax losses realized in the first three years to the investing company, if specific conditions are met.

- Providing an extension of the period for the filing of the amended tax returns in favor of the taxpayer, which could be filed after the deadline set up for the submissions of that related to the following fiscal year.

- Introducing Country-by-Country reporting (CbCR), which will be applicable in 2017 with reference to FY16.

- Allowing the possibility to pay a tax debt resulting from tax notices related to FYs from 2000 to 2015 without paying the relating penalties and interest.

Taxes on wages and employment

From the year 2017, the contribution rate laid down in Article 1, paragraph 79 of Law 24 December 2007, n. 247, is equal to 25% for the self-employed holding VAT number enrolled to the special pension scheme and which are not enrolled in other pension management.

From 1 May 2017 until 31 December 2018, on an experimental basis, the pension guarantee financial advance (Ape) is set up. As per this program, a loan is paid in monthly installments for 12 months until the date of entitlement to a retirement pension. From that date, refund takes places with monthly installments for 20 years.

VAT/GST/sales taxes

The Budget Law 2017 has postponed an increase in the VAT rate to 2018. The current VAT standard rate of 22% will increase to 25%, and 25.9% in 2019, while the reduced rate of 10% will increase to 13%.

The Decree linked to the Budget Law 2017 amends the deadlines for the filing of the annual VAT returns for the fiscal years following 2016, which can be filed from 1 February to 30 April of the year following the relevant FY.
2.5 Political landscape

- The third constitutional referendum was held on 4 December 2016, in which the majority of voters rejected the constitutional law text of the so-called Renzi-Boschi reform.
- Matteo Renzi announced his resignation as Prime Minister.
- The current political Government is led by Paolo Gentiloni.

2.6 Current tax policy and tax administration leaders

**Tax policy**
- Paolo Gentiloni, Prime Minister
- Pier Carlo Padoan, Minister of Economy

**Tax administration**
- Rossella Orlandi, Head of the Italian Revenue Agency

2.7 What key tax policy changes did you experience in your country in 2016?

The main tax changes that occurred in 2016 are summarized as follows:
- Changes to interest expenses deduction regime
- Redefinition of the method of attribution of income to Italian PEs in line with the OECD Approach
- New provisions related to shareholder debt waiver
- Introduction of an election to exempt the income generated through foreign PEs (application of CFC rules, unless one of the available CFC exemptions is met, in case of branches located in a black list country);
- CbCR for multinational entities
- Special cooperative compliance regime for large taxpayers
- New tax ruling procedure for larger investments
- Repeal of the limitations on the deductibility of costs incurred for the purchase of goods and services from black list entities
- Repeal of the existing black list relevant for the application of the CFC regime;
- Implementation of EU Directive 2014/86/UE (anti-hybrids), confirming hybrid mismatches measures;
- Change of statute of limitations rules;
- Extra-depreciation of 40% for certain tangible assets purchased between 15 October 2015 and 31 December 2016
- Acceleration of the amortization period of stepped-up intangible assets including goodwill
- Corporate tax incentive for the sale or assignment of real estate and registered movable property to shareholders
- One-off opportunity for non-resident companies to step up Italian participations
- One-off asset step-up

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
  - N/A – Italy has so far made no public statement in regard to which MLI elements are likely to be adopted.

2.9 Pending tax proposals

For 2018, the rates of the personal income tax could be reduced from 5 to 3 as detailed below:
- Taxable income from 0 to EUR15,000: Rate of 27.5%
- Taxable income from EUR15,001 to EUR28,000: Rate of 31.5%
- Taxable income from EUR28,001: Rate of 42% or 43%

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
### Tax rates (2016-17)

#### 1.1 Key tax rates

Lists top federal marginal rates only.

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2016 Description</th>
<th>2017 Description</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>29.97% (Regular effective corporate tax rate including local corporate taxes)</td>
<td>29.97%¹ (Regular effective corporate tax rate including local corporate taxes)</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>45% (In addition, local individual tax of 10% is levied)</td>
<td>45% (In addition, local individual tax of 10% is levied)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>8% (the national rate of 6.3% and local rate of 1.7%)</td>
<td>8%² (the national rate of 6.3% and local rate of 1.7%)</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ The top national marginal rate is 23.4%. This rate is applicable for the fiscal years starting on or after 1 April 2016. It is expected that the regular effective corporate tax rate is further reduced to 29.74% for the fiscal years starting on or after 1 April 2018 because the further reduction of top national marginal rate (to 23.2%) has been decided (CTL 66).

² Under the 2016 tax reform, it was scheduled that the next tax rate increase from 8% to 10% will be effective from 1 April 2017. However, in June 2016, Prime Minister Shinzo Abe and LDP determined the further postponement of the rate increase. The LDP won the upper house election in summer. The effective date was postponed to 1 October 2019.
2.1 Key drivers of tax policy change

- Prime Minister Shinzo Abe adopted monetary easing measures, a progressive fiscal policy and an economic growth strategy to reverse deflationary trends within the Japanese economy and achieve adequate economic growth for the future.
- A key policy goal affecting Japanese tax policy is reducing the national deficit in order to achieve fiscal health and cope with an aging population and low future birthrate.
- On 8 December 2016, the two members of Japan’s ruling coalition, the Liberal Democratic Party and the Komeito Party, agreed to the 2017 tax reform package.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017 ☐ N/A, as there is no Capital Gains Tax</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
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<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☒ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☒ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☒ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### 2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ✗ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ✗ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ✗ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ✗ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☒ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ✗ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

#### Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

#### Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

(1) Revision of R&D tax incentives

The rules will be revised so that tax credits increase inline with the increases in R&D costs. For large corporations, a tax credit for 6%-14% of R&D costs will be provided according to the percentage of increase or decrease (two-year temporary measure up to 14%; current rate is 8%-10%). The scope of the incentive will also be expanded to include service development costs in the “quaternary industry.”

(2) Revision to the CFC rules

- Trigger rate is expected to be abolished.
- The existing exemption criteria will be transformed into “economic-activity-based criteria” (four criteria, almost same as the former “exemption criteria”).
- If a company does not fulfill one of the economic activity criteria, it will be subject to income inclusion on an entity-wide basis. However, if the effective tax rate of the foreign-related company is 20% or more, it will be exempted from income inclusion on an entity-wide basis.
- Even if all of the economic activity criteria are fulfilled, only certain types of passive income will be subject to inclusion. Scope of passive income is broadened. However, if the effective tax rate of the foreign-related company is 20% or more, it will be exempted from passive income inclusion.
- Paper companies that fulfill certain conditions will be subject to income inclusion on an entity-wide basis.
- De facto, “cash boxes” that fulfill certain conditions will be subject to income inclusion on an entity-wide basis.

(3) If the effective tax rate of the three types of company stated above is 30% or more, it will be exempt from income inclusion on a company basis.

(4) The above reforms will be applied to fiscal years of foreign-related companies beginning 1 April 2018 onward.

Taxes on wages and employment

(1) Revisions to individual income tax (spousal deduction)

A spousal deduction may be taken where the annual income of the individual’s spouse is under JPY1.5 million. If the income of the individual themselves exceeds JPY10 million (JPY12.2 million annual salary income), no spousal deduction may be taken.

(2) Revisions to inheritance tax

In the case of inheritance between foreign persons living in Japan temporarily, foreign property will not be subject to Japanese inheritance taxation.

VAT/GST/sales taxes

N/A

2.5 Political landscape

The national election in the Upper House was held on 10 July 2016. The ruling party, LDP, won the vast majority of the seats.

2.6 Current tax policy and tax administration leaders

Tax policy leader

- Shinzo Abe, Prime Minister
- Taro Aso, Minister of Finance

Tax administration leader

- Hidenori Sakota, Commissioner of National Tax Agency
2.7 Key tax policy changes in 2016

- The national corporate tax rate was reduced to 23.4% from 23.9% for taxable years beginning on or after 1 April 2016. The combined national and local effective corporate tax rate was reduced to 29.97%.
- Country-by-country (CbC) reporting was introduced. The CbC report and transfer pricing (TP) master file requirements are applicable for taxable years beginning on or after 1 April 2016. The TP local file requirements are applicable for taxable years beginning on or after 1 April 2017.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
  - N/A - Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

- The overhaul of the Japanese individual income tax regime is pending.
- It is expected that the consumption tax rate will be increased from 8% to 10% from on 1 October 2019.

2.10 Consultations opened/closed

Open: During 2016, the Government’s tax advisory committee discussed individual income taxation issues and Japanese CFC rules reform.

A drastic reform of individual income taxation has not yet been realized.

As for CFC rules, current rules will be partly revised under the 2017 tax reform.

Closed: None
1. **Key tax rates**

<table>
<thead>
<tr>
<th>Tax policy</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>29.22%</td>
<td>27.08%</td>
<td>-7.32%</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>The maximum income tax rate is 42.80% or 43.60% including the contribution of 7% or 9% to the employment fund.</td>
<td>The maximum income tax rate is 44.94% or 45.78% including the contribution of 7% or 9% to the employment fund.</td>
<td>+5.00%</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>17%</td>
<td>17%</td>
<td>–</td>
</tr>
</tbody>
</table>

---

1. Article 174 of the law of 4 December 1967 on income tax, as amended. The CIT has been reduced from the current rate of 21% to 19% for the tax year 2017 and further to 18% for the tax year 2018. The 2017 rate consists of 19% of CIT with additional 7% of employment fund surcharge and 6.75% of municipal business tax for companies located in Luxembourg City. Furthermore, CIT is levied at a reduced rate for taxable profits not exceeding EUR30,000.

2. Since 1 January 2016, the minimum CIT applicable to all Luxembourg resident entities in corporate form has been abolished.

3. Article 118 of the law of 4 December 1967 on income tax.

2017 tax policy outlook

2.1 Key drivers of tax policy change

Keywords of the 2017 tax reform are sustainability, fairness, selectivity and competitiveness for both individuals and companies. The main drivers of tax policy change are:

- Sustainability of Luxembourg economic growth, promotion of social equity, cohesion of Luxembourg society and development of labor market
- Increase of household-purchasing power and business competitiveness
- Alignment of domestic tax legislation with international standards in tax matters and EU legislation

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017</th>
<th>What is the expected tax burden in 2017, as compared to 2016</th>
</tr>
</thead>
</table>
| (1) Headline CIT rate | ☒ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017 | ☒ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
| (2) Interest deductibility | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (3) Hybrid mismatches | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |
| (4) Treatment of losses | ☒ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017 | ☒ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
| (5) Capital Gains Tax | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017  
☐ N/A, as there is no Capital Gains Tax | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017 |

The below responses are based on the assumption that the EU Directive addressing tax avoidance practices (Anti-Tax Avoidance Directive, “ATAD” and “ATAD 2”) will be implemented into Luxembourg domestic legislation in 2018.
<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
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<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
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<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ N/A, as there is no CFC regime</td>
<td></td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
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<tr>
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<td>□ Increased burden in 2017</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>□ Change proposed or known for 2017</td>
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</tr>
<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
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<td>□ Change proposed or known for 2017</td>
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</tr>
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</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
</tbody>
</table>
## Tax types

<table>
<thead>
<tr>
<th>(13) Changes to tax enforcement approach</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change proposed or known for 2017</td>
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<td>☐ Lower burden in 2017</td>
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</tr>
<tr>
<td>☐ No changes expected in 2017</td>
<td>☐ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(14) Top marginal PIT Rate</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change proposed or known for 2017</td>
<td>Change proposed or known for 2017</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>(15) PIT base</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<tr>
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<td>☒ Lower burden in 2017</td>
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<tr>
<td>☐ No changes expected in 2017</td>
<td>☐ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
</tbody>
</table>

### 2.3 Tax policy outlook for 2017 – summary

#### Overall CIT burden
- **Lower** ☒ No change **Higher**

#### Overall PIT burden
- **Lower** ☒ No change **Higher**

#### Overall VAT/GST/sales tax burden
- **Lower** ☒ No change **Higher**
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

Besides the decrease in the corporate income tax rate for the year 2017, the current tax legislation will undergo numerous substantial changes, including:

- Limitation of loss carry-forward: As from 2017, the use of loss carry-forward will be limited in time to 17 years for losses realized as from financial years closing after 31 December 2016. No limitation in time, however, applies in relation to losses generated between 1 January 1991 and 31 December 2016
- Increase of the rate of the investment tax credit
- Introduction of deferred depreciation
- Incentive for the transfer of business
- Increase of penalties due in case of (i) incomplete or inexact information included in the tax returns or (ii) non-filing of the tax returns
- Extension of the tax frauds definition and implementation of the tax aspects included in international requirements in the context of the fight against money laundering and the financing of terrorism

Furthermore, on 13 December 2016, the Luxembourg Parliament adopted the draft law n°7031 transposing Directive 2016/881/EU of 25 May 2016, which amends Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation. The purpose is to widen the scope of the exchange by adding the country-by-country reporting rules for multinational enterprises. Directive 2016/881/EU reflects the requirements of Action 13 and implements them at EU level. As recommended by Action 13, this Directive requires MNEs exceeding a certain size (i.e., total consolidated amount of at least EUR750 million (or equivalent)) to provide for information under the form of a country-by-country reporting in order to increase transparency at EU level. The law is applicable for financial years starting on or after 1 January 2016.

Finally, the Budget Law 2017 introduces a new article 56bis in the Luxembourg Income Tax Law that aims to clarify the concept of the arm’s length principle, including inter alia a list of new elements to be respected in the framework of a transfer pricing analysis.

Taxes on wages and employment

- Abolition of the temporary budget balancing tax of 0.5% as from 1 January 2017
- Reduction of income tax progressivity pace through lower rates in the first tranches and introduction of higher tax rates for top tranches
- Adaptation of employee and single families tax credit
- Increase of deductions for payments to building societies
- Increased deduction for mortgage interest
- Tax exemption of 50% for rental income from real estate rented to recognized organizations
- Company car flat taxation replaced by taxation based on CO₂ emissions
- Taxation of capital gain at 1/4 of the average tax rate on sales of real estate between 1 July 2016 and 31 December 2017
- Increase of flat tax on determined interest paid by paying agent from currently 10% to 20%

VAT/GST/sales taxes

- Increase of the turnover threshold for the application of the small and medium-sized companies regime from EUR25,000 to EUR30,000
- Introduction of personal and several liability of (i) delegated administrators of public limited companies; (ii) managers of limited liability companies; and (iii) ipso jure or de facto managers in charge of the day-to-day management for the VAT obligations of the company, (including payment of the VAT due by the company), in case of blameworthy failure to fulfill their legal requirements
- General increase in the fixed penalties (e.g., in case of late filing) from EUR50–EUR5,000 to EUR250–EUR10,000
- Increase of the daily penalty applicable in case of failure to provide the VAT authorities with the requested data from a range between EUR50 and EUR1,000 per day to a maximum of EUR25,000 per day
- Increase of penalties in case of fraudulent actions to avoid VAT payment or to illegally obtain the reimbursement of VAT from the current maximum of 10% to a range of 10%-50% of the evaded VAT
- Introduction of other specific measures in the Luxembourg VAT law and Criminal Code aimed at fighting VAT fraud and VAT evasion
2.5 Political landscape


2.6 Current tax policy and tax administration leaders

Tax policy leaders:
- Xavier Bettel, Prime Minister
- Pierre Gramegna, Minister of Finance, Treasury and Budget

Tax administration leaders:
- Pascale Toussing, Director of the Direct Tax Administration
- Romain Heinen, Director of the Indirect Tax Administration (VAT and Customs)

2.7 What key tax policy changes did you experience in your country in 2016?

- Abolition of the existing preferential tax regime for income derived from qualifying intellectual property as of 1 July 2016 with a grandfather period of five years
- Replacement of the minimum corporate income tax regime with a minimum net wealth tax regime
- Adaptation of the Luxembourg participation exemption regime in line with the amended Parent-Subsidiary Directive (introduction of anti-hybrid and anti-abuse provision)
- Introduction of the so-called “horizontal tax consolidation” and possibility to include Luxembourg permanent establishments of companies resident in a Member State of the EEA that are fully liable to a tax corresponding to Luxembourg corporate income tax into a tax consolidation
- Implementation of EU Directive on mandatory automatic exchange of information on tax rulings (advance tax rulings and advance pricing agreements)
- Introduction of the automatic exchange of financial account information in the field of taxation (introduction of the Common Reporting Standard)
- Implementation of the EU Directive 2014/107/EU of 9 December 2014 (DAC2)

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – Although Luxembourg is expected to sign the multilateral instrument in 2017, no communication has been made yet as regards the BEPS recommendation to be included.

2.9 Pending tax proposals

None

2.10 Consultations opened/closed

Open: N/A
Closed: N/A

---

6 As from 1 January 2017, Pascale Toussing replaces Guy Heintz (who was exercising the function of Director of the Direct Tax Administration since 2006).
### 1.1 Key tax rates

*Lists top marginal rate only.*

<table>
<thead>
<tr>
<th>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24%</td>
<td>24%¹</td>
<td>-</td>
</tr>
<tr>
<td>Certain tax reductions on incremental chargeable income were recently proposed in the 2017 Malaysian budget in respect of the years of assessment 2017 and 2018 only. The proposed reduced rates are as follows:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of increase in chargeable income from previous YA</td>
<td>Percentage point in tax rate reduction (%)</td>
<td>Tax rate on incremental taxable income (%)</td>
<td></td>
</tr>
<tr>
<td>5%-9.99%</td>
<td>1</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>10%-14.99%</td>
<td>2</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>15%-19.99%</td>
<td>3</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Over 20%</td>
<td>4</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top Personal Income Tax (PIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28%</td>
<td>28%</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Value Added Tax (VAT) rate</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6%</td>
<td>6%</td>
<td>-</td>
</tr>
</tbody>
</table>

¹ Standard corporate tax rate for companies, limited liability partnerships, trust bodies and executor of an estate of an individual.
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Tax policy is driven by the moderate growth outlook and a mildly expansionary budget while maintaining inclusive and prudent spending. The Government’s 2017 National Budget contained strategies to balance economic demands and people’s welfare to improve public happiness through a higher quality of life.

- The Government continues to diversify its sources of revenue following shrinking oil revenues while rationalizing subsidies. For this purpose, Malaysia has undertaken the following measures with a view to cover the shortfalls in revenue:
  - The Goods and Services Tax (GST) was implemented on 1 April 2015.
  - Enforcement activities, such as tax audits and investigations, have been increased to improve revenue collections by tax administrators.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☒ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
<td>☒ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no CFC regime</td>
<td></td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ N/A, as there is no thin capitalization regime</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Note: The implementation of the thin capitalization rules is deferred until 31 December 2017 and will take effect from 1 January 2018 (details of the rule are yet to be released).</td>
<td></td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☒ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Malaysia

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (12) Other business incentives – including depreciation/amortization | ✔ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017 | ✔ Lower burden in 2017  
☐ Same burden in 2017  
☐ Increased burden in 2017 |
| (13) Changes to tax enforcement approach | ✔ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes expected in 2017 | ☐ Lower burden in 2017  
☐ Same burden in 2017  
☒ Increased burden in 2017 |
| (14) Top marginal PIT Rate | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☐ Same burden in 2017  
☒ Increased burden in 2017 |
| (15) PIT base | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | ☐ Lower burden in 2017  
☐ Same burden in 2017  
☒ Increased burden in 2017 |

2.3 Tax policy outlook for 2017 – summary

**Overall CIT burden**

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

**Overall PIT burden**

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

**Overall VAT/GST/sales tax burden**

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- To reduce the cost of doing business and encourage businesses to increase their chargeable income in the current challenging global economic environment, it is proposed that the income tax rate be reduced by up to 4% based on the percentage of increase in chargeable income in years of assessment 2017 and 2018 as compared with the immediately preceding year of assessment. This reduced tax rate will only apply to incremental chargeable income.

- New penalty provisions have been proposed introduced for failure to comply with country-by-country (CbC) reporting in line with Action 13 of the OECD’s recommendations Base Erosion and Profit Shifting (BEPS) action plans and other exchange-of-information requirements. The penalty provisions come into effect from 17 January 2017. The Rules to introduce CbC reporting have been legislated and come into operation on 1 January 2017, with the first filing of the CbC reporting required by 31 December 2018.

- The Malaysian tax administration will be undergoing a transformation and will begin to use advanced tools such as big data analytics tools to analyze information for decision-making and taking the right action plans for tax administration by 2019. This is expected to translate to increased revenue collection, cost savings, improved compliance, and reduced mistakes and errors, as the tool will provide the tax administrator a clear visibility on the financial activities conducted by corporate taxpayers. The information drawn can be used to support audit functions in understanding, profiling and predicting taxpayers’ future behavior.

- Formation of Collection Intelligence Arrangement (CIA) through sharing of information among various government agencies, as part of the Government’s initiatives to enhance long-term fiscal sustainability has been proposed. Agencies include:
  - Inland Revenue Board of Malaysia (IRBM) – direct tax
  - Royal Malaysian Customs Department – indirect tax
  - Companies Commission of Malaysia

Following the above, it is expected that there will be a very significant increase in tax enforcement activities.

Taxes on wages and employment

The tax structure remains the same. However, several new tax reliefs are introduced and proposed from 2017.

VAT/GST/sales taxes

The tax policy for 2017 focuses on improving administrative matters, which also includes introducing specific penalty rates for certain offenses.

The penalty for late payment of tax is proposed to be increased as per the table below.

<table>
<thead>
<tr>
<th>Period</th>
<th>Penalty on tax due and payable (current)</th>
<th>Penalty on tax that remains unpaid (proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 30 days</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>31-60 days</td>
<td>Additional 10%</td>
<td>Additional 15%</td>
</tr>
<tr>
<td>61 days and beyond</td>
<td>Additional 10%</td>
<td>Additional 15%</td>
</tr>
</tbody>
</table>

A similar penalty is prescribed for persons other than taxable persons, who are liable to pay GST under the GST Act.

2.5 Political landscape

General elections are not due until 2018 (though could be held earlier and in 2017).

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Dato’Sri Mohd Najib bin Tun Abdul Razak, Prime Minister and Minister of Finance
- Dato’ Khodijah bt Abdullah, Under-Secretary, Tax Division, Ministry of Finance

Tax administration leaders

- Datuk Sabin bin Samitah, Chief Executive Officer, IRBM
- Dato’ Seri Khazali bin Hj. Ahmad, Director General of the RMCD
2.7 What key tax policy changes did you experience in your country in 2016?

No key policy changes noted.

With respect to BEPS, the IRBM has commented that the BEPS Action Plan may not be applicable in all instances for Malaysia given that its tax system and goals are different from any developed country.

However, the IRBM has indicated that they note the importance of the handling of transfer pricing vis-à-vis the BEPS initiative. For this purpose, the they have indicated that country-by-country reporting (CbCR) will be implemented in Malaysia and at the recent Budget 2017 announcement, penalty provisions were introduced in the Malaysian tax legislation for taxpayers' failure to comply with CbCR (BEPS Action 13).

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – Malaysia has so far made no public statement in regard to which MLI elements are likely to be adopted.

2.9 Pending tax proposals

- Real Property Gains Tax (RPGT) on gains from the disposal of real properties and shares of real property companies is to be self-assessed in tandem with the Government's goal to modernize the tax system. Changes to the Real Property Gains Tax Act 1976 are expected to help pave the way for the implementation of the self-assessment regime (remained unchanged since last year outlook).
- Guidelines and rules and regulations on transfer pricing has been revised due to the implementation of BEPS Action 13 in Malaysia.

2.10 Consultations opened/closed

- The 2017 National Budget consultative talks commenced in July 2016 (with more than 90 institutions having forwarded memorandums containing useful and pragmatic suggestions as inputs for the budget preparation) and closed prior to the 2017 National Budget announcement on 21 October 2016.
- Roundtable between IRBM and Chartered Tax Institute of Malaysia (professional body) was held in March 2016 to discuss BEPS Action 13.
### Tax rates (2016-17)

#### 1.1 Key tax rates

Lists top federal marginal rates only.

<table>
<thead>
<tr>
<th>Tax type</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>30%</td>
<td>30%(^1)</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>35%</td>
<td>35%(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>16%</td>
<td>16%(^3)</td>
<td>–</td>
</tr>
</tbody>
</table>

---

\(^1\) Article 9, Mexican Income Tax Law (MITL).
\(^2\) Article 152, MITL.
\(^3\) Article 1, Value-added Tax Law (VAT Law).
213

The outlook for global tax policy in 2017

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

Digital government

The Mexican Government is viewed as being highly advanced in the “digitization” of tax administration. The Tax Administration Service (also known as Servicio de Administración Tributaria (SAT)) calls itself as the “new tax administration.”

Over the past few years the SAT has implemented several mechanisms and tools to enable collecting, matching, analysis and auditing of tax information in real time or near real time, such as:

- Mandatory use of electronic invoices
- Obligation to file electronic accounting records
- Mandatory online filing of tax returns
- Electronic informative returns
- Tax mailbox
- Electronic signature

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

4 “The new tax administration in Mexico: Digital DNA, transformation of the tax services,” issued by the SAT in 2015.
### Tax Types

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no Capital Gains Tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes in 2017&lt;br&gt;☐ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017&lt;br&gt;☒ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017&lt;br&gt;☐ Additional change possible or somewhat likely in 2017&lt;br&gt;☐ No changes expected in 2017</td>
<td>☒ Lower burden in 2017&lt;br&gt;☐ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>
## Mexico

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>☑ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
<td>☑ Lower burden in 2017 □ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>☐ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☐ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☐ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☑ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☑ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
</tbody>
</table>

### 2.3 Tax policy outlook for 2017 – summary

**Overall CIT burden**
- Lower: ☑ No change
  - Higher

**Overall PIT burden**
- Lower: ☑ No change
  - Higher

**Overall VAT/GST/sales tax burden**
- Lower: ☑ No change
  - Higher
2.4 Tax policy outlook for 2017 — detail

Corporate income taxes

1. Federal tax code

- Electronic signature: Electronic signature may also now be used by taxpayers in private transactions, to the extent that taxpayers comply with the electronic signature regulations.

- Legal representatives: The reform requires legal representatives to obtain a taxpayer registration number and file the notices specified in the Federal Taxpayers Registry.

- Electronic invoices: Electronic tax invoices may only be cancelled if the recipient of the tax invoice accepts the cancelation. The SAT will issue administrative rules for establishing the form and procedure relating to such acceptance.

2. Income tax law

- Tax incentives: This includes incentives regarding investments on (i) R&D, (ii) high-performance sport facilities and infrastructure and, (iii) charging stations for electric vehicles.

- R&D tax credit: Taxpayers may claim a credit against the income tax liability equal to 30% of the qualified investments and expenses for technological R&D.

- Tax credit for high-performance sports facilities and infrastructures: Taxpayers may credit against the income tax liability, the amounts contributed to high-performance sports facilities and infrastructure projects. This credit shall not exceed 10% of the income tax due in the previous year in which the credit is applied.

- Tax credit for charging stations for electronic vehicles: A 30% tax credit may be applicable on the investments made in eligible assets.

- Subsidies: Economic or monetary aids granted by the Government through government budget programs would not be considered as accruable income, provided certain conditions are met.

- Hydrocarbon infrastructure depreciation: This includes a specific 10% depreciation rate for investments made on (i) fixed assets used for hydrocarbon transportation, storage and processing; (ii) platforms, rigs and drill ships; and (iii) processing and storage vessels, such as floating production, storage and offloading.

- New optional tax regime: An optional regime has been introduced to accrue income and take deductions on a cash-flow basis, available for small corporate entities owned by individuals (income shall not exceed MXN5 million).

- Taxable income for exploration and production (E&P) companies: Currently, the Hydrocarbons Revenue Law provides that contractors receive extracted hydrocarbons as in-kind consideration under license contracts and a percentage of the produced hydrocarbons under production sharing contracts (PSCs).

The reform to the MITL (Mexican residents’ corporate income tax) establishes that a consideration in kind obtained by a contractor in a license contract or PSC should not be treated as a taxable income as long as the said consideration is not deducted as cost of goods when transferred or sold.

- Employee profit sharing: This includes tax incentive for taxpayers subject to Title II of the MITL, allowing the deduction of profit sharing paid during the fiscal year, on a monthly basis.

- Outsourcing services: In order to deduct outsourcing service payments, operating company must obtain from the outsourcing company a copy of (i) the salaries invoices, (ii) employees’ income tax withholding and (iii) social security payments. Same requirements will be requested in order to credit VAT.

Taxes on wages and employment

No changes

VAT/GST/sales taxes

- VAT credit on preoperative periods: VAT paid during preoperative periods will be creditable until the first month in which the taxpayers commence the operations subject to VAT.

- Exportation of information technology: The following services would be subject to the 0% VAT rate, if enjoyed abroad: (i) storage and housing of digital applications, (ii) development, integration and maintenance of digital applications or computer systems, (iii) modernization and optimization of data system security, (iv) the processing, storage and data backup, and data management, (v) continuous operation of any of the aforementioned services of digital applications or computer systems, data management, data system security and operation of technology.
2.5 Political landscape

The political party of the Federal Government (PRI) continues to have a majority in Congress.

On September 2016, President Enrique Peña Nieto announced several changes in his cabinet, the most important one being appointing the former Social Development Ministry, José Antonio Meade Kuribreña, as the new Head of the Finance and Public Credit Ministry (SHCP by its Spanish acronym), and Osvaldo Santín Quiroz as the new Head of the Mexican Tax Administration.

Local elections (for new state governor) will be held in 2017 in four states, national elections (for new president and congressmen) in 2018.

2.6 Current tax policy and tax administration leaders

Tax policy leaders
Enrique Peña Nieto, President
José Antonio Meade Kuribreña, Secretary of Finance and Public Credit
MiguelMessmacher Linartas, Undersecretary of Revenue
Gina Andrea Cruz Blackledge, Chairman of the Finance and Public Credit Commission, Chamber of Deputies
José Francisco Yunes Zorilla, Chairman of the Finance and Public Credit Commission, Senate

Tax administration leaders
Osvaldo Santín Quiroz, Head of the Tax Administration Service (SAT)
Oscar Molina Chie, Head of the Large Taxpayers Division

2.7 What key tax policy changes did you experience in your country in 2016?

In 2016, the obligation to submit the three annual reports regarding transfer pricing came into force. These reports are the master file report, local file report and country-by-country (CbC) report. First report will be due on 31 December 2017.

Thin capitalization rules (3:1 debt-equity ratio) do not apply to interest-accruing debts incurred in constructing, operating or maintaining production infrastructure linked with strategic sectors. Power generation was removed from the strategic sector definition provided by the Federal Constitution. MITL was modified to exclude power generation from thin cap rules, although it is no longer considered as a strategic sector activity.

Repatriation program was introduced for income derived from direct or indirect investments abroad (applicable only first semester of 2016).

Mexican and US tax authorities announced that US taxpayers with maquiladora operations in Mexico will not be exposed to double taxation if they enter into an APA with the SAT.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals
N/A

2.10 Consultations opened/closed
N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>25%(^1)</td>
<td>25%(^1)</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>52%(^2)</td>
<td>52%(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>21%(^3)</td>
<td>21%(^3)</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

On 20 September 2016, the Dutch Ministry of Finance issued its tax budget proposals for fiscal year 2017. After a number of difficult years, the Dutch economy has improved. The cabinet has expressed its intention to let the entire Dutch population profit from the economic recovery through fiscal measures. In addition, the cabinet believes that tax system can be simplified, while combatting tax avoidance continues to require attention.

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\(^1\) Article 22 Dutch CIT Act.

\(^2\) Article 2.10 Dutch PIT Act.

\(^3\) Article 9 Dutch VAT Act.
On the Dutch Budget Day, the cabinet also presented its vision for the future of the fiscal investment climate. It concerns a combined strategy, whereby the continuation of the proactive approach to combat tax avoidance and the maintenance of an attractive fiscal investment climate with a competitive corporate tax rate are the spearheads.

The future vision emphasizes the importance of a competitive climate for investments and employment in the Netherlands. In this context, the importance of the well-known Dutch fiscal “crown jewels” is also emphasized once more, including the participation exemption; the extensive treaty network; the absence of withholding tax on interest and royalties; and the option to obtain certainty in advance.

With regard to the approach to combat tax avoidance, the cabinet strives to present a draft bill regarding the implementation of the Anti-Tax Avoidance Directive for consultation in the second half of 2017. This legally binding law, which was recently agreed upon at EU level, implements a number of recommendations of the OECD in the context of the BEPS project at the EU level.

The cabinet also emphasizes the importance of a competitive corporate tax rate, without participating in a race to the bottom. The first step toward this is the extension announced in the tax budget proposals to expand the application of the 20% corporate income tax rate, which currently is applicable to profits up to EUR200,000 to be applicable to profits up to EUR250,000 in 2018 and 2019, EUR300,000 in 2020 and EUR350,000 in 2021. This expansion is also for the benefit of the small and medium enterprises (“Midden En Klein Bedrijf” or “MKB”). In addition to this first step, it is noted in the future vision that the cabinet will specify next steps based on a broader consensus. The reduction of the corporate tax burden is part of a new fiscal strategy for the coming years, but will impact smaller companies more than larger ones.

### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☒ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☒ No changes expected in 2017</td>
<td>☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☒ Same burden in 2017</td>
</tr>
<tr>
<td></td>
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<td>☒ Increased burden in 2017</td>
</tr>
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<td>Tax types</td>
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</tr>
<tr>
<td>-----------------------------------</td>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017  ☒ N/A, as there is no Capital Gains Tax</td>
<td>☐ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017  ☒ N/A, as there is no Capital Gains Tax</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☒ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes in 2017  ☒ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017  ☒ N/A, as there is no CFC regime</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017  ☒ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017  ☒ N/A, as there is no thin capitalization regime</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☒ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017  ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>☒ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017  ☒ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Netherlands

#### Tax types

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (13) Changes to tax enforcement approach | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (14) Top marginal PIT Rate | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (15) PIT base              | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |

#### 2.3 Tax policy outlook for 2017 - summary

**Overall CIT burden**

| Lower | No change | X | Higher |

**Overall PIT burden**

| Lower | X | No change | Higher |

**Overall VAT/GST/sales tax burden**

| Lower | X | No change | Higher |
2.4 Tax policy outlook for 2017 – details

Corporate income taxes

- The Dutch cabinet intends to expand the application of the 20% rate (the first bracket of the corporate income tax rate) to the first EUR250,000 of profit in 2018 and 2019, to the first EUR300,000 of profits in 2020 and to the first EUR350,000 of profit in 2021.

The 2017 budget includes a number of changes (tightening) regarding interest deduction limitation rules.5 These rules came into force for fiscal years starting on or after 1 January 2017.

The deduction of interest, including related costs and currency exchange results, by a Dutch company on a related-party loan will be disallowed to the extent that the loan is used to finance capital transactions with related parties, e.g., acquisition of shares, dividend distributions and capital contributions (tainted transactions). A party is considered a “related party” - among others - if an entity has at least one-third interest in the Dutch party or is (indirectly) owned at least one-third by an entity that (indirectly) owns at least one-third interest in the Dutch party.

- The interest deduction related to tainted transactions may, however, still be allowed if it can be argued that there are predominantly business reasons for the transaction and the debt financing. The 2017 budget proposals (which were enacted into law on 1 January 2017) suggest to expand the definition of a “related party” to also include a company that is part of a cooperating group of companies holding a total combined interest of at least one third in a Dutch company. Hence, even if the formal requirement of at least a one third interest is not met by a company on a stand-alone basis, that company could still be considered a “related party” if that company is part of a cooperating group.

- Whether there is a “cooperating group” has to be determined based on the facts and circumstances, for which it is relevant whether the investment and financing structure has taken place under a coordinated approach. A specific example of a cooperating group, included in the explanation to the proposals, is multiple private equity funds that are managed by the same general partner. Furthermore, in the proposals, several amendments were announced to address certain loopholes that are perceived as circumventing the effective application of the leveraged buy-out rules.

- The innovation box regime may be applied on income that is derived from qualifying research and development (R&D). The effective corporate income tax rate of the innovation box is 5% instead of the statutory rate. The Netherlands must amend the innovation box regime due to its commitment to the OECD’s BEPS Action Plan. The main changes relates to the amendment of the definition of “qualifying IP” in line with the OECD definition. As a result of this change, both an R&D declaration and a patent (or other IP assets that are functionally equivalent to patents) are needed in order to qualify for the application of the Dutch innovation box.

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Another important change is the introduction of the “nexus-approach,” as recommended by the OECD. This approach limits the application of the innovation box regime if 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.

- Subject to certain conditions, foreign investors with Dutch shares will be able to apply for a refund of Dutch dividend withholding tax. The new measure does not only apply to private shareholders, but in principle also to legal entities. The main condition for a refund is that the effective tax burden would have been lower if the investor had lived or had been established in the Netherlands. The proposal implements recent European law in the area of dividend withholding taxation.

- The State Secretary of Finance in a letter announced a bill whereupon cooperatives that act as holding companies will become withholding agents for the dividend withholding tax. It concerns cooperatives that are used in international structures and that are engaged in holding company activities, investing capital in and financing affiliated entities. There will be a withholding obligation if and to the extent that the member has an interest of 5% or more in the cooperative. At the same time, the State Secretary of Finance has presented his intention to expand the dividend withholding tax exemption for business structures. If a parent company is resident in a country with which the Netherlands has a tax treaty, then the Netherlands entity is no longer required to withhold dividend withholding tax. However, the condition is that there may not be any abuse. The State Secretary of Finance notes that after this letter, an internet consultation will take place followed by a legislative proposal. The goal is for this legislative proposal to be effective from 1 January 2018 at the latest.

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4 For more detailed information we refer to our website: ey.nl/budgetday where you can download EY’s commentary on the Dutch tax plan.

5 See also ey.com/gl/en/services/tax/international-tax/alert--dutch-government-publishes-2017-budget-proposal
Netherlands

• On 16 October 2015, the Dutch Ministry of Finance proposed a new law to amend the Dutch fiscal unity rules in order to comply with the EU law. On the basis of this law, Dutch companies that are linked with each other through an intermediate company or top holding company in another EU or European Economic Area (EEA) Member State should, subject to certain conditions, be eligible to opt for the Dutch fiscal unity regime. In anticipation of this law, the above is already possible, based on an administrative decree.

• On 1 September 2016, a bill on the implementation of the Directive on automatic exchange of information with respect to advance tax rulings was submitted to the parliament. Information on rulings will be exchanged with other EU Member States from 1 January 2017. With respect to the following rulings issued before 1 January 2017, information will be exchanged retroactively from 1 January 2012: (i) advance cross-border rulings and advance pricing agreements issued, amended or renewed between 1 January 2012 and 31 December 2013, provided they were still valid on 1 January 2014; and (ii) advance cross-border rulings and advance pricing agreements issued, amended or renewed between 1 January 2014 and 31 December 2016, irrespective of whether they are currently still valid. The Netherlands has used the option provided for in the Directive to exclude from the information exchange those advance tax rulings and pricing arrangements that were issued, amended or renewed before 1 April 2016 to the companies with annual net turnover of below EUR40 million at group level.

Taxes on wages and employment

• The cabinet has stated that it wishes to rebalance purchasing power, and does so by making a number of adjustments to the income tax brackets, the general tax credit (algemene heffingskorting), the labor credit (arbeidskorting) and the senior citizens’ credit (ouderenkorting).

• A legislative proposal to eliminate the possibility to build up a self-administered pension (in the company of the director-substantial shareholder) has been postponed at the last moment by the state secretary. There seemed to be a flaw in the proposal. A new proposal (an amendment) is expected in the first half of 2017. The self-administered pension will be eliminated, but with some delay. Please note that there will be special arrangements for existing self-administered pensions.

• For tax purposes, the DGA who works for his company, needs to get salary from his company (BV) that is, at least, customary. Various rules apply here and an extensive case law has been published on this matter. It is proposed, as long as the conditions are met, to reduce the minimum amount of EUR44,000 for starting innovative entrepreneurs to the statutory minimum wage (approximately EUR20,000). In order to apply this scheme, the company of the DGA must have issued a so-called R&D statement for start-ups.

• The tax-exempt investment institution (vrijgestelde beleggingsinstelling, or VBI) allows for tax-free investments through a corporation. The VBI is exempt from corporate income tax and dividend withholding tax. This allows for higher net yields on investments. The cabinet has noted that the VBI is used in several ways to avoid personal income tax and has introduced measures to counter this.

• The cabinet is taking measures against constructions involving segregated private capital (afgezonderd particulier vermogen).

• An important simplification is the streamlining of the payment scheme in the collection sphere with regard to tax debts and accrued penalties.

• Currently, in box 3 a deemed return on investment of 4% is taken into account for tax purposes. As from 1 January 2017, the rules in box 3 are changing. First of all, the tax-free allowance will be increased to EUR25,000 (currently it is EUR21,330). In addition, the imputed return on assets of up to EUR100,000 will be reduced from 4% to 2.87%. For assets in excess of EUR100,000, the imputed return will be higher than the current level of 4%.

VAT/GST/sales taxes

No major changes are proposed or expected other than the following:

• The cabinet has proposed a simplification of the refund of VAT for bad debts.

• The definition of the term “construction site” will be modified.

• The exemption that applies for some services provided by sports associations for their members is modified in regard to water sports organizations.

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6 For more detailed information we refer to our website: ey.nl/budgetday where you can download EY’s vision on the Dutch tax plan.

7 For more detailed information we refer to our website: ey.nl/budgetday where you can download EY’s vision on the Dutch tax plan.
2.5 Political landscape

The current Dutch Government is a coalition between the Liberals (VVD) and the Social Democrats (Labor Party, or PvdA). At the moment, this coalition does not hold a majority in the Dutch Lower House (Tweede Kamer) and Upper House (Eerste Kamer) anymore.

No major tax proposals are expected until the next election for the Dutch Lower House, in March 2017. However, it is uncertain if the new cabinet will follow the same tax strategy as the current cabinet.

The next election for the Dutch Upper House will be held in March 2019.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

• In the Netherlands, there is a robust ongoing discussion between the Government (both members of parliament and civil servants) and businesses regarding tax policy — either via organized engagement, individually, or any form in between.

• In addition, numerous scholars and tax professionals (tax advisors and, for example, tax inspectors) are involved in tax policy via publications, interviews and other channels. Also, the Dutch organization of tax advisors (NOB) is heavily involved in tax policy.

Tax administration leaders

• Ir. E.D. Wiebes (Eric), State Secretary of Finance
• Dr. P.F. Hasekamp (Pieter), Acting Director-General Fiscal Affairs
• Dr. J.J.M. (Jaap) Uijlenbroek, Director-General Tax Authorities

2.7 What key tax policy changes did you experience in your country in 2016?

Besides the tax changes introduced in the tax reform 2016 (see The Outlook for global tax policy 2016), there are some ongoing discussions about different tax subjects, such as country-by-country reporting, the automatic exchange of information with respect to advance tax rulings and tightening substance requirements.

2.8 Which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) might the country sign up for in 2017?

• Action 2 — Neutralizing the effects of hybrid mismatch arrangements
• Action 6 — Preventing the abuse of treaties
• Action 7 — Preventing the artificial avoidance of PE status
• Action 14 — Making dispute resolution mechanisms more effective

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
2.9 Pending tax proposals

N/A

2.10 Consultations opened/closed

**Open:** None

**Relevant closed consultations in 2016 were:**

- Consultation on the simplification of the tax system
- Consultation on proposed changes to interest deductibility
- Consultation on proposed changes to innovation box
- Consultation on the recovery of State Aid
- Consultation on simplification of refund procedure for VAT and environmental taxes in case of bad debts
The outlook for global tax policy in 2017

1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>28%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Top Personal Income Tax (PIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>33%</td>
<td>33%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Value Added Tax (VAT) rate</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>15%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

2 | 2017 Tax policy outlook

2.1 Key drivers of tax policy change

- The Government’s tax policy work program covers three broad areas:
  1. Improvement of current tax settings within a broad-base, low-rate tax framework
  2. Technology-led modernization of tax administration over the next 7-10 years, with major investment in upgraded systems (the “Business Transformation” project)
  3. International tax reform and addressing of base erosion and profit shifting
### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<tbody>
<tr>
<td>(1) Headline CIT rate</td>
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<td></td>
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<td>(2) Interest deductibility</td>
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</tr>
</tbody>
</table>
| (8) Controlled Foreign Companies (CFC) | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes in 2017  
□ N/A, as there is no CFC regime | □ Lower burden in 2017  
☑ Same burden in 2017  
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| (9) Thin capitalization | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017  
□ N/A, as there is no thin capitalization regime | □ Lower burden in 2017  
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| (10) Transfer Pricing changes | □ Change proposed or known for 2017  
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| (11) Research and Development (R&D) incentives | □ Change proposed or known for 2017  
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| (12) Other business incentives – including depreciation/amortization | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (13) Changes to tax enforcement approach | ☑ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017 |
| (14) Top marginal PIT Rate | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017 |
| (15) PIT base | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
☑ Increased burden in 2017 |
2.3 Tax policy outlook for 2017 - summary

Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
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</tr>
</thead>
</table>

Overall PIT burden

<table>
<thead>
<tr>
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</table>

Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
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</thead>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

Government revenue and expenditure are broadly in balance; so no major changes in tax base or rates are anticipated. The Government remains committed to broad-based and low-rate taxes (i.e., minimizing rates through avoiding concessions and preferences in the tax system).

Taxes on wages and employment

Employee share schemes (ESS):

- From 1 April 2017, employers may elect to use pay as you earn (PAYE) on ESS benefits.
- Ongoing consultation was performed throughout 2016 on further amendments to ESS rules. Proposals include:
  i. New tax framework distinguishing between conditional and unconditional ESS
  ii. Permitting employer deductions for shares issued in ESS
  iii. Changes to existing concessions for widely-held schemes to make them less restrictive and simpler to operate

Changes to withholding tax rules expected to apply from 1 April 2017:

- Rules extended to labor-hire firms’ (agencies) payments to contract laborers
- Most contractors able to choose their own withholding rate
- Voluntary deductions permitted

VAT/GST/sales taxes

Amendments to the GST regime expected to become law in early 2017:

- Cost of raising capital to be deductible if funds are used in making taxable supplies
- Alternative method to apportion the supplies available to the companies making taxable or exempt supplies
- Input tax claimable for gold, silver or platinum purchased from unregistered person for sale to public by registered person
- Services (provided in connection with land) intended to change a land’s physical or legal nature be zero-rated
Customs reforms expected to be legislated in early 2017:

- Greater customs powers to intercept illicit goods
- Interest and late payment penalties (LPPs) to replace existing additional duty
- New formal mechanism for transfer pricing (and other) adjustments to the customs value of imported goods

2.5 Political landscape

Political landscape

New Zealand’s current center-right Government is led by the National Party. The Government is nearing the end of its third term. An election is due in the second half of 2017.

Former Prime Minister John Key announced his resignation as leader of the National Party in early December 2016. On 12 December 2016, Bill English (former Minister of Finance) was formally sworn in as Prime Minister, with Paula Bennett sworn in as Deputy Prime Minister.

The Government views the tax system as good, and has no plans to move away from the current broad-base, low-rate framework. It has recently demonstrated greater willingness to embrace tax reform, notably around moving to a digital-led approach to tax administration and on taxing residential property transactions. The Government reaffirmed its commitment in Budget 2016 by allocating NZ$850 million of funding to tax administration reforms.

Tax evasion, avoidance and transparency of multinational taxpayers have been in the media spotlight in 2016. Inland Revenue has indicated that it will be more aggressive in ensuring that all taxpayers pay their fair share of tax. The Government is committed to implementing OECD BEPS recommendations to improve New Zealand’s existing tax rules.

The opposition, New Zealand Labor Party, has stated that should it be elected, it intends to commission a tax working group to look at the entire tax system with many major structural reforms, such as a comprehensive capital gains tax, which is unlikely in the next three-year term. It has not ruled out increases to personal tax rates.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Bill English, Prime Minister
- Stephen Joyce, Minister of Finance
- The Prime Minister has not yet announced who the new Minister of Revenue will be

Tax administration leaders

- Naomi Ferguson, Commissioner of Inland Revenue
- Cath Atkins, Deputy Commissioner, Policy and Strategy
- Martin Smith, Chief Tax Counsel

2.7 What key tax policy changes did you experience in your country in 2016?

BEPS

- Transfer pricing: New Zealand endorsed the OECD’s revised transfer pricing guidelines.
- Country-by-country reporting (CbCR): New Zealand signed the Multilateral Competent Authority Agreement (MCAA) on the exchange of country-by-country reports.
- CbCR reporting applies for income years beginning on or after 1 January 2016, and New Zealand is scrutinizing the multinationals with unexplained tax losses, large interest or royalty payments, and material dealings with related parties in low-tax jurisdictions.

Other reforms

- GST has been made applicable to online services supplied in New Zealand from 1 October 2016.
- Reinstatement of R&D tax losses and R&D repayment tax: Measure was enacted in 2016 and mostly applies from 1 April 2015.
- New residential land withholding tax (RLWT) became law in May 2016. RLWT became applicable on the sales of certain residential properties from 1 July 2016.
- The landmark Trustpower judgment was released on the deductibility of feasibility expenditure. Trustpower establishes that expenditure on obtaining resource consents for possible future general projects is not deductible.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
New Zealand

- **Action 6** – Preventing the abuse of treaties
- **Action 7** – Preventing the artificial avoidance of PE status
- **Action 14** – Making dispute resolution mechanisms more effective
- Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

### 2.9 Pending tax proposals

Two tax bills are currently before Parliament and are expected to become law by March 2017. They contain reforms on the following:

- Simplification of the closely-held companies rules
- The loss-grouping and imputation credits
- The non-resident withholding tax and approved issuer levy rules
- Relief for related party debt remission
- Implementation of automatic exchange of information
- Increased disclosure regarding foreign trusts established in New Zealand

The bills also contain a large number of technical changes to ensure that tax rules work as intended.

**Provisional tax and simplification for small- and medium-sized businesses**

Other areas of reform include the following measures, which are likely to be legislated in 2017:

- Provisional tax (which requires businesses to remit tax on account in three instalments during an income year), use of money interest and LPPs
- Simplification measures for small- and medium-sized businesses.

**BEPS**

The Government supports the BEPS project. It has committed to consult with the private sector before undertaking major reforms. Proposals are expected in early 2017.

Major BEPS issues for New Zealand include transfer pricing, taxation of hybrid instruments and entities, thin capitalization and related party debt, and proposed changes to tax treaties under the multilateral instrument. Key responses of the New Zealand Government are as follows:

- Thin capitalization and interest limitation: Consultation on whether to adopt the OECD-recommended fixed ratio rule (which would limit a company’s deduction for interest to a percentage of EBITDA) or retain the current debt-to-asset ratio rule; legislation possible in 2017
- Hybrid instruments and entities: Legislation implementing OECD recommendations expected in the first half of 2017
- Transfer pricing: Possible changes to shift the burden of proof onto taxpayers rather than Inland Revenue
- Automatic exchange of information: First reporting period will be in the nine months ending 31 March 2018
- Tax treaties: New Zealand is taking part in negotiations regarding the proposed multilateral instrument and supports binding arbitration as part of mutual agreement procedures

### 2.10 Consultations opened/closed

**Open consultation items**

- Information-sharing agreement between Gang Intelligence Centre agencies (including Inland Revenue)
- Retrospective adjustments to salaries paid to shareholder employees
- List of financial institutions to be excluded from automatic exchange of financial information compliance;
- Electricity lines company rebates

**Closed during 2016**

- Addressing of hybrid mismatch arrangements
- Reforms to simplify and improve business tax
- Implementation of the global standard on automatic exchange of information
- Reforms to the Commissioner’s powers regarding “care and management” of tax acts and taxpayer secrecy
- Reforms to improve the administration of GST and PAYE
- The provision of investment income information to Inland Revenue
- Changes to rules regarding provisional tax, contractors’ withholding taxes and information sharing by Inland Revenue
- Taxation of employee share schemes
- Petroleum mining decommissioning
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
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<td>30%</td>
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<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>30%</td>
<td>30%¹</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>15%</td>
<td>15%²</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Section 52 of the Nicaraguan Tax Law.
² Section 109 of the Nicaraguan Tax Law.

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- The Government seeking to increase revenues and attract foreign investment
- Introduction of transfer pricing rules in 2017
## 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
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<td>(3) Hybrid mismatches</td>
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<td>(11) Research and Development (R&amp;D) incentives</td>
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</table>
2.3 Tax policy outlook for 2017 – summary

### Overall CIT burden

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### Overall PIT burden

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### Overall VAT/GST/sales tax burden

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2.4 Tax policy outlook for 2017 – detail

**Corporate income taxes**
There are no changes known or expected in 2017.

**Taxes on wages and employment**
There are no changes known or expected in 2017.

**VAT/GST/sales taxes**
There are no changes known or expected in 2017.

2.5 Political landscape
The Government is interested in reducing VAT exonerations. However, no concrete proposals have been published to date. President Daniel Ortega was re-elected in November 2016. Therefore, we do not expect major tax policy changes in 2017.

2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
Daniel Ortega, President of the Republic of Nicaragua
Rosario Murillo, Vice President of the Republic of Nicaragua
Bayardo Arce Castaño, Economic Advisor of the Presidency
Ivan Acosta, Minister of Treasury and Public Credit (Ministro de Hacienda y Crédito Público)

**Tax administration leaders**
Martín Rivas Ruíz, Director of DGI
Humberto Solís Reyes, Sub-Director of DGI

2.7 What key tax policy changes did you experience in your country in 2016?
No significant tax policy changes were introduced in Nicaragua in 2016.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.
- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- N/A – Nicaragua has no known plans or intentions to sign the MLI
2.9 Pending tax proposals

None

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
The outlook for global tax policy in 2017

1 | Tax rates (2016-17)

1.1 Key tax rates

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<td>25%</td>
<td>24% (Plus bracket tax – see section 2.4)</td>
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<thead>
<tr>
<th>Top Personal Income Tax (PIT) rate (national and local average if applicable)</th>
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<table>
<thead>
<tr>
<th>Standard Value Added Tax (VAT) rate</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>25%</td>
<td>-</td>
<td></td>
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</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Stimulate economic growth
- Attract investors
- Promote working capital
### 2.2 Tax burdens in 2017

<table>
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<tr>
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## Norway

### Tax types

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<td></td>
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<td></td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ N/A, as there is no thin capitalization regime</td>
<td></td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
</tbody>
</table>
## Norway

### 2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (13) Changes to tax enforcement approach | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
□ Same burden in 2017  
□ Increased burden in 2017 |
| (14) Top marginal PIT Rate             | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
□ Same burden in 2017  
□ Increased burden in 2017 |
| (15) PIT base                          | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
□ Same burden in 2017  
□ Increased burden in 2017 |

**Overall CIT burden**

| Lower | No change | X | Higher |

**Overall PIT burden**

| Lower | No change | X | Higher |

**Overall VAT burden**

| Lower | X | No change | Higher |
2.4 Tax policy outlook for 2017 — detail

Corporate income taxes

New financial tax from 2017

- Applicable from 1 January 2017. Consists of two elements:
  - 5% tax on the payroll base in the financial sector (the “Finance tax”); and
  - Tax on profits by keeping the existing tax rate on general income on 25% for the financial industry, instead of the reduced rate of 24% which will be applicable for companies in all other industries from 1 January 2017.
- All companies that conduct financial activities that are covered by group K “Financial and insurance activities” in SN2007 (cf. the European system NACE rev. 2) are subject to the new Finance tax of 5%.
- Levied on the yearly payments to all employees.
- Exemptions:
  - A company that has less than 30% of its total payroll cost relating to financial activities
  - A company that has more than 70% of its total payroll cost relating to VAT liable financial activities, is exempt from the Finance tax
  - A company that conducts non-economic activities can choose to calculate the Finance tax for the part of its payroll cost that concerns the company’s economic activity if the company has a clear accounting distinction between payroll costs related to non-economic, and payroll costs related to economic activities, even though the company performs activities within group K in SN2007.
- The Finance tax relates to the size of the yearly payments to all of the company’s employees. This element of the Finance tax is linked to the employer’s social insurance contribution such that it is the yearly payments that are subject to this that perform the base for the Finance tax.

Many financial institutions may not be sufficiently aware of the amount of the employees' workload that is being used in financial activity. In this context, an extensive analysis of employee time spent on the various services the entity provides should be established. Such an analysis will be directly relevant to determine whether the business is subject to the Finance tax or not.

New limits under the R&D scheme (SkatteFUNN)

The limits under the Norwegian tax incentive scheme for research and development (R&D, in Norwegian, SkatteFUNN) are increased from NOK 20 million to NOK 25 million for in-house R&D and from NOK 40 million to NOK 50 million for procured R&D. However, the total limit for both in-house and procured R&D will be NOK 50 million (about US $5,950,000).

Interest deduction limitation rules

On 25 October 2016, the EFTA Surveillance Authority (ESA) issued its reasoned opinion in an infringement procedure against Norway, concluding that the Norwegian interest deduction limitation rules are contrary to the freedom of establishment under the European Economic Area (EEA) agreement due to the close relation to the group contribution rules which are treating pure Norwegian groups and groups with foreign group companies differently.

In a letter to EFTA Surveillance Authority (ESA) dated 31 January 2017, the Norwegian Ministry of Finance maintained its position that the interest deduction limitation rules are not contrary to the freedom of establishment under the European Economic Area (EEA) agreement. However, the Ministry nevertheless informed ESA that it is currently reviewing the Norwegian interest deduction limitation rules. The Ministry has suggested extending the scope of the rules to cover interest on external loans, but is also considering the implementation of group ratio rules in order to shield interest on loans which are not linked to profit shifting.
Taxes on wages and employment

In 2017 wages are taxed with a flat rate of 24% and a bracket tax. Bracket tax was a new way of taxation applicable from 2016. Bracket tax has replaced the earlier surtax in Norway. Bracket tax is increased from 2016:

<table>
<thead>
<tr>
<th>Income between 0–164,100 kroner</th>
<th>No bracket tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1 Income between 164,100–230,950 kroner</td>
<td>0.93%</td>
</tr>
<tr>
<td>Step 2 Income between 230,950–580,650 kroner</td>
<td>2.41%</td>
</tr>
<tr>
<td>Step 3 Income between 580,650–934,050 kroner</td>
<td>11.52%</td>
</tr>
<tr>
<td>Step 4 Income above 934,050 kroner</td>
<td>14.52%</td>
</tr>
</tbody>
</table>

The marginal tax rate has been reduced from 46.9% in 2016 to 46.7% in 2017.

Employers’ social security is the same as earlier years (14.1% (zone 1)).

The taxable value of a secondary residence is calculated to 90% (80% in 2016) of the market value, and only 90% (100% in 2016) of the debt regarding secondary residence is deductible.

The taxable value of shares is calculated to 90% (100% in 2016) of market value. Shareholders can from 2017 buy and sell shares and sharefunds through a share savings account. The gain will not be taxable as long as the gain is kept on this account, but will be taxed when the gain is paid out from the account.

VAT

New VAT return and import VAT scheme from 2017

- Applicable as from 1 January 2017
- Deadlines for submission and payment remain unchanged
- Applicable to anyone who will be registered for VAT in Norway on 1 January 2017
- Significant changes in the Norwegian VAT return called “Skattemelding for merverdiavgift” (new and changed boxes - now 19 boxes instead of 11)
- For VAT registered businesses: import VAT does no longer have to be paid upon importation or through a duty deferment account (customs credit), but is accounted for (and deducted if entitled) through the VAT return (results in a positive cash-flow effect)
- For non-VAT registered businesses: no changes (i.e. import VAT is calculated and paid to the customs authorities at the time of import)
- Transfer from the Customs authorities (Tolletaten) to the Tax authorities (Skatteetaten) of the management and control of:
  - Import VAT
  - Excise duties relating to businesses that are not registered for excise purposes
- New customs declaration overview in Altinn (www.altinn.no), where the Norwegian Customs’ declaration system (TVINN) is the source of information in the overview

Change in the fiscal representative scheme from 2017

- Applicable as from 1 April 2017
- Applicable to foreign enterprises without a fixed place of business in Norway (branch or “NUF”) established in an EEA state (i.e. Belgium, Czech Republic, Denmark, Finland, France, Germany, Iceland, Italy, Malta, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden and UK)
- These enterprises will no longer be obliged to register for VAT purposes through a Norwegian based VAT representative if they conduct VAT liable transactions in Norway (no longer a mandatory requirement but a choice)

2.5 Political landscape

There has been consensus in the political landscape to implement changes in tax policies to stimulate economic growth, attract investors and promote working capital. As part of the broad agreement, both the CIT (and PIT) rate are expected to decrease to 23% by 2018 independently of any change of government.
There has been an increasing focus on implementing the OECD’s BEPS recommendations, including preventing wholly artificial arrangements, etc. The country-by-country reporting scheme (action point 13), has been implemented in 2016. 2017 is election year in Norway, and there may be a change of government.

A change of government (from right wing to left wing) will probably lead to increase of total taxes in general.

2.6 Current tax policy and tax administration leaders

See 2.5.

Tax administration leaders
Tax department at Ministry of Finance (Skattelovavdelingen): Omar Dajani
Tax Administration (Skatteetaten): Hans Christian Holte
Tax Appeal Board (Skatteklagenemnda): Gudrun Bugge Andvord

2.7 What key tax policy changes did you experience in your country in 2016?

> Broader application area for the rules of limited interest deductibility (see above)

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☒ N/A – The government has not made any public statements in relation to the MLI.

2.9 Pending tax proposals

Interest deduction limitation
On 25 October 2016, the EFTA1 Surveillance Authority (ESA) issued its reasoned opinion in an infringement procedure against Norway, concluding that the Norwegian interest limitation rules are contrary to the freedom of establishment under the European Economic Area (EEA) agreement, due to the close relation to the group contribution rules which are treating pure Norwegian groups and groups with foreign group companies differently.

In a letter to dated 31 January 2017, the Norwegian Ministry of Finance maintained its position that the interest deduction limitation rules are not contrary to the freedom of establishment under the European Economic Area (EEA) agreement. However, the Ministry nevertheless informed ESA that it is currently reviewing the Norwegian interest limitation rules. The Ministry has suggested extending the scope of the rules to cover interest on external loans, but is also considering the implementation of group ratio rules in order to shield interest on loans which are not linked to profit shifting.

Withholding tax (WHT) on interest, royalty and bare boat payments

The Ministry of Finance is considering to present a draft proposal to implement WHT on interest and royalty payments, including bareboat payments for tangible assets. Any proposal will in turn be sent out for comments/hearing.

The circumvention norm

According to our knowledge, The Ministry of Finance is currently working on an enactment of the current non-written circumvention norm developed by the Supreme court.
Norway

Such an enactment will most likely not lead to any immediate material changes, however certain clarifications are expected to be presented in the enactment, and we cannot rule out that there will be certain changes to the present norm.

**Tax residency**

The Ministry of Finance is believed to be considering presenting a draft proposal on changes to the present tax residency regulations. Such changes may lead to that Norwegian registered companies will more likely be considered Norwegian tax resident although the actual administration/management is carried out outside of Norway. Any (possible) proposal will in turn be sent out for comments/hearing.

**Sharing economy**

In February 2017, a committee appointed by the government presented a report relating to how the sharing economy can provide more efficient use of resources. The report also include certain tax issues arising from sharing economy, and both possibilities and challenges were discussed. From a corporate income tax perspective, one may note that the committee suggests that providers of digital platforms should be obliged to provide third party information, but also states that the details in this regard have to be further analyzed.

**2.10 Consultations opened/closed**

See 2.9.
1. Tax rates (2016-17)

1.1 Key tax rates

*Lists top marginal federal rates only.*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>25%</td>
<td>25%₁</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>25%</td>
<td>25%₂</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>7%</td>
<td>7%₃</td>
<td>-</td>
</tr>
</tbody>
</table>

2. 2017 tax policy outlook

2.1 Key drivers of tax policy change

- The Government is striving to comply with international standards regarding transparency and the exchange of information.
- The Government’s approach to the BEPS action plan is still being defined. Special tax regimes are being reviewed to determine what Panama’s position will be in relation to BEPS.
- To increase enforcement of transfer pricing provisions, no legislative changes have been made, but a new regulation has been introduced, establishing greater reporting obligations as well as a more detailed standard in relation to comparability analysis.
- The Tax Authority is reinforcing its audit department in relation to tax incentives and VAT.

₁ Article 699 of the Fiscal Code.
₂ Article 700 of the Fiscal Code.
₃ Paragraph 6, article 1057-V of the Fiscal Code.
## 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
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<td>(7) VAT, GST or sales tax base</td>
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</tbody>
</table>
Panama

<table>
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<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (8) Controlled Foreign Companies (CFC) | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes in 2017  
■ N/A, as there is no CFC regime | □ Lower burden in 2017  
■ Same burden in 2017  
□ Increased burden in 2017 |
| (9) Thin capitalization | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017  
■ N/A, as there is no thin capitalization regime | □ Lower burden in 2017  
■ Same burden in 2017  
□ Increased burden in 2017 |
| (10) Transfer Pricing changes | □ Change proposed or known for 2017  
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□ Increased burden in 2017 |
2.3 Tax policy outlook for 2017 – summary

### Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 — detail

Corporate income taxes
There are no changes expected.

Taxes on wages and employment
There are no changes expected.

VAT/GST/sales taxes
There are no changes expected.

2.5 Political landscape
There are no major changes expected in the political landscape.

2.6 Current tax policy and tax administration leaders

Tax policy leaders
- Juan Carlos Varela — President of Panama
- Dulcidio de la Guardia — Minister of Economy and Finance

Tax administration leaders
- Publio Cortes — Director of the General Directorate of Income

2.7 What key tax policy changes did you experience in your country in 2016?

Accounting records for offshore companies: Panama enacted Law No. 52 on 28 October 2016. The law establishes that offshore companies must keep accounting records and supporting documentation either in the local office or any other place outside or within Panama. It also establishes new sanctions on legal entities that do not comply effectively.

FATCA: Panama enacted Law No. 47 on 24 October 2016 that ratifies the IGA that enforces compliance with FATCA.

FATCA and CRS: Panama enacted Law No. 51 on 28 October 2016. The law establishes the legal framework under which financial institutions must collect specified information for the Panamanian authorities based on FATCA and CRS.

BEPS: Panama joined the Inclusive Framework of BEPS on 31 October 2016.

Retaliatory measures: Panama enacted Law No. 48 on 26 October 2016, which expanded the applicability of retaliatory measures against economic discrimination by other countries. Some measures include increasing the tax rate of 20%-40% on dividends and remittances abroad of income derived from business activities in Panama and increasing customs duty.

Colon Free Trade Zone (CFTZ) reorganization: Panama enacted Law No. 8 on 4 April 2016, which modernizes the legal framework of the CFTZ by: (1) incorporating concepts from the Public Procurement Law; (2) incorporating a favorable immigration regime for foreign investors who establish a business within the CFTZ and foreign workers hired to work within the CFTZ; (3) adjusting the activities that businesses may carry out within the CFTZ; and (4) including provisions on anti-money laundering.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 — Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 — Preventing the abuse of treaties
☐ Action 7 — Preventing the artificial avoidance of PE status
☐ Action 14 — Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
Panama

N/A – Panama has so far made no public statement in regard to which MLI elements are likely to be adopted.

2.9 Pending tax proposals

Panama joined the Inclusive Framework of BEPS on 31 October 2016 and is in the process of making the relevant legislative changes. Therefore, information regarding the legal framework is not yet available.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017¹</th>
<th>Percentage change</th>
</tr>
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<tbody>
<tr>
<td><strong>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</strong></td>
<td>30% (No subnational or local income tax rates)</td>
<td>30% (No subnational or local income tax rates)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Top Personal Income Tax (PIT) rate (national and local average if applicable)</strong></td>
<td>32% (No subnational or local income tax rates)</td>
<td>32% (No subnational or local income tax rates)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Standard Value Added Tax (VAT) rate</strong></td>
<td>12% on local sales of goods or services [except for zero-rated sales (applicable to exports in general) and specific exempt sales]</td>
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<td>-</td>
</tr>
</tbody>
</table>

¹ These are the current top rates, which are expected to be the rates in place in 2017, subject to proposed amendments in pending tax bills as discussed in Section 2.2 to 2.4 below.
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

The key driver of tax policy and administration reform in the Philippines is the transition to a new administration, as detailed below:

- There is a change in political landscape with the election of Rodrigo Duterte as President in 2016.
- The new administration wants a “positive change” that people can feel – in terms of inclusive growth; improved public services; safe, healthy and peaceful communities; more money in people’s pockets; and a more comfortable life for all, among others.
- The new administration intends to create a simpler, fairer and more efficient tax system characterized by low tax rates with broad tax bases.

2.2 Tax burdens in 2017

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<td>☐ Lower burden in 2017 &lt;br&gt;☒ Same burden in 2017 &lt;br&gt;☐ Increased burden in 2017</td>
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</tbody>
</table>
### Philippines

<table>
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<tr>
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</tbody>
</table>
### 2.3 Tax policy outlook for 2017 – summary

<table>
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<td>(14) Top marginal PIT Rate</td>
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<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☑ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
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<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>

#### Overall CIT burden
- Lower: ☑ (No change) | Higher

#### Overall PIT burden
- Lower: ☑ (No change) | Higher

#### Overall VAT/GST/sales tax burden
- Lower: No change | ☑ (Higher)
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

The government’s stated intention is to reduce the CIT rate to 25% over time, and to simplify other CIT provisions of the Tax Code to improve taxpayers’ compliance. While the CIT reform policy has already been formulated, there is no definite timetable, whether in 2017 or succeeding years, for its passage into law.

Also, while the rate of CIT is proposed to be reduced, and other CIT provisions simplified, it would be difficult to conclude that these changes will result in a lower tax burden for all corporate taxpayers in view of certain planned offsetting measures. These measures include the rationalization of existing fiscal incentives, introduction of sunset provisions to existing incentives, limitation of VAT zero-rating to direct exporters, and replacement of the 5% CIT with a reduced CIT rate of 15% for special economic zones.

While there is no expected change in the capital gains tax rate, there is an intention to lower other transaction taxes on transfers of real property, such as stamp duty and local transfer tax.

However, while the rate of other transaction taxes is proposed to be reduced, it would likewise be difficult to conclude that the reduction will result in a lower tax burden in view of certain planned offsetting measures. These measures include the centralization and rationalization of property valuation, increased property valuation close to market prices, and regular review and adjustment of property valuation. The overall effect on the tax burden can be determined only once the new rates and property valuations are known.

There have been consistent plans and efforts to develop additional transfer pricing rules, specifically on the use of a transfer pricing documentation form and advance pricing agreements. The goal has been to release these additional rules at the earliest opportunity. These reforms are being dealt with at the tax authority level and are not specific parts of the tax policy reform packages.

There is an intention to improve tax enforcement, primarily through tax administration reform (alongside tax policy reform). The goal is to increase taxpayer satisfaction, reduce compliance cost, and eventually gain public trust.

Overall, the effect on the CIT tax burden in 2017 can be classified as varying.

Taxes on wages and employment

While one might expect taxes on wages and employment to be governed by the discussions on PIT, Philippine employers have the obligation to withhold taxes on compensation in accordance with the PIT schedule.

There are several versions of the reform bill that seek to amend the existing PIT rates. The top rate as proposed in said bills is 35%.

However, while the top PIT rate is proposed to be increased, there is also a proposal to re-calibrate the existing income brackets. The primary bill sets the top bracket or category to individuals with an annual taxable income of over PHP5,000,000 (from the current threshold of PHP500,000), which will be subject to a PIT equivalent to the base figure plus the top rate of 35% in excess of PHP5,000,000.

Overall, the reform is expected to result in a varying tax burden, depending on the individuals’ income brackets.

In addition, the intention is to reduce the PIT rate to 25% over time, except for the highest income earners, in order to maintain progressivity. This, however, will be subject to the introduction of certain planned offsetting measures such as expansion of the VAT base by limiting exemptions only to raw food and other necessities, increase in excise tax on petroleum products and index to inflation, and increase in excise tax on automobiles.

VAT/GST/sales taxes

The government’s intention is to widen the tax base by expanding the scope of transactions subject to 12% VAT. The plan includes:

 » Limiting the entitlement to VAT zero-rating to direct exporters
 » Limiting the VAT exempt transactions to the sale of raw food and other necessities (such as education and health)

This reform may result in an increased tax burden from a VAT perspective. Notably, this reform is, in part, meant to be an offsetting measure to lowering the CIT and PIT rates.
2.5 Political landscape

In 2016, the Philippines elected its new leader, President Rodrigo Duterte, whose promise to the people is a “positive change” in terms of inclusive growth; improved public services; safe, healthy and peaceful communities; more money in people’s pockets; and a more comfortable life for all, among others. It is believed that this vision can be achieved through tax policy and administration reforms, alongside complementary economic reforms.

The Philippine tax reform program involves the presentation of several packages to the Congress (with each package constituting a bill) that balances trade-offs. The main policy is to create a simpler, fairer and more efficient tax system characterized by low tax rates with broad tax bases. The goal by 2019 is to raise PHP600 billion for use in priority investments such as infrastructure, education, health, social protection, training and other investments.

2.6 Current tax policy and tax administration leaders

- Carlos Dominguez III, Secretary, Department of Finance (DOF)
- Caesar Dulay, Commissioner, Bureau of Internal Revenue (BIR)
- Nicanor Faeldon, Commissioner, Bureau of Customs

2.7 What key tax policy changes did you experience in your country in 2016?

There were no major tax reforms in the Philippines concluded in the first three quarters of 2016, except for the Customs Modernization and Tariff Act (CMTA), which took effect on 16 June 2016. The CMTA is the new Philippine customs law governing administration and collection of customs duties and taxes on importation, among others. It repealed the provisions of the old customs laws, which is the Tariff and Customs Code of the Philippines.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – The government has not issued any indication as to whether the MLI will be adopted.

2.9 Pending tax proposals

Although the BIR, through its International Tax Affairs Division (ITAD), has attended forums related to BEPS and other international tax practices, the Philippines has not signed any commitment to adopt the minimum standards recommended under the BEPS action plans. The BIR’s Strategic Plan for 2016-20 includes the establishment of a BIR approach to transfer pricing to address BEPS and the challenges of the digital economy and global business structures.

However, there are no tangible developments yet insofar as BIR issuances and Philippine legislation are concerned. Hence, it is difficult to determine the Philippines position on BEPS for the next 2-3 years.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

Lists top federal marginal rates only.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT)</td>
<td>19%</td>
<td>19% (15% for small taxpayers)</td>
<td>–</td>
</tr>
<tr>
<td>rate (national and local average if applicable)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT)</td>
<td>18%/32%</td>
<td>18%/32%²</td>
<td>–</td>
</tr>
<tr>
<td>rate (national and local average if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT)</td>
<td>23%</td>
<td>23%³</td>
<td>–</td>
</tr>
<tr>
<td>rate</td>
<td></td>
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</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Tightening VAT rules to increase VAT collection.
- Closing CIT loopholes to increase of CIT collection. The current exemption for closed-ended investment funds (FIZ) has been replaced by specific exemptions; certain types of FIZ revenues will be the subject of taxation.
- Enforcement of General Anti-Abuse Rule (GAAR), which came into force in July 2016.
- Increase of the Government’s expenditures and as a result new taxes being introduced (tax on financial institutions and retail tax, which is currently suspended, due to investigation initiated by European Commission).
- Introduction of “Beneficial Owner” clause to CIT and PIT acts, from 1 January 2017.
- Higher effectiveness of tax audits: rising collection of tax to be paid per tax audit.

1 Art. 19 par. 1 of CIT Act.
2 Art. 27 par. 1 of PIT Act.
3 Art. 41 par. 1 of VAT Act in relation with Art. 146a of VAT Act.
2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
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<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
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<td></td>
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<tr>
<td>(2) Interest deductibility</td>
<td>Change proposed or known for 2017</td>
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<td></td>
<td>No changes expected in 2017</td>
<td>Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
<td>Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>No changes expected in 2017</td>
<td>Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
<td>Same burden in 2017</td>
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<tr>
<td></td>
<td>No changes expected in 2017</td>
<td>Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
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<td></td>
<td>No changes expected in 2017</td>
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</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>No changes expected in 2017</td>
<td>Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>No changes expected in 2017</td>
<td>Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>Change proposed or known for 2017</td>
<td>Lower burden in 2017</td>
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<tr>
<td></td>
<td>Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>No changes in 2017</td>
<td>Increased burden in 2017</td>
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<td>N/A, as there is no CFC regime</td>
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<tr>
<td>--------------------------------------------------------------------------</td>
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<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>□ Change proposed or known for 2017&lt;br&gt;□ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017&lt;br&gt;☐ N/A, as there is no thin capitalization regime</td>
<td>□ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
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<td>(10) Transfer Pricing changes</td>
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2.3 Tax policy outlook for 2017 – summary

Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
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<tr>
<td>X</td>
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Overall PIT burden

<table>
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<tr>
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Overall VAT/GST/sales tax burden

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<tr>
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<td>X</td>
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</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- The draft bill withdraws the exemption for FIZs, which are an investment platform for a closed group of investors or even a single investor. The current full tax exemption for FIZ has been replaced by specific tax exemptions, and certain types of FIZ revenues will be subject to income taxation. The current tax exemption will still be continued for open-ended investment funds (FIOs), specialized open-ended investment funds (SFIOs) and similar foreign investment funds, with exception for SFIOs that perform activities in line with rules applicable for FIZ.
- Introduction of 15% CIT rate for small taxpayers.
- Increased requirements regarding transfer pricing documentation.

Taxes on wages and employment

- However, according to the new law, personal income threshold, which is exempt from taxation decreases from the amount of PLN85,528 up to the amount of PLN127,000. Taxpayers whose annual income exceeds this last threshold will not be entitled to any of the abovementioned tax-free allowance.

VAT/GST/sales taxes

- The Polish Minister of Finance has published a new draft law amending the Polish Value Added Tax (VAT) Act.

Key changes:

- Introduction of a reverse charge for construction services
- Withdrawal of the VAT exemption for services constituting part of financial and insurance services
- Clarification of laws regarding settlements of intra-Community acquisitions of goods
Establishment of additional conditions for early VAT refunds (within 25 days)

Imposition of additional requirements related to registration of new taxpayers (security deposits, liability of proxies in the registration process, automatic deregistration upon certain conditions)

Removal of quarterly filing option for taxpayers (small taxpayers may still benefit from this option), even during the first year of business activity

Obligatory e-filing

Modification of the catalogue of transactions entailing joint and several liability of buyers and sellers, as well as additional conditions for exemption from joint and several liability

Introduction of 30% penalties on tax due for understating output VAT or overstating input VAT; 20% penalties if covered by taxpayer after or during a tax audit and 100% penalties for using false invoices not reflecting real transactions

Increased turnover threshold allowing for a general VAT exemption (from PLN150,000 to PLN200,000)

More severe penalties for offenses under the Fiscal Penal Code, in particular with respect to VAT frauds

Increased 23% and 8% VAT rates to remain in force until 31 December 2018

The Government also aims to tighten the VAT rules. Moreover, the tax authorities tend to adopt the substance-over-form approach. It has been observed that the tax authorities more often question various forms of reorganization and restructuring schemes (especially involving exchange of shares or debt pushdown). It also has to be noted that tax audits review enterprises in view of complying with TP regulations. Additionally, it is considered to limit the CIT exemption of certain investment funds.

There are no elections planned for 2017.

2.6 Current tax policy and tax administration leaders

- Mateusz Morawiecki, Deputy Prime Minister, Minister of Development and Finance
- Wieslaw Janczyk, Secretary of State
- Marian Banaś, Secretary of State, Chief of the National Tax Administration, Chief of the Customs Service, General Inspector of Treasury Control
- Leszek Skiba, Undersecretary of State, Chief Spokesman for Public Finance Discipline, General Public Finance Discipline Ombudsman
- Hanna Majszczyk, Undersecretary of State
- Piotr Nowak, Undersecretary of State
- Paweł Gruza, Undersecretary of State
- Adam Niedzielski, Director General

2.5 Political landscape

After winning the last parliamentary elections, the current Government is focusing on welfare spending. To fund increasing spending, the governing party has imposed new taxes including:

- Taxes on certain financial institutions
- Levies on large retailers, which for the time being is suspended due to European Commission investigation
2.7 What key tax policy changes did you experience in your country in 2016?

- Poland’s Tax Code, including the GAAR provisions, was published in the Journal of Laws. The new regulation came into force as of 15 July 2016.
- Introduction of a new tax for certain financial institutions
- Poland’s Ministry of Finance recently published the final content (the so-called “structure”) of the long-awaited Standard Audit File (SAF).
- Introduction of new retail tax (suspended)

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- [ ] Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- [ ] Action 6 – Preventing the abuse of treaties
- ☒ Action 7 – Preventing the artificial avoidance of PE status
  - In progress – introduction of Beneficial Owner clause
- [ ] Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- [ ] N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

- Retail tax – currently suspended
- Standardized Audit File (SAF) for small and medium companies from 1 July 2018
- Excise duty tax for cars registered for the first time in Poland

2.10 Consultations opened/closed

Open:
N/A

Closed:
N/A
### Tax rates (2016-17)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</strong></td>
<td>Standard rate 20% (2%-federal budget, 18%-local budget)</td>
<td>Standard rate 20% (3% federal budget and 17% local budget for 2017-2020)</td>
<td>Note: Distribution of CIT between the federal and regional budgets changes for 2017</td>
</tr>
<tr>
<td>Low rates: 0%, 10%, 13%, 15%, 15,5%¹</td>
<td>Low rates: 0%, 10%, 13%, 15%, 15%</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td><strong>Top Personal Income Tax (PIT) rate (national and local average if applicable)</strong></td>
<td>Standard rate 13%</td>
<td>Standard rate 13%</td>
<td>No change</td>
</tr>
<tr>
<td>Low rate: 9% Increased rates: 35%, 30%, 15%³</td>
<td>Low rate: 9% Increased rates: 35%, 30%, 15%⁴</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td><strong>Standard Value Added Tax (VAT) rate</strong></td>
<td>Standard rate 18%</td>
<td>Standard rate 18%</td>
<td>No change</td>
</tr>
<tr>
<td>Low rates: 0%, 10%⁵</td>
<td>Low rates: 0%, 10%</td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>

² Article 284 of the Tax Code of the Russian Federation as revised Federal Law 401-FZ
2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Fiscal consolidation
- Fighting tax evasion and capital flight
- Anti-crisis measures and investment incentives

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<td>(1) Headline CIT rate</td>
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<td></td>
<td>☐ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td></td>
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<td>□ Increased burden in 2017</td>
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<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td>☐ Additional change possible or somewhat likely in 2017</td>
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<td></td>
<td>☒ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☒ Change proposed or known for 2017</td>
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</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
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<td>☒ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>Tax types</td>
<td>Any changes proposed/known or possible for 2017?</td>
<td>What is the expected tax burden in 2017, as compared to 2016?</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| (6) VAT, GST or sales tax rate        | - Change proposed or known for 2017  
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- No changes in 2017  
- N/A, as there is no CFC regime | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (9) Thin capitalization               | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017  
- N/A, as there is no thin capitalization regime | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (10) Transfer Pricing changes         | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (11) Research and Development (R&D) incentives | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | - Change proposed or known for 2017  
- Additional change possible or somewhat likely in 2017  
- No changes expected in 2017 | - Lower burden in 2017  
- Same burden in 2017  
- Increased burden in 2017 |
## Russia

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (13) Changes to tax enforcement approach | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017 | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
| (14) Top marginal PIT Rate | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017 | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |
| (15) PIT base | [ ] Change proposed or known for 2017  
[ ] Additional change possible or somewhat likely in 2017  
[ ] No changes expected in 2017 | [ ] Lower burden in 2017  
[ ] Same burden in 2017  
[ ] Increased burden in 2017 |

### 2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
<th></th>
</tr>
</thead>
</table>
| Lower              | [ ] Mixed  
[ ] No change  
[ ] Higher |

<table>
<thead>
<tr>
<th>Overall PIT burden</th>
<th></th>
</tr>
</thead>
</table>
| Lower              | [ ] No change  
[ ] Higher |

<table>
<thead>
<tr>
<th>Overall VAT/GST/sales tax burden</th>
<th></th>
</tr>
</thead>
</table>
| Lower                           | [ ] No change  
[ ] Higher |
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

Changes in loss carryforward and distribution of corporate income tax between the federal and regional budgets have been adopted already (see Section 2.7).

There are plans to further improvement of transfer pricing rules – in particular, to exclude from TP controls transactions between related parties residing in the same region (subject of the Federation).

Also, there are plans to start pilot projects of taxation of income from extraction of hydrocarbons – both new and existing fields. Parameters of the new system are still discussed.

Ministry of Finance proposed to lower existing tax on extraction of natural resources and export duty on them and to introduce new tax on so-called “additional income from extraction” – at the rate of 50% of the tax base. The base is calculated as such income minus capital and operational costs.

Taxes on wages and employment

No significant changes

VAT/GST/sales taxes

VAT: From 2017 all foreign companies – internet service providers must pay VAT

2.5 Political landscape

No significant changes

2.6 Current tax policy and tax administration leaders

Anton Siluanov – Head of the Ministry of Finance
Mikhail Mishustin – Commissioner of the Federal tax Service

2.7 What key tax policy changes did you experience in your country in 2016?

Main changes were introduced in the loss carryforward and thin capitalization areas.

10-year time limit for loss carryforward was abolished; however, yearly loss deduction was limited to 50% of the tax base in the same tax year.

Thin capitalization rules now cover loans from/to sister companies or guaranteed by them.

Also, in 2017-2020 CIT distribution changes – 3 percentage points out of 20 now go to the federal budget (instead of previous 2 percentage points) and 17 – to the regional budget (instead of 18).

As well expanded the list of information with respect to the taxpayers that are not tax secret.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
**Russia**

- **Action 7** – Preventing the artificial avoidance of PE status
- **Action 14** – Making dispute resolution mechanisms more effective

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision.

Russia is going to sign the MLI but has yet to formulate its position on particular optional provisions. At this stage only mandatory binding arbitration is resolutely opposed by the Ministry of Finance, which is in charge of joining the MLI.

2.9 Pending tax proposals

Draft law on implementation of CBCR/CRS is being prepared by the Ministry of Finance (BEPS Action 13). The law is expected to be adopted before the end of March 2017.

Draft law on limiting audit secrecy is expected to be approved by the Government in late January – early February and submitted to the Parliament (the Duma). The law is drafted to fulfil the recommendation of the Global Forum on Transparency and Exchange of Information. Tax bodies will have the right to request from audit companies’ information on relevant taxpayers which taxpayers themselves failed to submit to the tax bodies.

2.10 Consultations opened/closed

All amendments by the Government bodies (ministries, agencies and alike) to tax legislation are submitted for public consultations and discussion (through Internet site www.regulation.gov.ru).

**Among most important**: draft law on CBCR/CRS and the proposal for the new tax on additional income from extraction of hydrocarbons.
1 | Tax rates (2016–17)

1.1 Key tax rates

*Lists top federal rates only.*

<table>
<thead>
<tr>
<th>Tax rate Description</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>17%</td>
<td>17%</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>22%</td>
<td>22%</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>7%</td>
<td>7%</td>
<td>-</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- To support the transformation of the economy from one that is value-adding into value-creating, by developing a conducive environment for businesses to restructure, innovate and internationalize
- To build deep connections to global innovation and technology networks
- To sustain a fair and progressive fiscal system
- To continue the push to restructure Singapore’s economy in an attempt to increase Singapore’s productivity by 2% to 3% per year over the next decade
To provide support to companies that innovate and expand through globalization, and so that they can restructure to upgrade productivity and achieve quality growth; to help firms through a more targeted and sector-focus approach, with stronger emphasis on technology adoption and innovation, and a deeper partnership between the government and industry, including industry players.

To promote an inclusive society that improves all lives, by focusing especially on investment in Singaporeans by equipping them with deep skills and knowledge, keeping quality health care affordable, and supporting both middle and lower income Singaporeans.

To strengthen the employability of Singaporeans and help them upgrade and uplift themselves to get new and better jobs, and particularly the reskilling and upskilling of Singaporeans as part of the Adapt and Grow initiative.

### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 □ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☒ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017 ☒ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017 ☒ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017</td>
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</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017 □ Additional change possible or somewhat likely in 2017 □ No changes expected in 2017 ☒ N/A, as there is no Capital Gains Tax</td>
<td>□ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017 ☒ N/A</td>
</tr>
</tbody>
</table>
### Singapore

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
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☒ No changes expected in 2017  
☐ N/A, as there is no VAT, GST or sales tax | ☐ Lower burden in 2017  
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☐ Increased burden in 2017 |
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☐ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC)        | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
☐ No changes in 2017  
☒ N/A, as there is no CFC regime | ☐ Lower burden in 2017  
☒ Same burden in 2017  
☐ Increased burden in 2017  
☒ N/A |
| (9) Thin capitalization                       | ☐ Change proposed or known for 2017  
☐ Additional change possible or somewhat likely in 2017  
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| (10) Transfer Pricing changes                 | ☒ Change proposed or known for 2017  
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☒ Same burden in 2017  
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☐ N/A |
### 2.3 Tax policy outlook for 2017 – summary

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<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (13) Changes to tax enforcement approach | □ Change proposed or known for 2017 | □ Lower burden in 2017  
❑ Additional change possible or somewhat likely in 2017  
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| (14) Top marginal PIT Rate       | □ Change proposed or known for 2017  
❑ Additional change possible or somewhat likely in 2017  
❑ No changes expected in 2017 | □ Lower burden in 2017  
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| (15) PIT base                    | □ Change proposed or known for 2017  
❑ Additional change possible or somewhat likely in 2017  
❑ No changes expected in 2017 | □ Lower burden in 2017  
❑ Same burden in 2017  
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Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

No change in the corporate tax rate for 2017 was proposed in the Budget 2017 which was delivered on 20 February 2017.

Please also refer to section 2.7 below, where many measures introduced in 2016 will experience their first full year in action in 2017.

Section 2.9 provides details of some of the tax measures proposed in Budget 2017.

Taxes on wages and employment

No change in the top individual income tax rate for 2017 was proposed in the Budget 2017 which was delivered on 20 February 2017.

VAT/GST/sales taxes

No change in the standard GST rate for 2017 was proposed in the Budget 2017 which was delivered on 20 February 2017, although it is expected to increase within the next few years.

2.5 Political landscape

As PAP remains the single dominant party in Parliament, tax policy is likely to remain stable and consistent.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Lee Hsien Loong, Prime Minister
- Heng Swee Keat, Minister for Finance
- Tan Ching Yee, Permanent Secretary (Finance) and Chairman of the Board of Inland Revenue Authority of Singapore (IRAS)

Tax administration leader

- Tan Tee How, Commissioner of Inland Revenue

2.7 What key tax policy changes did you experience in your country in 2016?

Some key measures that have already been legislated and/or are effective include:

**Extending the up-front certainty of non-taxation of companies’ gains on disposal of equity investments**

To provide up-front certainty to companies in their corporate restructuring, the non-taxable gain provision associated with disposition of equity investments has been extended until 31 May 2022 (to cover disposal of equity investments from 1 June 2017 to 31 May 2022). All conditions of the scheme remain the same.

**Introducing an anti-avoidance mechanism for transfers of intellectual property rights (IPR)**

An anti-avoidance mechanism for IPR transfers has been included to empower the Comptroller of Income Tax (Comptroller) to make the following adjustments to the transacted price of the IPR, if the IPR is not transacted at open market value (OMV):

(a) If the acquisition price of the IPR is higher than the OMV of the IPR, the Comptroller may substitute the acquisition price with the OMV of the IPR and restrict the WDA based on the OMV of the IPR

(b) If the disposal price of the IPR is lower than the OMV of the IPR, the Comptroller may substitute the disposal price with the OMV of the IPR for the purpose of computing the balancing charge

This change is applicable to acquisitions, sales, transfers or assignments of IPRs that are made from 25 March 2016.

**Introducing the Business and Institution of Public Character (IPC) Partnership scheme (BIPS)**

To incentivize employee volunteerism through businesses, a pilot BIPS has been introduced from 1 July 2016 to 31 December 2018. Under BIPS, businesses enjoy an additional 150% tax deduction on wages and incidental expenses when they send their employees to volunteer and provide services to IPC, including secondments, subject to conditions.
Reporting of related-party transactions (RPT)

From year of assessment 2018 (relating to financial years ending in 2017), taxpayers must report certain details of RPT if the value of RPT in the audited accounts for the financial year exceeds S$15m. The new form for reporting RPT should be submitted together with the corporate tax submission. The RPT data is intended to help the IRAS to assess transfer pricing (TP) risks and select appropriate cases for TP consultation.

Convention on Mutual Administrative Assistance in Tax Matters

Singapore has concluded the Convention and it entered into force on 1 May 2016.

Common Reporting Standard


The information collected can be exchanged with other countries under a competent authority agreement (CAA), such as the Convention on Mutual Administrative Assistance in Tax Matters, a tax information exchange agreement or a bilateral tax treaty.

Financial institutions will be required to report the financial account information with the first reporting due by 31 May 2018, and Singapore will subsequently exchange the reported information with its CAA partners.

Base Erosion and Profit Shifting (BEPS)

In line with Singapore joining the Organization for Economic Co-operation and Development (OECD) BEPS project as a BEPS Associate, Singapore is committed to implementing the four minimum standards under the BEPS project.

In keeping with this commitment, Singapore implemented the country-by-country reporting (CbCR) for Singapore tax resident multinational enterprises (MNEs) with international operations and annual group revenue of at least S$1,125 million (approx. US$800m) in the preceding financial year. The first year to be reported under the CbCR guidance is financial year 2017. The IRAS has also announced the acceptance of the voluntary filing for 2016 by such Singapore MNEs on 19 December 2016. More details of voluntary filing of CbCR are expected to be released by the end of March 2017.

On 12 January 2017, the IRAS released revised transfer pricing guidelines. Key features include more guidance on the arm’s-length principle and emphasis on risks, additional information requirements to be included in TP documentation, changes to the Mutual Agreement and Advanced Pricing Arrangement programs and the introduction of an indicative margin or “safe harbor” for related-party loans.

The guidelines also provide greater details relating to Actions 5, 13 and 14 - minimum standards under the OECD BEPS project, which Singapore has committed to implement.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilaterial instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A

Singapore is part of a group of jurisdictions that worked together under the aegis of the OECD and G20 and developed a multilateral instrument for implementing the treaty-related BEPS measures into existing bilateral treaties. Currently, there is no indication of when Singapore will sign the multilateral instrument, which is now open for signature (since 31 December 2016), but it is monitoring developments and will consider joining the instrument at an appropriate time.

Under the Action 14 assessment schedule of peer reviews published on 31 October 2016, Singapore is in the third batch for review. This review is expected to be launched by August 2017.
2.9 Pending tax proposals

On 20 February 2017, Singapore released the Budget 2017 for the financial year 1 April 2017 to 31 March 2018. Some key tax measures include:

**Introducing an intellectual property (IP) incentive regime**

To encourage the use of IPs arising from research and development (R&D) activities, IP income will be incentivized under a new BEPS-compliant IP regime named the IP Development Incentive (IDI). Existing incentive recipients will continue to have such income covered under their existing incentive awards until 30 June 2021. The IDI will become effective on or after 1 July 2017.

**Proposing a safe harbor rule for payments under cost sharing agreements (CSAs) for R&D projects**

Taxpayers may choose to claim tax deduction for 75% of the payments made under a CSA incurred for qualifying R&D projects instead of being subject to the general deduction rules. The change will apply to CSA payments made on or after 21 February 2017.

**Refining the Finance and Treasury Centre (FTC) incentive**

The qualifying counterparties for certain transactions of approved FTCs will be streamlined. This change will apply to new or renewal incentive awards approved on or after 21 February 2017.

**Global Trader Programme (GTP) incentive**

Changes to the GTP include:

(a) The requirement for qualifying transactions to be carried out with qualifying counterparties will be removed.

(b) The concessionary tax rate of 5% or 10% will be granted on physical trading income derived from transactions in which the commodity is purchased for consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore.

(c) The concessionary tax rate of 5% or 10% will be granted on physical trading income attributable to storage in Singapore or any activity carried out in Singapore that adds value to commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking).

(d) The substantive requirement to qualify for the GTP will be increased.

Items (a) to (c) will apply to qualifying income derived on or after 21 February 2017 by approved global trading companies from qualifying transactions. Item (d) will apply to new or renewal incentive awards approved on or after 21 February 2017.

**Extending and refining the Aircraft Leasing Scheme (ALS)**

The ALS will be extended to 31 December 2022 and refined as follows:

(a) The scope of qualifying ancillary activities will be updated to cover incidental income derived from the provision of finance in the acquisition of aircraft or aircraft engines by any lessee.

(b) The concessionary tax rate will be 8% (from 5% and 10%).

Item (a) will apply to income derived on or after 21 February 2017 for all incentive recipients. Item (b) will apply to new or renewal incentive awards approved on or after 1 April 2017.

In addition, the automatic withholding tax exemption on qualifying payments made on qualifying loans entered into on or before 31 March 2017 to finance the purchase of aircraft and aircraft engines (subject to conditions) will be extended to qualifying payments made on qualifying loans entered into on or before 31 December 2022.

**Increasing and extending the corporate income tax (CIT) rebate**

The CIT rebate cap will be raised from S$20,000 to S$25,000 for the year of assessment (YA) 2017 with the rebate rate remaining unchanged at 50% of tax payable. Further, the CIT rebate will be extended for another year to YA 2018 with a reduced rate of 20% of tax payable capped at S$10,000.

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1 Pioneer Services or Headquarters Incentive and the Development and Expansion Incentive - Services or Headquarters.

2 Under the general deduction rules, certain categories of expenditure (e.g., accounting depreciation, stock option expenses) may be disallowed.
**BEPS and the digital economy**

The Singapore Government has announced that it is studying into adjusting the Goods and Services Tax (GST) system in respect of digital transactions and cross-border trades to ensure a level playing field between local GST-registered businesses and non-GST-registered foreign-based ones.

**Introduce carbon tax**

The Singapore Government aims to implement carbon tax on the emission of greenhouse gases from 2019. The expected tax rate of between S$10 and S$20 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.

### 2.10 Consultations opened/closed

Public consultations with the Ministry of Finance/IRAS closed as at 24 February 2017:

- Draft Income Tax (Amendment No. 2) Bill 2016
- Proposed regulations on the Standard for Automatic Exchange of Financial Account Information in Tax Matters
- Proposed amendments to the Companies Act to introduce an inward re-domiciliation regime in Singapore.
- Proposed Changes to The Companies Act, Limited Liability Partnerships Act and Accountants Act
- Proposed regulations under the Singapore Accountancy Commission Act
Slovakia

1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rates (2016-17)</th>
<th>2015</th>
<th>2016</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>22%</td>
<td>21%(^1)</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>19%/25% on portion of tax base exceeding EUR2,918.53 per month</td>
<td>19%/25% on portion of tax base exceeding EUR2,918.53 per month(^2)</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>20%</td>
<td>20%(^3)</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

The Social Democratic Government (the current political party in power) develops tax policy according to the following key drivers:

- Fiscal consolidation (a main driver)
- Increase in state income
- Minimization of inequality in tax system
- Fight against tax fraud and tax evasion
- Goal to keep public finance deficit below 3% of gross domestic product

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\(^1\) Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. b) point 1.

\(^2\) Act No. 595/2003 Coll. on Income Tax, as later amended; Section 15 lit. a) points 1 and 2, respectively.

\(^3\) Act No. 222/2004 Coll. on Value Added Tax, as later amended; Section 27 (1) per the wording effective as of 1 January 2015.
## 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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<td>☒ Lower burden in 2017</td>
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<td>☒ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
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<td>(3) Hybrid mismatches</td>
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<td></td>
<td>☘ N/A, as there is no Capital Gains Tax</td>
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<td>(6) VAT, GST or sales tax rate</td>
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<td></td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
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<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
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<tr>
<td></td>
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</tr>
</tbody>
</table>
### Slovakia

<table>
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<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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<td>(15) PIT base</td>
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</table>
2.3 Tax policy outlook for 2017 – summary

Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

» Corporate income tax rate

With effect on tax periods commencing from 1 January 2017 onward, the corporate income tax rate will be lowered from 22% to 21%.

» Taxation of dividends

Taxation of dividend income is reintroduced for natural persons (7% tax rate) and, in some cases, also for legal persons (35% tax rate) with effect on dividends paid from the profits achieved for the tax periods commencing from 1 January 2017 onward. With the same effective date, health insurance contributions of 14% will no longer apply on dividend income.

» Insurance tax premiums

With effect from 1 January 2017, a insurance premium tax of 8% will be applicable to new insurance contracts concluded after 31 December 2016, insurance premium tax received by an insurer.

» Increase of the special levy for regulated industries

The rate of special levy applicable to the taxpayers carrying out business in regulated industries (e.g., energy, telecommunications and pharmaceutics) will be increased from current 0.363% to 0.726%, effective as of 1 January 2017, and should progressively decrease to 0.545% from 1 January 2019 and to 0.363% from 1 January 2021. The special levy is assessed and paid on a monthly basis from the accounting profit before tax.
Taxes on wages and employment

- **Dividend income as employment income**
  
  Dividend income paid to an employee without an equity stake in the paying company is considered to be an employment income taxable at a standard personal income tax rate of 19%/25%.

- **Expenses deductible by self-employed persons**
  
  The lump-sum expenses that self-employed individuals may deduct from their taxable income will be increased from 40% to 60% of the taxable income. Consequently, the maximum limit of tax-deductible expenses will also be increased from EUR 5,040 to EUR 20,000 per year. Taxpayers who did not carry out any business activities during the entire tax period will no longer be restricted to deduct only a proportional amount of expenses from the maximum limit.

VAT/GST/sales taxes

- **Specific rules for application of reverse-charge mechanism for construction services**
  
  Due to the often incorrect application of the reverse-charge mechanism on construction services stemming from different classifications of construction services by either supplier or customer, new rules governing choice of VAT treatment in this case were introduced. Under the amended scheme, if the supplier reasonably concludes that the supplied construction services are subject to a reverse-charge mechanism and includes an “application of reverse-charge” on the invoice, then the customer is liable to pay the VAT (i.e., the VAT treatment should be chosen by supplier rather than customer).

- **Interest on late payment of excess VAT deduction due to a tax audit**
  
  As a likely reaction to the Court of Justice of the European Union (CJEU) case C-120/15 Kovozber, the taxpayer should be entitled to interest on excess VAT if the payment of excess VAT occurred later than six months after the deadline for its usual refund during the tax audit. The interest is calculated as a percentage of the final payment amount of excess VAT deduction (as confirmed by the tax inspectors), for the period starting six months after the deadline for its usual refund, until its actual refund. The taxpayer should be entitled to receive interest of twice the European Central Bank (ECB) rate valid on the first day of the calendar year for which the interest is calculated, with a minimum applicable annual rate of 1.5%.

2.5 Political landscape

Parliament elections were held in 2016, where the Social Democratic Government party (the governing party in previous election cycle) won and formed a government.

2.6 Current tax policy and tax administration leaders

**Tax policy leader:**
Peter Kažimír, Minister of Finance

**Tax administration leaders:**
Frantisek Imrecze, President of Financial Directorate
Dušan Pátek, Vice-President of Financial Directorate

2.7 What key tax policy changes did you experience in your country in 2016?

The measures described in section 2.4 were proposed and/or legislated in 2016.
2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective

□ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

☐ N/A – No bidding information on signing of any relevant multilateral instrument is available at this time.

2.9 Pending tax proposals

N/A

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>28%</td>
<td>28%</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>41%</td>
<td>41%</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>14%</td>
<td>14%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Minimize inequality between citizens by using the tax system - taxes are raised moderately, across a broad base, while limiting the impact on lower-income families
- Growth and development of the country’s economy
- Investment and sustainable growth of GDP
- Fiscal consolidation - reducing the budget deficit to 2.4 per cent by 2018/19
- Changing taxpayer behaviors - for example the introduction of an extra behavior category in the understatement penalty in the Tax Administration Act.
- Projected revenue gap requires a focus on raising additional taxes of $3 billion next year. Key areas of expected focus are individual tax rates.
### 2.2 Tax burdens in 2017

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</tbody>
</table>
2.3 Tax policy outlook for 2017 — summary

### Overall CIT burden

| Lower | No change | X | Higher |

### Overall PIT burden

| Lower | No change | X | Higher |

### Overall VAT/GST/sales tax burden

| Lower | No change | X | Higher |

2.4 Tax policy outlook for 2017 — detail

#### Corporate income taxes

The Minister of Finance said in his Medium Term Budget Policy Statement (MTBPS) that “Over the next two years, we propose to raise an additional R43 billion (+$3Bilion) through tax measures”. The increase in revenue collection is likely to come from an increase in the corporate tax base.”

The government may enforce this by increasing the number of audits undertaken by the Revenue Authority, improving the Revenue Authority’s risk tool by increasing the number of risk trigger factors and closing loopholes by amending the tax legislation.

The South African Revenue Service (SARS) will now grant an R&D allowance (a 150 per cent deduction for non-capital R&D expenditure) for a previous year where it would have been approved, had it been applied for in a timely manner. Many tax professionals had felt that previous to this change, delays in processing approvals could cause tax assessments to be raised before an application is adjudicated upon.

In November 2016, the South African Government proposed to increase the inclusion rate for capital gains for individuals from 33.3% to 40 % and for companies from 66.6% to 80%.

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South Africa

Taxes on wages and employment

From 1 March 2016 the tax treatment of contributions to retirement funds was amended to be harmonized across all retirement funds.

VAT/GST/sales taxes

- Government proposes to introduce a sugar tax on sugar sweetened beverages to be taxed at a rate of 2.29 cents per gram of sugar to help reduce excessive sugar intake by citizens, effective as of 1 April 2017.
- A tyre levy will be implemented on the purchase of new tyres, effective 1 February 2017.

2.5 Political landscape

- The local government election held in August 2016 reflected a reduction in the amount of votes for the ruling party (the African National Congress). There is also discord within the Parliament of the Country with opposition parties having filed a motion of no confidence in the current President of South Africa, resulting in the factions within the ruling party.
- The recent failed challenge to President Jacob Zuma’s leadership by some members of the ANC national executive committee (NEC) will contribute to further factions in the ruling party.
- While the easiest way for government to collect revenue is to raise the VAT rate, according to Judge Dennis Davis (chairman of the tax advisory committee) the, this is not on the cards because of the current political climate and impact on the majority of the population.
- South African trade unions are strongly opposed to the increase in VAT thus if government implements this increase it will result in political unrest.
- The turmoil within the ruling party may result in a change in leadership before the next general elections in 2019 within the foreseeable future, which may have an impact on policy considerations. This could lead toward a more “populist” tax policy, that is, a greater focus on taxes to be paid by corporates (corporate tax, withholding taxes) rather than the general population.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

- Ismail Momoniat - Head of Tax and Financial Sector Policy, National Treasury
- Monale Ratsoma - Head of Economic Tax Analysis, National Treasury

Tax administration leader

- Tom Moyane - Commissioner, South African Revenue Services

2.7 What key tax policy changes did you experience in your country in 2016?

- There has been a big focus on BEPS Action Plan 13 Guidance on the Implementation of Transfer Pricing Documentation and Country-by-Country Reporting. A Government Gazette notice was issued by the Minister of Finance setting out record-keeping requirements in respect of potentially affected transactions. Notice on the specific transfer pricing documentation required in line with the final recommendations of the final report on Action 13 is expected to be released at a later stage.
- BEPS Action Plan 14 Make Dispute Resolution Mechanisms More Effective has also received some consideration this year with a number of renegotiated treaties now including an article on the mutual agreement procedure (MAP).

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
2.9 Pending tax proposals

There are currently none, with the most recent proposals being promulgated in the latest tax Bills in October 2016 with these Bills being expected to be enacted in January 2017.

The 2017 Budget Speech will take place in February 2017 and will set the agenda of any proposed tax amendments. Further details of these changes will be released in draft legislation around August 2017.

It is expected that guidance will be provided on the documentation to be retained in compliance with Action 13.

2.10 Consultations opened/closed

The Davis Tax Commission was established in July 2013 by the Minister of Finance to review the South African tax system and make recommendations to parliament on changes that should be made to tax laws.

**Open:** The reports that are still open are on:
- BEPS
- VAT
- Mining
- Carbon Tax

**Closed:** The reports closed in 2016 by Davis Tax Review are:
- Publication of second and final Macro Analysis report
- Publication of second and final SME report
- Publication of second and final Estate Duty report
1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top marginal rates only.*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
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<tbody>
<tr>
<td>Top Corporate Income</td>
<td>25%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Tax (CIT) rate (national and local average if applicable)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Top Personal Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax (PIT) rate (national and local average if applicable)</td>
<td>General base: 45%</td>
<td>General base: 45%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Saving base: 23%</td>
<td>Saving base: 23%</td>
<td></td>
</tr>
<tr>
<td>Standard Value Added</td>
<td>21%</td>
<td>21%</td>
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</tr>
<tr>
<td>Tax (VAT) rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Uncertain political situation created by the formation of a new coalition Government in October 2016
- A tax reform passed on December 2016 to increase taxable base and tax enforcement in the CIT
- Additional measures to fight tax evasion are foreseen
2.2 Tax burdens in 2017

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### Spain

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<td>(11) Research and Development (R&amp;D) incentives</td>
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<td>☐ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
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<td>☐ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>
2.3 Tax policy outlook for 2017 – summary

<table>
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<tr>
<th>Tax types</th>
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<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13) Changes to tax enforcement approach</td>
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</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>☐ Change proposed or known for 2017  ☒ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>☐ Change proposed or known for 2017  ☒ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☒ Increased burden in 2017</td>
</tr>
</tbody>
</table>

---

Overall CIT burden

| Lower | No change | X | Higher |

Overall PIT burden

| Lower | X | No change | Higher |

Overall VAT/GST/sales tax burden

| Lower | X | No change | Higher |
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

Relief for losses: The percentage limit will be increased to 70% for tax years beginning in or after 2017 for taxpayers whose turnover is below 20 Million Euros. The limit for taxpayers whose turnover is greater than 20 million but below 60 million is 50% and taxpayers whose turnover is greater than 60 million 25%, i.e. same levels as 2016 for these taxpayers.

Taxes on wages and employment

No changes are foreseen

VAT/GST/sales taxes

New real-time information system approved for the second half of 2017: This will be applicable to certain taxpayers and implies submitting the information of invoices issued and received within four days to the tax authorities.

2.5 Political landscape

• Coalition Government since October 2016 – uncertain political situation
• December 2016 tax package with reforms affecting both FY 2016 and 2017

2.6 Current tax policy and tax administration leaders

• Cristóbal Montoro Romero, Ministry of Finance and of Public Administrations
• Santiago Menéndez, Central Tax Administration Director
• José Enrique Fernández de Moya, Secretary of State for Finance

2.7 What key tax policy changes did you experience in your country in 2016?

Direct taxation

• CIT: Decrease of the general CIT rate from 28% to 25%
• Limit on goodwill depreciation: A 5% systematic depreciation of goodwill is subject to the accounting registration of the goodwill’s depreciation from June 2016
• CIT interim payments: The tax rate applicable was increased from 17% to 24% in the second payment of the year; and a minimum amount for interim payments was reintroduced – 23% of the positive result of the profit and loss account.
• Net operating losses (NOLs) compensation limit increased to the levels of FY2015 on December 2016
• Mandatory recapture of impairment losses on portfolio in five years

BEPS
CbCR obligations or reporting to the Spanish tax authorities: obliged entity to file the CbCR as well as its territory or country residence

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
Spain

Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals
None

2.10 Consultations opened/closed
Open: None
Closed: None
### Tax rates (2016-17)

#### 1.1 Key tax rates

*Lists top federal marginal rates only.*

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</strong></td>
<td>Federal: 7.8% (on profit before tax)</td>
<td>Federal: 7.8%(^1) (on profit before tax)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Overall tax rate on profit before tax</td>
<td>Overall tax rate on profit before tax</td>
<td></td>
</tr>
<tr>
<td></td>
<td>taking into account federal, cantonal and</td>
<td>taking into account federal, cantonal and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>communal tax varies between 12% and 24%.</td>
<td>communal tax varies between 12% and 24%.</td>
<td></td>
</tr>
<tr>
<td><strong>Top Personal Income Tax (PIT) rate (national and local average if applicable)</strong></td>
<td>Federal: 11.5%</td>
<td>Federal: 11.5%(^2)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Overall tax rate taking into account</td>
<td>Overall tax rate taking into account</td>
<td></td>
</tr>
<tr>
<td></td>
<td>federal, cantonal, communal and church</td>
<td>federal, cantonal, communal and church</td>
<td></td>
</tr>
<tr>
<td></td>
<td>tax varies between 23.5% and 41.5%.</td>
<td>tax varies between 23.5% and 41.5%.</td>
<td></td>
</tr>
<tr>
<td><strong>Standard Value Added Tax (VAT) rate</strong></td>
<td>8%</td>
<td>8%(^3)</td>
<td>–</td>
</tr>
</tbody>
</table>

---

\(^1\) Art. 68 in conjunction with Art. 59 para. 1 lit. a Federal Direct Tax Act.

\(^2\) Art. 36 para. 1 and 2 Federal Direct Tax Act.

\(^3\) Art. 25 para. 1 Federal VAT Act.
2.1 Key drivers of tax policy change

- Currently, Swiss tax policy is mainly driven by international developments relating to the BEPS Project of the OECD.
- Nonetheless, Switzerland as a whole (and also the Swiss cantons) are striving to remain competitive from a tax standpoint.
- In the context of the above, international acceptance and transparency are important drivers for current Swiss tax policy.
- There is also “tax competition” among the Swiss cantons themselves.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017</td>
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</tr>
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<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☑ No changes expected in 2017</td>
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<tr>
<td></td>
<td>☑ No changes expected in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
<td></td>
<td></td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Some cantons may decrease</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
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<tr>
<td>(4) Treatment of losses</td>
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<td></td>
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<td>(5) Capital Gains Tax</td>
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<td></td>
<td>☐ N/A, as there is no Capital Gains Tax</td>
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<tr>
<td>(6) VAT, GST or sales tax rate</td>
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<tr>
<td></td>
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<td>-----------</td>
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<td>-------------------------------------------------------------</td>
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<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017 ☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017 Under the reservation of the statements in Section 2.4. VAT/GST</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes in 2017 ☐ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017 N/A, as there is no CFC regime</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
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</tr>
</tbody>
</table>
2.3 Tax policy outlook for 2017 — summary

Overall CIT burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overall PIT burden

<table>
<thead>
<tr>
<th></th>
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<th>Higher</th>
</tr>
</thead>
<tbody>
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<td>Switzerland</td>
<td>X</td>
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Overall VAT/GST/sales tax burden

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<td>Switzerland</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 — detail

Corporate income taxes

- **Spontaneous exchange of ruling information:** Switzerland has completed the legislative process required to implement spontaneous exchange of information related to tax rulings (BEPS Action 5) in 2016. All relevant legislation (i.e., the Convention on Mutual Administrative Assistance in Tax Matters, the revised Tax Administrative Assistance Act and the fully revised Tax Administrative Assistance Ordinance) enters into force on 1 January 2017. The first spontaneous exchanges of information with Switzerland will take place from 1 January 2018 onward.

- **Automatic exchange of financial account information:** Switzerland has signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information on 19 November 2014. All relevant legislation (i.e., the Convention on Mutual Administrative Assistance in Tax Matters, the Agreement between Switzerland and the EU for Automatic Exchange of Information in Tax Matters, the Federal Act on the International Automatic Exchange of Information in Tax Matters and the Ordinance on International Automatic Exchange of Information in Tax Matters) enters into force on 1 January 2017. The first automatic exchanges of information with Switzerland will take place from 1 January 2018 onward.

- **Automatic exchange of country-by-country reports:** Switzerland signed the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports (BEPS Action 13) on 27 January 2016. The local Implementation Act has been drafted. It is expected that the local Implementation Act will enter into force by the end of 2017 and all relevant legislation will apply starting from 1 January 2018. The first exchanges of county-by-country reports are expected to take place from 1 January 2020 onwards.

- **Dividend notification procedure:** It is likely that certain changes relating to the dividend notification procedure will enter into force in 2017.

Taxes on wages and employment

- **In 2017, with the initiative for financing the expansion of the Swiss rail way infrastructure (FABI as per Swiss acronym), a reduction of the deductible commuting expenses between home and work location becomes effective for cantonal and communal taxes in most cantons. For federal taxes, the commuting cost threshold became effective in 2016 (where the maximum permitted deduction at the federal level is CHF3,000).**
VAT/GST/sales taxes

- A revised Swiss VAT Law will be introduced on 1 January 2018.

- While the majority of the amendments are of an administrative or linguistic character, the revised VAT Law will trigger some significant changes for businesses operating in Switzerland. The most notable change is the near elimination of the turnover threshold for foreign entities doing business in Switzerland. While the turnover threshold of CHF100,000 per annum will remain in force, the global turnover will have to be included in the calculation basis, effectively resulting in an obligation for any non-established business with a total turnover of more than CHF100,000 annually to register for Swiss VAT from the first taxable turnover generated in Switzerland.

- Another amendment impacting foreign businesses is a CHF100,000 threshold, which will be introduced for non-established entities supplying low-value goods to Swiss customers. Low-value imports have previously not triggered an obligation for suppliers based abroad to register for Swiss VAT. With the introduction of the proposed amendment, foreign businesses supplying low-value goods at a total of CHF100,000 or more per annum to Swiss customers will be required to register for Swiss VAT, import the goods and charge Swiss VAT on the sale to Swiss customers. The purpose of the proposed amendment is to ensure that the non-established online suppliers compete on equal terms with the suppliers established in Switzerland. From the proposed wording, it is not clear when the registration liability will exactly arise and whether it will be reassessed on an annual basis.

2.5 Political landscape

The following is of high importance for future Swiss tax policy developments:

- On 17 June 2016, the Swiss Parliament approved the final bill on Corporate Tax Reform III. The reform foresees the replacement of certain preferential tax regimes with a new set of internationally accepted measures, including, among others, the following:
  - Introduction of a patent box (mandatory at cantonal level)
  - Introduction of an R&D super deduction (optional at cantonal level)
  - Introduction of a notional interest deduction (mandatory at federal and optional at cantonal level)
  - Introduction of transitional measures upon change of tax status
  - Introduction of a target relief of capital tax
  - These legislative changes are expected to go hand in hand with a broad reduction of the headline corporate tax rate, and aim to ensure that Switzerland remains attractive for multinational corporations in a post-BEPS environment.
  - The final bill on Corporate Tax Reform III was subject to a public vote and was rejected by the voters on 12 February 2017.

2.6 Current tax policy and tax administration leaders

Tax policy leader
- Ueli Maurer, Head of Federal Department of Finance

Tax administration leaders
- Adrian Hug, Head Swiss Federal Tax Administration
- Jörg Gasser, Head of Swiss State Secretariat for International Financial Matters

2.7 What key tax policy changes did you experience in your country in 2016?

- There have not been any fundamental changes in terms of Swiss tax policy. In 2016, as in 2015, Switzerland's tax policy is mainly driven by international developments relating to the BEPS Project of the OECD. In this context, Switzerland strives to be compliant with international standards but at the same time aims to remain as competitive as possible from a tax standpoint.

- Currently, Switzerland's tax policy has a large focus on the area of transparency and is in the process of introducing legislation regarding BEPS Actions 5 and 13 (see comments above).
2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective

Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

☐ N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

Please note that all of our above indications are to the best of our knowledge at the time this questionnaire was drafted. We, of course, cannot exclude that Switzerland may take differing negotiation positions at a later point in time.

2.9 Pending tax proposals

- See comments provided in section 2.5 regarding Corporate Tax Reform III.

2.10 Consultations opened/closed

Open:

- The public consultation regarding the amendment of the Withholding Tax Ordinance (relating to intercompany financing) opened on 23 September 2016 and will be closed on 23 December 2016.

Closed:

- The public consultation regarding the fully revised Tax Administrative Assistance Ordinance opened on 10 April 2016 and closed on 10 August 2016.
- The public consultation regarding the local Implementation Act for the exchange of county-by-country reports opened on 13 April 2016 and closed on 13 July 2016.
- The public consultation regarding the Ordinance on International Automatic Exchange of Information in Tax Matters opened on 18 May 2016 and closed on 9 September 2016.
1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>17%</td>
<td>17%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top Personal Income Tax (PIT) rate (national and local average if applicable)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>45%</td>
<td>45%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Value Added Tax (VAT) rate</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>5%</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Improving the tax system and achieving fairness and equality of taxation
- Providing support to the long-term care services
- Being inline with the development of the BEPS Action Plan
### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
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<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017 ☐ N/A, as there is no Capital Gains Tax</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>☐ Change proposed or known for 2017 ☐ Additional change possible or somewhat likely in 2017 ☒ No changes expected in 2017 ☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017 ☒ Same burden in 2017 ☒ Increased burden in 2017</td>
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</tbody>
</table>
### Tax types

<table>
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<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (7) VAT, GST or sales tax base | □ Change proposed or known for 2017  
 □ Additional change possible or somewhat likely in 2017  
 □ No changes expected in 2017  
 □ N/A, as there is no VAT, GST or sales tax | □ Lower burden in 2017  
 □ Same burden in 2017  
 □ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC) | □ Change proposed or known for 2017  
 □ Additional change possible or somewhat likely in 2017  
 □ No changes in 2017  
 □ N/A, as there is no CFC regime | □ Lower burden in 2017  
 □ Same burden in 2017  
 □ Increased burden in 2017 |
| (9) Thin capitalization | □ Change proposed or known for 2017  
 □ Additional change possible or somewhat likely in 2017  
 □ No changes expected in 2017  
 □ N/A, as there is no thin capitalization regime | □ Lower burden in 2017  
 □ Same burden in 2017  
 □ Increased burden in 2017 |
| (10) Transfer Pricing changes | □ Change proposed or known for 2017  
 □ Additional change possible or somewhat likely in 2017  
 □ No changes expected in 2017 | □ Lower burden in 2017  
 □ Same burden in 2017  
 □ Increased burden in 2017 |
| (11) Research and Development (R&D) incentives | □ Change proposed or known for 2017  
 □ Additional change possible or somewhat likely in 2017  
 □ No changes expected in 2017 | □ Lower burden in 2017  
 □ Same burden in 2017  
 □ Increased burden in 2017 |
| (12) Other business incentives – including depreciation/amortization | □ Change proposed or known for 2017  
 □ Additional change possible or somewhat likely in 2017  
 □ No changes expected in 2017 | □ Lower burden in 2017  
 □ Same burden in 2017  
 □ Increased burden in 2017 |
## 2.3 Tax policy outlook for 2017 – summary

### Overall CIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### Overall PIT burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

### Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>
2.4 Tax policy outlook for 2017 – detail

**Corporate income taxes**
No major changes expected. (Relevant articles on Anti-avoidance Act may be revised and applied in 2018.)

**Taxes on wages and employment**
No major changes expected

**VAT/GST/sales taxes**
No major changes expected

2.5 Political landscape
There are no major changes expected in tax policy this year.

2.6 Current tax policy and tax administration leaders

**Tax policy leader**
Sheu, Yu-Jer, Minister of Finance

2.7 What key tax policy changes did you experience in your country in 2016?

- Article 43-3, which provides Controlled Foreign Company rule, and Article 43-4, which provides the Place of Effective Management rule, of Income Tax Act have been passed in July 2016. But those tax rules will not take into force until the Executive Yuan determines the date of enforcement.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐  **Action 2** – Neutralizing the effects of hybrid mismatch arrangements
☐  **Action 6** – Preventing the abuse of treaties
☐  **Action 7** – Preventing the artificial avoidance of PE status
☐  **Action 14** – Making dispute resolution mechanisms more effective
  ☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
  ☐ Taiwan has so far made no public statement in regard to which MLI elements are likely to be adopted.

2.9 Pending tax proposals

- Introduction of Controlled Foreign Corporation rule to be levied for individual tax residents
- Double tax agreement signed by China and Taiwan in August 2015
- Double tax agreement signed by Canada and Taiwan in January 2016
- Double tax agreement signed by Poland and Taiwan in October 2016
2.10 Consultations opened/closed

Open:

- Address the tax challenges of the digital economy (Action 1 of BEPS)
- Neutralize the effects of hybrid mismatch arrangements (Action 2 of BEPS)
- Reexamine transfer pricing documentation (Action 13 of BEPS)

Closed: N/A
Tax policy

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Tax controversy

Kamolrat Nuchitprasitchai
kamolrat.nuchitprasitchai@th.ey.com
+66 2264 9090 (ext. 77062)

1 | Tax rates (2016-17)

1.1 Key tax rates

Lists top marginal federal rates only.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income</td>
<td>20%</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>Tax (CIT) rate (national and local average if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Personal Income</td>
<td>35%</td>
<td>35%</td>
<td>-</td>
</tr>
<tr>
<td>Tax (PIT) rate (national and local average if applicable)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Value Added</td>
<td>7%</td>
<td>7%</td>
<td>-</td>
</tr>
<tr>
<td>Tax (VAT) rate</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

Key drivers for 2017 are similar to those of 2016, i.e., tax reforms and amendments aimed at creating fairness in the tax system and increasing tax revenue for the Government in the long term. They can be listed under seven main categories – competitiveness, national security and international affairs, human quality, inequality, environment, public management and public services. The crucial “competitiveness” category covers strategies in relation to developing target industries, promoting small- and medium-sized enterprises (SMEs), promoting R&D, etc.

2 Ibid.
3 Ibid.
The Government expects to earn THB2.34 trillion in revenue in the 2017 fiscal year.

Measures to increase tax revenue are expected to be focused on:
- Continued crackdown on tax evasion and fraud such as the use of false tax invoices, an overhauling of customs tariff structures and amendments to excise tax bases and items exempted from VAT, and the introduction of an e-tax system to massively improve efficiency in tax collection.

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<tr>
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<td>□ Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>□ No changes expected in 2017</td>
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<tr>
<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
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<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
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<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
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<td></td>
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</tr>
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<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
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<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
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</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
</tbody>
</table>
### Thailand

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017  ☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes in 2017  ☒ N/A, as there is no CFC regime</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017  ☒ N/A, as there is no thin capitalization regime</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
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<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
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</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>☐ Change proposed or known for 2017  ☐ Additional change possible or somewhat likely in 2017  ☒ No changes expected in 2017</td>
<td>☐ Lower burden in 2017  ☒ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Thailand

#### 2.3 Tax policy outlook for 2017 – summary

- **Overall CIT burden**
  - Lower: No change
  - Higher

- **Overall PIT burden**
  - Lower: No change
  - Higher

- **Overall VAT/GST/sales tax burden**
  - Lower: No change
  - Higher
Thailand

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

- The Cabinet has approved tax incentives for owner-operated SME that register as juristic persons. Eligible entrepreneurs must have registered capital of less than THB5 million and a revenue of less than THB30 million per annum. The incentives include a corporate income tax deduction of 60% of expenses; exemptions from corporate income tax and Value Added Tax; a reduction of the specific business tax rate to 0.01% from 2%; and property transfer fees of only 0.01% for transfers of properties to new juristic persons (normal rate: 2%). The incentives will be effective until 31 December 2017.

- To improve the country’s competitiveness and its place in the global “ease of doing business” rankings, the Government has been offering new tax incentive packages for multinational companies, available to both Thai and foreign companies. These include corporate income tax incentives.

Taxes on wages and employment

- In order to encourage more high-income earners to pay tax and boost the country’s competitiveness, a new personal income tax structure is expected to take effect in 2017. The new structure raises the ceiling on the taxable income band to which the 30% tax rate applies, before the top tax rate of 35% kicks in, and increases personal and expense allowances for all taxpayers.

VAT/GST/sales taxes

- On 1 November 2016, the National Council for Peace and Order’s Announcement No. 65/2559 was issued and gazetted to extend the reduced VAT rate of 7% for another one year, to 30 September 2017. While a return to the 10% rate remains desirable from a tax collection standpoint, the economic outlook does not appear favorable to such a move in 2017.

2.5 Political landscape

- The next election will take place in late 2017 at the earliest. There have already been several postponements; but the approval of the draft constitution backed by the military junta through a referendum means further delays, while possible, are much less likely.

- A return to stronger economic growth is important to the junta in terms of how its governance of the country is perceived and in terms of reducing the risk of any further unrest in the political sphere. Several of the tax reforms and economic stimulus measures introduced may be seen in this context, and further measures are a possibility if investment and the economy fail to respond.

2.6 Current tax policy and tax administration leaders

Tax policy leaders

Apisak Tantivorawong, Minister of Finance
Krisda Chinavicharana, Director of Fiscal Policy Office

Tax administration leaders

Prasong Poontaneat, Director General of Revenue Department
Tipawan Chayutimanta, Director of Bureau of Large Business Tax Administration
Hirunya Suchinai, Secretary General of the Board of Investment
Kulit Sombatsiri, Director General of Customs Department
Somchai Poolsawasdi, Director of Excise Department

2.7 What key tax policy changes did you experience in your country in 2016?

- The Government has approved two acts related to Board of Investment (BOI) incentives and various infrastructure that are intended to facilitate investment in high-technology, innovation and research and development projects. For investment projects meeting the criteria, the maximum corporate income tax exemption period is being increased from 8 years to 13 years and the 50% tax reduction period that follows this from 5 years to 10 years.

- To encourage owner-operated SMEs to enter the formal tax system, the Cabinet approved tax incentives, including allowing juristic entities with registered capital not exceeding THB5 million and annual sales of no more than THB30 million to double deduct the expenses incurred from juristic person registration, and accounting and auditing fees. A tax amnesty was also offered, whereby SMEs entering the tax system by a certain date and meeting certain criteria were given an undertaking that past tax issues would be overlooked, providing taxes were properly paid going forward.
An additional 100% tax deduction is granted for research and development expenses paid during 1 January 2015 to 31 December 2019, capped at prescribed percentages of gross income for tax purposes in the same accounting period. The incentive does not apply to the entities whose business has been granted promotional privileges under investment promotion laws.

The BOI has continued to implement tax measures intended to accelerate investment in accordance with the Government’s 2015-16 investment acceleration policy. As in 2015, these measures included incentives for projects in certain provinces and/or industries or in Special Economic Development Zones (SEZ), incentives to support the Government’s Cluster Development Policy (to develop potential manufacturing-based areas for targeted industries), and incentives for projects that start operation by 2017.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☐ N/A – The Thai Government is reviewing its tax policy and tax enforcement approach and may fine-tune its tax policy to incorporate relevant changes if applicable.

2.9 Pending tax proposals

☐ Proposed legal amendments to change the excise tax basis from ex-factory prices to state-recommended retail prices are pending approval by the Council of State and may be put before the National Legislative Assembly before the end of 2016. These would be effective 180 days after they are announced in the Royal Gazette.

A draft bill on a land and buildings tax is under consideration to replace both the house and land tax and the local development tax bills, which are considered outdated. The new tax is intended to lower income inequality, expand the national taxpayer base, help increase the tax collection efficiency of local administrative organizations, and improve land utilization nationwide. This draft is expected to be applicable from the tax year 2018.

Thailand is studying plans to tighten tax collection rules for technology companies, in line with other Southeast Asian countries. Measures would cover mobile transfers and the internet payment sectors as well as major global players such as Google. Some of the existing laws have been in use for more than 50 years and are no longer relevant to these new types of business.

On 1 November 2016, the Cabinet approved draft tax incentive measures to promote the use of electronic payment channels, granting tax breaks to buyers of devices used for processing e-payments expenses and for service fees paid to debit card issuers for processing e-payments.

On 27 September 2016, the Cabinet approved draft tax measures to promote investment in the Southern Border Provinces, including an additional 100% deduction on prescribed expenditure and corporate income tax exemptions and flat personal income tax rates for start-ups.

The Cabinet approved in principle a draft Transfer Pricing Act in May 2015, and it is anticipated that this will become law at some point. Once the Act becomes effective, taxpayers will be required to prepare and file transfer pricing documentation within the same time frame as their corporate income tax returns.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

*Lists top marginal federal rates only.*

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>20%</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>35%</td>
<td>35%</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>18%</td>
<td>18%</td>
<td>-</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

The Government is striving to be more competitive from a tax standpoint and minimize the inequality using the tax system.

As per the Medium Term Fiscal Plan envisaged for the period from 2016-18 and prepared by the Turkish Ministry of Development and High Planning Council, many tax policies, including the ones mentioned below, will be continued:

- Promoting the improvement of goods with high added value and R&D, and design activities intended to increase the competitiveness of the economy at an international level
- Incentivizing the increase in domestic savings and integration of such savings into economic system
- Formulating necessary tax regulations to increase employment opportunities, particularly for women, young people and disadvantaged groups; increasing the employment capacity of the companies; and preventing informal employment
Turkey

- Promoting actions intended to support the execution of financial transactions in Turkey through increasing the competitiveness by way of tax regulations and taking precautions to eliminate uncertainty and enabling specialization in practice in respect of the Istanbul International Finance Center Program
- Improving the tax policies that decrease the input cost of employment, energy and raw materials, maintain the security of raw materials, and increase the quality of employment in order to increase the share of Turkish manufacturing industry in the world trade through increasing its productivity and competitiveness
- Effectively utilizing the tax policies for the enhancement of the optimal distribution of production factors

Moreover, digital applications, such as e-invoice and e-book, are planned to be extended.

### 2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>- Change proposed or known for 2017</td>
<td>- Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>- Additional change possible or somewhat likely in 2017</td>
<td>- Same burden in 2017</td>
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<tr>
<td></td>
<td>- No changes expected in 2017</td>
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<td>(2) Interest deductibility</td>
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<td></td>
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</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>- Change proposed or known for 2017</td>
<td>- Lower burden in 2017</td>
</tr>
<tr>
<td></td>
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<td></td>
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<td>- Change proposed or known for 2017</td>
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<td>(5) Capital Gains Tax</td>
<td>- Change proposed or known for 2017</td>
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</tr>
<tr>
<td></td>
<td>- N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>- Change proposed or known for 2017</td>
<td>- Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>- Additional change possible or somewhat likely in 2017</td>
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</tr>
<tr>
<td>-----------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017  ☑ Additional change possible or somewhat likely in 2017  ☐ No changes expected in 2017  ☐ N/A, as there is no VAT, GST or sales tax</td>
<td>☑ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017  ☑ Additional change possible or somewhat likely in 2017  ☑ No changes in 2017  ☐ N/A, as there is no CFC regime</td>
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</tr>
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<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017  ☑ Additional change possible or somewhat likely in 2017  ☑ No changes expected in 2017  ☐ N/A, as there is no thin capitalization regime</td>
<td>☑ Lower burden in 2017  ☐ Same burden in 2017  ☐ Increased burden in 2017</td>
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<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017  ☑ Additional change possible or somewhat likely in 2017  ☑ No changes expected in 2017</td>
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<td>(11) Research and Development (R&amp;D) incentives</td>
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</tr>
</tbody>
</table>

Turkey
### Tax types

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td><img src="#" alt="Change proposed or known for 2017" />, <img src="#" alt="Additional change possible or somewhat likely in 2017" />, <img src="#" alt="No changes expected in 2017" /></td>
<td><img src="#" alt="Lower burden in 2017" />, <img src="#" alt="Same burden in 2017" />, <img src="#" alt="Increased burden in 2017" /></td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td><img src="#" alt="Change proposed or known for 2017" />, <img src="#" alt="Additional change possible or somewhat likely in 2017" />, <img src="#" alt="No changes expected in 2017" /></td>
<td><img src="#" alt="Lower burden in 2017" />, <img src="#" alt="Same burden in 2017" />, <img src="#" alt="Increased burden in 2017" /></td>
</tr>
<tr>
<td>(15) PIT base</td>
<td><img src="#" alt="Change proposed or known for 2017" />, <img src="#" alt="Additional change possible or somewhat likely in 2017" />, <img src="#" alt="No changes expected in 2017" /></td>
<td><img src="#" alt="Lower burden in 2017" />, <img src="#" alt="Same burden in 2017" />, <img src="#" alt="Increased burden in 2017" /></td>
</tr>
</tbody>
</table>

#### 2.3 Tax policy outlook for 2017 – summary

**Overall CIT burden**

- **Lower**: ![X](#) No change | Higher

**Overall PIT burden**

- **Lower**: ![X](#) No change | Higher

**Overall VAT/GST/sales tax burden**

- **Lower**: ![X](#) No change | Higher
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

The long awaited Draft Code on Income Tax (Draft Code) that was combining the regulations set forth for corporate and individual incomes was withdrawn from the Parliament. Although the modernization of income tax system of the country is still on the agenda of the Ministry of Finance, no major change is expected in 2017 and the current focus is to provide more support to investments creating employment and know-how.

A draft law providing 5% reduction on the income tax to be accrued through annual tax returns to be filed after 1 January 2018 is expected to be enacted soon. The reduction will be available only to taxpayers who have been fully compliant for the last three years (all respective tax returns have been filed and taxes have been paid duly on time).

Taxes on wages and employment

It is envisaged to extend the revenues subject to individual income tax and maintain an increase in the declaration of individuals.

Private pension system (PPS) has become mandatory and PPS cuts will be made from each kind of wage starting from January 2017. The cut amount will be calculated based on the wage amount. An employee has the right to withdraw from the system within two months from the date when the employer notifies the employee of the involvement in the PPS.

VAT/GST/sales taxes

The indirect tax component of transactions is likely to decrease in 2017. In addition, temporary reduction of sales taxes are expected to be introduced for stimulating the economy.

2.5 Political landscape

- Turkey’s internal agenda is closely connected to regional volatilities, including events in Syria and Iraq.
- In addition, Turkey very recently overthrew an unsuccessful coup attempt in July. Current political leaders are running a campaign against this group, which also means substantial reorganization in all public institutions and governmental bodies, including bureaucracy, security, education and media.
- The economic agenda is dominated by the Government’s efforts to revitalize economic growth through investments. Although the country lost its investment grade status recently, the Government is unveiling new incentive schemes to promote investment and growth.
- The incentives are focused on innovative capabilities and also large-scale investments in certain sectors and regions. Tailored incentive packages are to be introduced.
- According to the official medium-term plan, GDP growth is estimated at 3% in 2016 and 4.4% in 2017. However, International Monetary Fund (IMF) is more cautious and expects 2.9% in 2016 and 3% in 2017.
- Starting with 2017, a measured increase in budget deficit is planned so as to support economic growth.
- Effective distribution of tax revenues is becoming more crucial, triggering tax rate increases or the introduction of new taxes.

2.6 Current tax policy and tax administration leaders

Burcu Aydin, General Director at the General Secretariat of Revenue Policies (temporary officer)

Adnan Ertürk, General Director of the Revenue Administration

Huseyin Karakum General Director of Tax Inspection Board
2.7 What key tax policy changes did you experience in your country in 2016?

The Law on The Restructuring of Certain Receivables No. 6736 (the Tax Amnesty Code) entered into force on 19 August 2016. Said Code provided benefits to taxpayers to settle with the tax administration regarding their public debts. The Tax Amnesty Code covered the following:

› Restructuring of specified receivables and receivables still at the stage of litigation, and transactions at the stage of pending inspection and assessment period (tax assessments and assessments regarding customs tax)
› Restructuring of specified social security institution credits and missing labor cost premium amounts at the stages of pre-review, investigation or determination
› Tax base and tax increase
› Wealth amnesty - (it has been stated that the assets that were brought to Turkey and declared until 31 June 2017 shall not been included in the determination of income)
› Correction of operational registries (commodities, machinery, equipment, inventories and cash balance due from shareholders)

On the other hand, the motor vehicle tax rate sharply increased in 2016.

According to Article 30 of the VAT Code, which was amended by changes that entered into force on 9 August 2016, the VAT amounts paid in the importation stage of goods or in the capacity of tax on disguised profit distribution through transfer pricing (under Article 13 of Corporate Income Tax Law No. 5520) will not be considered as a nondeductible VAT amount hereinafter.

The transfer of shares is exempt from the stamp duty.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – Turkey has so far made no public statement in regard to which MLI elements are likely to be adopted.

2.9 Pending tax proposals

The BEPS Action Plan has been included in the tax policy agenda of Turkey; however, no proposal has yet been submitted and all issues remain under discussion.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
The outlook for global tax policy in 2017

1 | Tax rates (2016-17)

1.1 Key tax rates

<table>
<thead>
<tr>
<th>Tax rates (2016-17)</th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>20%</td>
<td>19%</td>
<td>5%</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>45%</td>
<td>45%</td>
<td>-</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>20%</td>
<td>20%</td>
<td>-</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Following the UK’s decision to leave the European Union (EU) the Government is focusing on policy areas to address electorate concerns that led to the leave vote. High levels of immigration, income inequality and disillusionment with the system were among issues expressed by voters and are the key drivers of policy.

- The referendum result has created uncertainty in the UK’s economic outlook and business investment is expected to remain subdued due to economic uncertainty as the UK continues to negotiate its departure from the EU. However, the Office for National Statistics estimates that economy grew by 1.8% in real terms in 2016, second only to Germany among major advanced economies. Growth remained robust in the second half of the year, at 0.6% in Q3 and 0.7% in Q4 2016, stronger than anticipated in the Autumn Statement 2016. On a per capita basis, UK GDP increased 1.1% in 2016. With higher than expected growth in Q4 2016 and stronger near-term momentum in the economy, the forecast for GDP growth in 2017 has been revised up by 0.6 percentage points to 2.0%. Thereafter there is a shallower slowdown and a more gradual recovery, with growth revised down to 1.6% in 2018, 1.7% in 2019, and 1.9% in 2020, followed by an unchanged forecast of 2.0% growth in 2021.
- The Government is looking to digitalize the UK tax system with the aim of reducing the burden of tax compliance. By 2020, businesses and individual taxpayers will be able to register, file, pay and update their information at any time of the day or night, and at any point in the year, to suit them. The aim is that, for the vast majority, there will be no need to fill in an annual tax return.

- The Prime Minister confirmed that the Government intends to trigger Article 50 on 29 March 2017, which will begin the formal two year process of leaving the EU. Leaving the EU will require major changes to UK statute law. The Government will repeal the European Communities Act 1972 and will incorporate European law in to domestic law. The Government has indicated that the Bill will contain delegated powers allowing ministers to adapt any laws on the statute book that originate from the EU so as to fit the UK’s new relationship with the EU.

### 2.2 Tax burdens in 2017

For each tax type, please indicate if a change has been proposed/known, and/or if additional change is possible/somewhat likely in 2017, or if no change is expected. Also mark what the expected tax burden is for 2017.

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☒ Change proposed or known for 2017 ○ Additional change possible or somewhat likely in 2017 ○ No changes expected in 2017</td>
<td>☒ Lower burden in 2017 ○ Same burden in 2017 ○ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☒ Change proposed or known for 2017 ○ Additional change possible or somewhat likely in 2017 ○ No changes expected in 2017</td>
<td>○ Lower burden in 2017 ○ Same burden in 2017 ○ ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☒ Change proposed or known for 2017 ○ Additional change possible or somewhat likely in 2017 ○ No changes expected in 2017</td>
<td>○ Lower burden in 2017 ○ Same burden in 2017 ○ ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☒ Change proposed or known for 2017 ○ Additional change possible or somewhat likely in 2017 ○ No changes expected in 2017</td>
<td>○ Lower burden in 2017 ○ Same burden in 2017 ○ ☒ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☒ Change proposed or known for 2017 ○ Additional change possible or somewhat likely in 2017 ○ No changes expected in 2017 ○ N/A, as there is no Capital Gains Tax</td>
<td>☒ Lower burden in 2017 ○ Same burden in 2017 ○ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### United Kingdom

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (6) VAT, GST or sales tax rate | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no VAT, GST or sales tax | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (7) VAT, GST or sales tax base | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no VAT, GST or sales tax | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (8) Controlled Foreign Companies (CFC) | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes in 2017  
□ N/A, as there is no CFC regime | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (9) Thin capitalization | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017  
□ N/A, as there is no thin capitalization regime | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (10) Transfer Pricing changes | □ Change proposed or known for 2017  
☑ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
| (11) Research and Development (R&D) incentives | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☑ No changes expected in 2017 | □ Lower burden in 2017  
☑ Same burden in 2017  
□ Increased burden in 2017 |
## United Kingdom

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(12) Other business incentives — including depreciation/amortization</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ Change proposed or known for 2017</td>
<td>□ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ Additional change possible or somewhat likely in 2017</td>
<td>□ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>□ No changes expected in 2017</td>
<td>□ Increased burden in 2017</td>
</tr>
</tbody>
</table>

### 2.3 Tax policy outlook for 2017 — summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td><strong>No change</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall PIT burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td><strong>No change</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall VAT/GST/sales tax burden</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td><strong>No change</strong></td>
</tr>
</tbody>
</table>
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

Substantial Shareholding Exemption: Following consultation, the UK’s exemption from tax on gains on disposals of substantial shareholdings will be simplified and extended. Specifically, requirements relating to the investing company will be removed and a more comprehensive exemption for companies owned by qualifying institutional investors will be introduced. The changes will take effect from 1 April 2017.

Hybrid Mismatch Arrangements: On 1 January 2017 new rules addressing hybrid mismatching were introduced. The rules implement the best practice recommendations in the OECD’s final report on Action 2 of the Base Erosion and Profit Shifting (BEPS) project.

Interest restrictions: The UK’s interest relief rules are set to change with effect from 1 April 2017 with the introduction of a fixed ratio rule to limit net interest deductions to a maximum of 30% of EBITDA. A group ratio rule will allow greater interest deductions for groups with a third party net debt to group EBITDA ratio that exceeds the 30% limit. A group threshold of £2m of net UK interest expense will apply. Specific exemption will cover Public Benefit Infrastructure Projects.

New rules on use of corporation tax losses: For corporation tax losses incurred on or after 1 April 2017 companies will be free to use carried forward losses against profits from other income streams or from other companies within a group. However, from 1 April 2017, only 50% of taxable profit above £5m will be able to be offset through losses carried forward.

From 6 April 2017, the Lifetime Individual Savings Account (ISA) will be introduced. This allows younger adults to save up to £4,000 each year and receive a bonus of up to £1,000 a year on these contributions, which can be withdrawn tax-free to put towards a first home or when they turn 60. The ISA tax free allowance will rise from £15,240 to £20,000 from April 2017.

Reform to Salary Sacrifice

The tax and employer social security advantages of salary sacrifice schemes, that reduce an employee’s salary in return for a non-cash benefit, will be removed from 6 April 2017, except for arrangements relating to pensions, childcare, Cycle to Work and ultra-low emission cars. Employees will now pay the same tax as individuals purchasing items using equivalent post-tax income.

2.5 Political landscape

Following the result of the EU referendum, the Prime Minister at the time, David Cameron, resigned and was succeeded by Theresa May. A new department, the Department for Exiting the European Union, has been established to oversee Britain’s plan to leave the EU.

George Osbourne has been replaced as the previous Chancellor of the Exchequer, the head of the UK’s Economic and Finance Ministry, by Phillip Hammond. Whilst the aim of the government, to try and operate within their means and run a balanced budget, has not changed in the long-term, the new Chancellor announced in the 2016 Autumn Statement the creation of a National Productivity Investment Fund, with £23bn of investment over 2016-2022 to boost the UK economy in light of the economic instability Brexit has created.

There are no elections due to take place in 2017 and hence the leadership is not expected to change.

2.6 Current tax policy and tax administration leaders

Government Officials: Jon Thompson (Permanent Secretary of HMRC, and Chief Executive); Edward Troup (First Permanent Secretary HMRC, and Executive Chair), Tom Scholar (Permanent Secretary HM Treasury).

Political leaders: The Rt Hon Phillip Hammond (Chancellor of the Exchequer), David Gauke MP (Chief Secretary to the Treasury), Jane Ellison MP (Financial Secretary to the Treasury)
2.7 What key tax policy changes did you experience in your country in 2016?

- The UK has implemented Country-by-Country Reporting as per Action 13 of the OECD's BEPS project, for all accounting periods starting on or after 1 January 2016. The measure introduces a reporting requirement for any UK resident ultimate parent entity of a Multinational Enterprise (MNE) with a consolidated group turnover of €750 million or more. The measure also includes a requirement for the top UK entity of an MNE to file a CBCR, when it is not the Ultimate Parent Entity (UPE) of the MNE and the UPE is resident in a country that either does not require CBCR or doesn't exchange reports with HMRC in accordance with an effective multilateral competent authority agreement. This local filing requirement will mean that the top UK entity of an MNE will file a CBCR covering all entities within the sub group of which it is the head. There is an exemption if the UK entity that would be required to file, has already been included in a CBCR that HMRC has received.

- Since 1 April 2016, higher rates of stamp duty land tax (SDLT) apply to purchases of additional residential properties such as second homes and buy-to-let properties. A new higher rate of 3pp above the previous rates was introduced, making it more expensive to purchase a second home. From 17 March 2016, a new progressive SDLT rate will replace the previous 'slab system' that applied one rate of SDLT on the entire transaction value of a property. Under the progressive system, SDLT will be payable on the portion of the transaction value which falls within each tax band.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
  - Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
- N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

2.9 Pending tax proposals

Introduction of secondary adjustments into the UK's domestic transfer pricing legislation

The government published a consultation on May 2016, looking at the possible introduction of a secondary adjustment rule into the UK's domestic transfer pricing legislation as part of its commitment to ensure taxpayer compliance in this area and realign an economic benefit of a transaction with the arms length position. A decision on the rule is currently pending.

Social security ‘National Insurance’

The government will abolish Class 2 National Insurance Contributions (NICs) – a flat-rate charge on the self-employed – from April 2018. This will increase the differential between the rates of National Insurance paid by employees and those paid by the self-employed. Since April 2016, the self-employed also have access to the same State Pension as employees, worth £1,800 a year more to a self-employed individual than under the previous system.

Dividend allowance

The 2017 Spring Budget also announced the dividend allowance would be reduced from £5,000 to £2,000 from April 2018.

Soft Drinks Industry Levy

The Soft Drinks Industry Levy was announced at Budget 2016 and is aimed at producers and importers of soft drinks that contain added sugar. The levy rate for added sugar drinks with a total sugar content of 5 grams or more per 100 milliliters will be set at 18 pence per litre, and those with 8 grams or more per 100 millilitres will be set at 24 pence per litre. The levy will take effect from 6 April 2018.

2.10 Consultations opened/closed

Open:

- Alcohol structures (12 June 2017)
- Non-resident companies chargeable to income tax and non-resident capital gains tax (9 June 2017)
- VAT fraud in labour provision in construction sector (9 June 2017)
- VAT: Tackling fraud on goods sold online - update on split payment (30 June 2017)
- Making Tax Digital: sanctions for late submission and late payment (11 June 2017)
Withholding tax exemption for debt traded on a Multilateral Trading Facility (12 June 2017)

Landfill Tax: Extending the scope to illegal disposals (5 May 2017)

Sanctions to tackle tobacco duty evasion and other excise duty evasion (10 May 2017)

Simplifying the administration of Alcohol Duty (26 April 2017)

Tax treatment of heated tobacco products (12 June 2017)

Tax issues for late-life oil and gas assets (30 June 2017)

Taxation of employee expenses call for evidence (12 June 2017)

Closed:

Technical consultation: draft regulations for the Apprenticeship Levy (3 February 2016)

Simplifying the Gift Aid donor benefits rules: further consultation (3 February 2016)

Higher rates of stamp duty land tax (SDLT) on purchases of additional residential properties (closed 1 February 2016)

Business rates: delivering more frequent revaluations (closed 8 July 2016)

Corporate contributions to grass root sports (closed 15 June 2016)

Reforms to corporation tax loss relief (closed 18 August 2016)

Tax deductibility of corporate interest expense (4 August 2016)

Reform of the Substantial Shareholdings Exemption (closed 20 August 2016)

Company car tax for ultra-low emission cars (closed 20 October 2016)

Soft drinks industry levy (closed 13 October 2016)

Reforms to the Taxation of non-domiciles (closed 21 October 2016)

Museums and galleries tax relief (closed 29 October 2016)

double taxation treaty passport scheme (closed 12 August 2016)

Off-payroll working in the public sector: reform of the intermediaries legislation (closed 18 August 2016)

Introduction of secondary adjustments into the UK’s domestic transfer pricing legislation (18 August 2016)

Landfill Tax: improving clarity and certainty for taxpayers (closed 18 August 2016)

Lease accounting changes (closed 30 October 2016)

Tax treatment of freeplays in Remote Gaming Duty (closed 9 August)

Authorised contractual schemes: reducing tax complexity for investors (closed 9 August 2016)

Alignment of dates for ‘making good’ on benefits-in-kind (closed 4 October 2016)

Simplifying the PAYE Settlement Agreement (PSA) process (closed 18 October 2016)

Aggregates Levy - whether to exempt aggregate extracted when laying underground utility pipes (closed 18 October 2016)

Partnership taxation: proposals to clarify tax treatment (closed 1 November 2016)

Tackling Disguised Remuneration: technical consultation (open 5 October 2016)

Salary sacrifice for the provision of benefits-in-kind (closed 19 October 2016)

Gift Aid and intermediaries: technical consultation (closed 5 October 2016)

Simplification of the tax and National Insurance treatment of termination payments - consultation on draft legislation (closed 5 October 2016)

Stamp duty land tax: changes to the filing and payment process (closed 7 October 2016)

Gift Aid Small Donations Scheme (closed 1 July 2016)

Making Tax Digital: Tax administration (closed 7 November 2016)

Making Tax Digital: Bringing business tax into the digital age (closed 7 November 2016)
United Kingdom

Business Income Tax: Simplifying tax for unincorporated businesses (closed 7 November 2016)

Making Tax Digital: Voluntary pay as you go (closed 7 November 2016)

Making Tax Digital for Business - An overview for small businesses, the self-employed and smaller landlords (closed 7 November 2016)

Strengthening tax avoidance sanctions and deterrents: discussion document (closed 12 October 2016)

Tackling offshore tax evasion: a requirement to correct (closed 19 October 2016)

Tackling the hidden economy: conditionality (closed 21 October 2016)

Tackling the hidden economy: extension of data-gathering powers to money service businesses (closed 21 October 2016)

Tackling the hidden economy: sanctions (21 October 2016)

Tackling tax evasion: a new corporate offence of failure to prevent the criminal facilitation of tax evasion (closed 10 July)

Employee Share Schemes: NIC elections (closed 13 July 2016)

Making Tax Digital: Transforming the tax system through the better use of information (7 November 2016)

Hybrid and other mismatches - draft guidance (10 March 2017)

Scope of VAT Grouping (27 February 2017)

Tackling offshore tax evasion: A requirement to notify HMRC of offshore structures (27 February 2017)

Reducing the money purchase annual allowance (15 February 2017)

1. Withdrawal of extra statutory concessions technical note and call for evidence (7 March 2017)
For all of the US taxes discussed in this chapter, it is possible there could be changes in 2017 if tax reform is enacted, but it is considered more likely that changes would be effective in 2018 or later. Also, targeted tax preferences might be reduced or eliminated before tax rate reductions go into effect. Until more details are available, it is challenging to predict how existing tax rules may be affected by tax reform.

### Tax rates (2016-17)

#### 1.1 Key tax rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>39(^1)</td>
<td>39</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>39.6(^2)</td>
<td>39.6</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>0(^3)</td>
<td>0</td>
<td>–</td>
</tr>
</tbody>
</table>

\(^1\) The top federal marginal rate is 35%, but many US states and municipalities also levy their own corporate income taxes, with rates ranging from 0% to 12%, as well as other types of business taxes determined on other bases, such as net worth or gross receipts. For US federal income tax purposes, an alternative minimum tax is imposed. EY, “2016 Worldwide Corporate Tax Guide,” February 12, 2016.

\(^2\) In addition to the federal rate, US state and municipal individual income tax rates apply, ranging from 0% to 13.3%. Additionally, a federal net investment income tax went into effect on January 1, 2013. The 3.8% tax applies to certain net investment income of individuals, estates and trusts that have income over statutory threshold amounts.

\(^3\) However, many state and local governments impose sales taxes, with rates varying from 0% to 10.25%. It is estimated that there are about 7,600 separate sales tax rate jurisdictions in the United States.
2.1 Key drivers of tax policy change

- There has been a general desire for some time to reform the US tax system to increase US competitiveness relative to some trading partners that have lower corporate income tax rates and territorial tax systems. Many reform ideas have been under development for years, but, until recently, the political dynamics have made action on tax reform challenging.

- With Republican control of both chambers of Congress and a Republican president, the prospect of achieving significant tax reform has become much more likely in the near term, with some speculating that tax reform legislation could be enacted in the 2017-2018 time frame. Should that happen, it is expected that the changes would be effective for 2018 forward; however, it is possible, though somewhat less likely, that changes could affect earlier tax years.

- For the Republican lawmakers controlling the legislative agenda, economic growth remains a key issue. While economic growth is strong and unemployment is down, it is expected that reform plans will include provisions intended to increase demand for US goods and services, as well as the return to capital investment in US companies. Generally, the tax reform plans under consideration share the broad goals of stimulating US economic growth by encouraging companies to invest and create jobs in the United States and to reduce their reliance on imports. They would generally lower income tax rates, broaden the US tax base by eliminating many targeted tax preferences and make changes to the international tax system aimed at bringing the United States more inline with other countries' territorial tax systems.

- While Republicans control both chambers of Congress, their majority in the Senate is shy of the 60 votes needed to overcome a Democratic filibuster that could tie up a reform bill. Therefore Republicans can pursue tax reform legislation through “reconciliation,” a procedure that can be used for certain bills that allows legislation to pass with a simple 51-vote majority, but places limits on what can be included in the legislation.

- There have also been calls from the Trump Administration and from members of both political parties for legislation to increase investment in US infrastructure, and it is possible that some provisions designed to fund infrastructure investment could be included in tax reform legislation.

- Tax policy this year may also be affected by the Trump Administration’s approach to regulations. In January, the White House issued a “Regulatory Freeze Pending Review” memorandum outlining steps “to ensure that the President’s appointees or designees have the opportunity to review any new or pending regulations,” and President Trump subsequently issued an executive order requiring that for every one new regulation issued, two would have to be revoked.
2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017(^4)</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☑ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>☐ Change proposed or known for 2017</td>
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<tr>
<td></td>
<td>☑ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☑ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
</tr>
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<td></td>
<td>☑ No changes expected in 2017</td>
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</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
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<td></td>
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<td>☑ Same burden in 2017</td>
</tr>
<tr>
<td></td>
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</tr>
<tr>
<td>(6) VAT, GST or sales tax rate(^5)</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
<td></td>
<td>☑ No changes expected in 2017</td>
<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☑ N/A, as there is no Capital Gains Tax</td>
<td></td>
</tr>
<tr>
<td>(7) VAT, GST or sales tax base(^6)</td>
<td>☐ Change proposed or known for 2017</td>
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<td></td>
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<td>☐ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☑ N/A, as there is no VAT, GST or sales tax</td>
<td></td>
</tr>
</tbody>
</table>

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\(^4\) It is possible there could be changes in 2017 if tax reform is enacted, but it is considered more likely that changes would be effective in 2018 or later.

\(^5\) These represent the general trend within the United States, but because each state controls its own sales tax base and rate, there may be deviations among the states.

\(^6\) These represent the general trend within the United States, but because each state controls its own sales tax base and rate, there may be deviations among the states.
### United States

<table>
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<tr>
<th>Tax types</th>
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<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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</thead>
<tbody>
<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes in 2017, N/A, as there is no CFC regime</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017, N/A, as there is no thin capitalization regime</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
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<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(14) Top marginal PIT Rate</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
<tr>
<td>(15) PIT base</td>
<td>Change proposed or known for 2017, Additional change possible or somewhat likely in 2017, No changes expected in 2017</td>
<td>Lower burden in 2017, Same burden in 2017, Increased burden in 2017</td>
</tr>
</tbody>
</table>

---

7 The IRS approach to enforcement and compliance for large taxpayers is undergoing changes in 2017. Its Large Business and International (LB&I) Division announced a new “campaign” approach early in the year and listed 13 initial focus areas for its examination and compliance efforts. Under this new audit process, LB&I will identify and develop certain campaigns focused on specific issues and corresponding potential compliance risks.
United States

2.3 Tax policy outlook for 2017 – summary

Overall CIT burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Overall PIT burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>No change</th>
<th>Higher</th>
</tr>
</thead>
</table>

Overall VAT/GST/sales tax burden

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>Mixed</th>
<th>Higher</th>
</tr>
</thead>
</table>

2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

Corporate income tax rates are likely to drop as part of the comprehensive tax reform effort in Congress, although when and by how much is uncertain. The rates being considered range from 15% — the rate President Trump proposed during his campaign (with the same rate on the business income of pass-through entities) — to 20% for corporations (and 25% for pass-through business income), which House Republicans proposed in their June 2016 tax reform “blueprint.”

Where exactly the corporate income tax rate ends up will depend partly on revenue considerations, and what other provisions are included in tax reform to offset the revenue loss of lowering the rate. House Republicans have pledged their legislation would not add to the deficit under a “dynamic” scoring model that takes into account the economic growth that would result from the lower tax rates.

Taxes on wages and employment

For 2017, some federal employment tax rates and limits have risen, while others have remained the same. The maximum amount of wages subject to the 6.2% Social Security tax rose from $118,500 in 2016 to $127,200 in 2017, an increase of more than 7%. The maximum salary-reduction contribution an individual can make to a 401(k) plan or other qualified retirement plan, meanwhile, remained the same as in 2016, at $18,000. The limit for pre-tax salary reductions for health flexible spending accounts rose, to $2,600 (from $2,550 in 2016). These taxes are unlikely to be affected by tax reform.

Starting in tax year 2016 (returns filed in 2017), Forms W2 and 1099-MISC reporting nonemployee compensation must be filed by January 31, whether they are filed electronically or on paper. In addition, only one 30-day extension on the filing due date will be allowed, and it must be approved by the IRS. The IRS will consider only extreme hardships in extending the filing due date.

In an effort to combat tax refund fraud, the IRS launched a pilot program in the 2016 filing season involving the use of 16-digit verification codes on 2 million Forms W-2. For 2017, the pilot will expand to 50 million, and the IRS anticipates that the verification will eventually be required on all Forms W-2.
Looking ahead, some of the proposals President Trump announced during his campaign may have employment tax implications. These include proposals related to parental leave, dependent care savings accounts, reductions in income tax rates, the future solvency of the Social Security trust fund, immigration reform, IRS administration changes and overtime pay.

**VAT/GST/sales taxes**

- Collection of sales and use tax on remote sales continues to be an area of focus in jurisdictions across the country, and a growing number of states are set to challenge existing US Supreme Court precedent that has arguably limited the states’ ability to impose taxes on business without a physical presence in the taxing jurisdiction. Two states (Alabama and South Dakota) have already begun direct challenges to this precedent with the stated objectives of asking the Court to reconsider its historic precedent, and others (e.g., Tennessee and Vermont) have enacted legislation or regulations targeting the same activity.

- States continued to offer tax amnesty programs in 2016 enabling businesses that became aware of noncompliance the ability to file returns and in most cases, limit interest and penalties, as well as the lookback periods for which tax could be recovered. (Theoretically, if such taxpayers had nexus but did not file returns and pay tax, the statute of limitations would be indefinite.) Pennsylvania will offer a tax amnesty program that will run April 21, 2017 through June 19, 2017.

- Taxpayers continue to find some success in challenging the states’ ability to impose sales tax on certain products and services that are not specifically delineated in the tax law. In *Lucent Technologies v. State Board of Equalization*, a California Court of Appeal found software licensed by a technology company to be exempt from sales and use tax as a matter of law, and segregation of receipts between taxable and nontaxable activities may be an emerging issue in other states. Other courts in the state have upheld the ruling.

- On the other hand, states increasingly are expanding their sales taxes to cover previously untaxed activities or products. Most notably, cities such as Chicago have expanded their “amusement taxes” to cover downloadable movies, television shows and audio files. A number of cities (e.g., Chicago and Philadelphia) have imposed special taxes on sugary beverages to influence personal consumption choices but also to raise much needed revenues.

**2.5 Political landscape**

Republican control of Congress and the White House makes the prospect of significant tax reform much more likely in the near term than it has been in recent years. Both the Trump Administration and congressional leaders have suggested tax reform is a top priority for 2017. Because congressional leaders have pledged to move tax reform legislation using “budget reconciliation” procedures, which require only 51 votes to pass in the Senate (as opposed to the usual 60), tax reform could pass without support of the Democrats.\(^8\)

President Donald Trump and congressional Republicans agree on many elements of tax reform — such as lowering tax rates and eliminating many business tax preferences. However, statements made by President Trump before the election suggested some key differences, such as the international tax regimes they propose. Congressional Republicans have pledged to make their tax reform effort revenue-neutral, using dynamic scoring (that factors in the economic effects of their tax cuts). While the Trump plan released during the campaign had been estimated to cost trillions of dollars, he is expected to try to develop a plan that is closer to revenue-neutral. Trump has indicated he would release a comprehensive tax plan in early 2017.

Some of the elements of business tax reform proposed by Republicans could form the basis for discussions with Democrats, but the Democrats have not supported lower tax rates for high-income individuals. If the total burden on the upper income taxpayers were unchanged, however, for example through base-broadening, Democrats may not object to rate reductions. The parties have also disagreed on revenue issues in the past, with Democrats arguing reform should be revenue-neutral on a macro-static (as opposed to macro-dynamic) basis. However, if reconciliation is used to advance tax reform, these differences become irrelevant as Senate Democrats would have little opportunity to change or block the legislation.

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\(^8\) House Republicans had intended to use the reconciliation process to repeal and replace the Affordable Care Act (and its associated taxes). That plan, however, is now off the table, leaving a number of issues, both political and economic, that may get folded into tax reform.
2.6 Current tax policy and tax administration leaders

**Tax policy leaders**
- Donald Trump, President
- Steven Mnuchin, Treasury Secretary
- To be determined, Treasury Assistant Secretary (tax policy)
- Rep. Kevin Brady (R-TX), Chairman, House Ways and Means Committee
- Rep. Richard Neal (D-MA), Ranking Member, House Ways and Means Committee
- Sen. Orrin Hatch (R-UT), Chairman, Senate Finance Committee
- Sen. Ron Wyden (D-OR), Ranking Member, Senate Finance Committee
- Thomas Barthold, Chief of Staff, Congressional Joint Committee on Taxation

**Tax administration leaders**
- John Koskinen, Internal Revenue Service (IRS) Commissioner
- Douglas O'Donnell, IRS Large Business and International Commissioner

2.7 What key tax policy changes did you experience in your country in 2016?

Due to the political dynamics of an election year, combined with policy differences between the Democratic president and the Republican-controlled Congress, there was not much opportunity to advance legislation to change tax policy in 2016. However, there were several significant regulatory developments that affected tax policy.

On October 13, 2016, the US Treasury Department and the IRS released final and temporary related-party debt-equity regulations under Internal Revenue Code Section 385, following the release of controversial proposed regulations in April. The regulations target instruments issued to a member of an issuer’s “expanded group” that would otherwise be considered a debt instrument for US federal tax purposes. The regulations established extensive documentation requirements for a debt instrument to constitute indebtedness for tax purposes, and included rules that would recharacterize debt instruments as stock under certain circumstances. The regulations’ documentation rule generally applies to debt instruments issued on or after January 1, 2018, and its recharacterization rules generally apply to debt instruments issued on or after April 5, 2016. However, President Trump and the Republican-controlled Congress have pledged to repeal many of the regulations promulgated during the Obama Administration, and these regulations may be among them. Repeal could occur either through legislation or through a public notice-and-comment process.

The United States also released final regulations June 29, 2016, that require country-by-country (CbC) reporting by the parent entity of a US multinational enterprise (MNE) group with annual revenue of $850 million or more. The CbC regulations apply to reporting periods of ultimate parent entities of US MNE groups that begin on or after the first day of the tax year of the ultimate parent entity that begins on or after June 30, 2016. Voluntary filing is permitted for reporting periods that begin on or after January 1, 2016, but before the applicable date of the final regulations.

US multinational enterprises (MNEs) have also been affected by the European Commission’s ongoing investigations into agreements between certain European Union (EU) member states and multinational taxpayers. The Commission decided in several cases that the arrangements were “state aid” and that the implicated countries must recover taxes from the affected MNEs. These tax policy changes have resulted in an increased focus on transfer pricing considerations for both tax compliance and financial reporting purposes. The US Treasury Department has criticized the state aid rulings, suggesting they have targeted American companies.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

- Action 2 – Neutralizing the effects of hybrid mismatch arrangements
- Action 6 – Preventing the abuse of treaties
- Action 7 – Preventing the artificial avoidance of PE status
- Action 14 – Making dispute resolution mechanisms more effective
- Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
The outlook for global tax policy in 2017

United States

N/A – The United States has participated as a member of the working group on the multilateral instrument (MLI). However, the United States already has some variation of many of the provisions contained within the MLI in its double tax treaties. For example, the United States maintains a policy of including an anti-hybrid provision (dealing with fiscally transparent entities) in its treaties similar to the provision referenced here with respect to BEPS Action 2. In addition, the United States utilizes a detailed limitation-on-benefits provision – and a suite of other anti-abuse rules (both regulatory and common-law principles) – to manage potential treaty abuse so that the minimum standard under Action 6 is covered. United States policymakers have indicated that they would not pick up the changes to the permanent establishment (PE) thresholds (Action 7) pending the work on attribution of profits, which is still ongoing at the OECD; other countries have made similar announcements with respect to the recommendations under Action 7. Further, the United States is a big proponent of mandatory binding arbitration as a form of dispute resolution (Action 14), though at this stage only a handful of other countries have expressed interest in that particular provision.

2.9 Pending tax proposals

President Trump outlined a tax reform plan during his campaign, and House Republicans released their “blueprint” for tax reform in 2016, one of six planks of House Speaker Paul Ryan’s (R-WI) “Better Way” campaign to provide Republican policy proposals on significant issues. The blueprint, which many expect to provide the framework for this year’s legislative efforts on tax reform, proposes significant changes to the tax system, including:

- Lowering the statutory corporate tax rate to 20%
- Creating a new 25% tax rate for business income earned by pass-through entities
- Moving the US business tax regime toward a cash-flow destination-based tax through:
  - Immediate expensing of all capital expenditures (besides land)
  - Eliminating the deductibility of net interest expense
  - Implementing a border tax adjustment mechanism
- Eliminating most business preferences except the R&D tax credit and the last-in first-out method of accounting
- Imposing a territorial international tax system with a one-time tax on accumulated foreign earnings as a transition mechanism
- Setting individual income tax rates at 12%, 25% and 33% with most itemized deductions eliminated
- Taxing investment income at one-half the otherwise applicable rates
- Repealing the estate tax

President Trump’s tax plan, released during his campaign, differs somewhat from the blueprint. It would:

- Lower the corporate tax rate to 15%, with the same rate applied to business income earned by pass-through entities
- Allow manufacturers to elect to expense capital investment (those that elect to do so would lose the ability to deduct corporate interest expense)
- Lower the individual income tax rates to 12%, 25% and 33%
- Repeal the current 3.8% net investment tax but otherwise keep current capital gains rates at existing levels
- Cap itemized deductions at $100,000 for single filers and $200,000 for married filers
- Repeal the estate tax (but capital gains held until death would be subject to tax, with the first $10 million tax-free)

Neither of these plans has been introduced as formal legislation, but they are the starting points from which House Republicans may begin drafting legislation later this year. The Senate plans to pursue a separate tax reform process, according to Senate Finance Committee Chairman Orrin Hatch (R-UT), and ultimately, the House and Senate versions will have to be reconciled before any tax reform law can be enacted.

2.10 Consultations opened/closed

Open: Not applicable
Closed: Not applicable
Venezuela

1 Tax rates (2016-17)

1.1 Key tax rates

Lists top federal marginal rates only.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Corporate Income Tax (CIT) rate (national and local average if applicable)</td>
<td>34%</td>
<td>34%1</td>
<td>–</td>
</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>34%</td>
<td>34%2</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>12%</td>
<td>12%3</td>
<td>–</td>
</tr>
</tbody>
</table>


2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

- Continued hyperinflation
- Increased efforts in tax collection to compensate for fiscal deficit
- Lack of existing tax policies to increase fiscal competitiveness

2.2 Tax burdens in 2017

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
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</tr>
</thead>
</table>
| (1) Headline CIT rate | □ Change proposed or known for 2017  
                      | ☑ Additional change possible or somewhat likely in 2017  
                      | □ No changes expected in 2017 | □ Lower burden in 2017  
                     | □ Same burden in 2017  
                        | ☑ Increased burden in 2017 |
| (2) Interest deductibility | □ Change proposed or known for 2017  
                          | □ Additional change possible or somewhat likely in 2017  
                          | ☑ No changes expected in 2017 | □ Lower burden in 2017  
                           | □ Same burden in 2017  
                            | ☑ Increased burden in 2017 |
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                           | ☑ Increased burden in 2017 |
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                           | □ Same burden in 2017  
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### Venezuela

<table>
<thead>
<tr>
<th>Tax types</th>
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<tbody>
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<td>(14) Top marginal PIT Rate</td>
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</tbody>
</table>
2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Overall CIT burden</th>
<th>Lower</th>
<th>No change</th>
<th>X</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall PIT burden</td>
<td>Lower</td>
<td>X</td>
<td></td>
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</tr>
<tr>
<td>Overall VAT/GST/sales tax burden</td>
<td>Lower</td>
<td>X</td>
<td></td>
<td>Higher</td>
</tr>
</tbody>
</table>

2.4 Tax policy outlook for 2017 – detail

**Corporate income taxes**
No changes have been proposed for 2017.

**Taxes on wages and employment**
No changes have been proposed for 2017.

**VAT/GST/sales taxes**
No changes have been proposed for 2017.

2.5 Political landscape

- The current Government has been focused on the application of price control measures in order to limit the increase of inflation rate; however, it has not been successful. The Government is expected to continue the implementation of such measures in 2017.
- A possible referendum may take place in 2017.
2.6 Current tax policy and tax administration leaders

 Tax policy leaders:
  ▶ Nicolás Maduro, President
  ▶ Rodolfo Medina del Río, Planning and Finance Ministry

 Tax administration leader:
  ▶ Jose David Cabello Rondón, Superintendent of the Venezuelan Tax Administration (SENIAT)

2.7 What key tax policy changes did you experience in your country in 2016?

There have been tax policy changes in 2016 with the increase in tax collection efforts by modifying the income tax regime of financial and insurance companies (from a progressive tax regime to a proportional tax regime) and an associated tax rate increase.

There has also been an exclusion of the Tax Adjustment by Inflation regime for taxpayers qualified as “special taxpayers” (high level of income taxpayer), and the application of the Tax on Large Financial Transactions (0.75%) on any payment made by special taxpayers with or without financial entities intervention.

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision

N/A – Please explain (e.g., your country has no current plans/intent to sign the multilateral instrument)

There is no available information related to the Venezuelan government’s intention to sign the multilateral instrument.

2.9 Pending tax proposals

None.

2.10 Consultations opened/closed

Open: N/A
Closed: N/A
1 | Tax rates (2016-17)

1.1 Key tax rates

Lists top federal marginal rates only.

<table>
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</tr>
<tr>
<td>Top Personal Income Tax (PIT) rate (national and local average if applicable)</td>
<td>Resident: 35% Nonresident: 20%</td>
<td>Resident: 35% Nonresident: 20%</td>
<td>–</td>
</tr>
<tr>
<td>Standard Value Added Tax (VAT) rate</td>
<td>10%</td>
<td>10%</td>
<td>–</td>
</tr>
</tbody>
</table>

2 | 2017 tax policy outlook

2.1 Key drivers of tax policy change

In general, 2017 is not forecast to experience significant tax changes in comparison with 2016, except for the rate change on the Business License Tax.

The tax authority is forecast to increase enforcement on transfer pricing issues.

---

1 Corporate Tax Law No. 32/2013/QH13, dated 19 June 2013.
### Vietnam

#### 2.2 Tax burdens in 2017

For each tax type, please indicate if a change has been proposed/known, and/or if additional change is possible/somewhat likely in 2017, or if no change is expected. Also mark what the expected tax burden is for 2017.

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Headline CIT rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(2) Interest deductibility</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(3) Hybrid mismatches</td>
<td>☑ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(4) Treatment of losses</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(5) Capital Gains Tax</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(6) VAT, GST or sales tax rate</td>
<td>□ Change proposed or known for 2017&lt;br&gt;☑ Additional change possible or somewhat likely in 2017&lt;br&gt;☑ No changes expected in 2017</td>
<td>☑ Lower burden in 2017&lt;br&gt;☑ Same burden in 2017&lt;br&gt;☑ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Vietnam

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
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</thead>
<tbody>
<tr>
<td>(7) VAT, GST or sales tax base</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<tr>
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<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no VAT, GST or sales tax</td>
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<tr>
<td>(8) Controlled Foreign Companies (CFC)</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
<td></td>
<td>☐ No changes in 2017</td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☐ N/A, as there is no CFC regime</td>
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</tr>
<tr>
<td>(9) Thin capitalization</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
<td></td>
<td>☐ No changes in 2017</td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td></td>
<td>☑ N/A, as there is no thin capitalization regime</td>
<td></td>
</tr>
<tr>
<td>(10) Transfer Pricing changes</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<td>☐ No changes expected in 2017</td>
<td>☑ Increased burden in 2017</td>
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<tr>
<td>(11) Research and Development (R&amp;D) incentives</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
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<td>☐ No changes expected in 2017</td>
<td>☑ Increased burden in 2017</td>
</tr>
<tr>
<td>(12) Other business incentives – including depreciation/amortization</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☑ Increased burden in 2017</td>
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<tr>
<td>(13) Changes to tax enforcement approach</td>
<td>☐ Change proposed or known for 2017</td>
<td>☐ Lower burden in 2017</td>
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<td></td>
<td>☑ Additional change possible or somewhat likely in 2017</td>
<td>☑ Same burden in 2017</td>
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<tr>
<td></td>
<td>☐ No changes expected in 2017</td>
<td>☑ Increased burden in 2017</td>
</tr>
</tbody>
</table>
### Vietnam

2.3 Tax policy outlook for 2017 – summary

<table>
<thead>
<tr>
<th>Tax types</th>
<th>Any changes proposed/known or possible for 2017?</th>
<th>What is the expected tax burden in 2017, as compared to 2016?</th>
</tr>
</thead>
</table>
| (14) Top marginal PIT Rate | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
☒ No changes expected in 2017 | □ Lower burden in 2017  
☒ Same burden in 2017  
□ Increased burden in 2017 |
| (15) PIT base      | □ Change proposed or known for 2017  
□ Additional change possible or somewhat likely in 2017  
□ No changes expected in 2017 | □ Lower burden in 2017  
□ Same burden in 2017  
☒ Increased burden in 2017 |
2.4 Tax policy outlook for 2017 – detail

Corporate income taxes

The tax rate of 20% remains unchanged as compared with 2016.

Taxes on wages and employment

As proposed by the Government under the Resolution 41/NQ-CP, individuals working in high-tech sections of the information technology industry would be subject to 50% personal income tax (PIT) deduction.

VAT/GST/sales taxes

No changes in regulation, but its interpretation by the tax authority has become stricter, consequently increasing the tax burden.

2.5 Political landscape

New personnel joining the government in 2016 may result in a more strict view on foreign investment and tax collection.

2.6 Current tax policy and tax administration leaders

Tax policy leaders:

▶ Nguyen Duc Hai, Head of Financial and Budget Committee of the National Assembly
▶ Vu Thi Mai, Deputy Minister of Ministry of Finance
▶ Bui Van Nam, General Director of General Department of Taxation of Ministry of Finance

Tax administration leaders:

▶ Do Hoang Anh Tuan, Deputy Minister of Ministry of Finance
▶ Cao Anh Tuan, Deputy Director of General Department of Taxation of Ministry of Finance

2.7 What key tax policy changes did you experience in your country in 2016?

There were changes in the following:

▶ Law 106/2016/QH13 dated 06 April 2016 providing amendment on VAT, the law on special excise duty and the law on tax administration
▶ Decree 100/2016/ND-CP dated 01 July 2016 guiding Law 106/2016/QH13
▶ Circular 130/2016/TT-BTC dated 12 August 2016 guiding the Decree 100/2016/ND-CP
▶ Circular 83/2016 dated 17 June 2016 guiding specifically the investment incentive in accordance with the law on investment
▶ Law on export and import duty No. 107/2016/QH13 dated 06 April 2016
▶ Resolution 35/NQ-CP dated 16 May 2016 regarding solutions to support business development of enterprises until 2020
▶ Decision 1286/QD-TCT dated 11 July 2016 announced the establishment of a BEPS Working Group within GDT
▶ Circular 95/2016/TT-BTC dated 28 June 2016 on guidance of tax registration
▶ Circular 99/2016/TT-BTC dated 29 June 2016 on management of VAT refund

2.8 Please indicate which, if any, of the BEPS recommendations to be included in the multilateral instrument (expected to be open for signature in early 2017) that your country is likely to sign up for in 2017.

☐ Action 2 – Neutralizing the effects of hybrid mismatch arrangements
☐ Action 6 – Preventing the abuse of treaties
The outlook for global tax policy in 2017

Vietnam

☐ Action 7 – Preventing the artificial avoidance of PE status
☐ Action 14 – Making dispute resolution mechanisms more effective
☐ Please check here if your country is expected or likely to “opt in” to the mandatory binding arbitration provision
☑ N/A – The government has not made any public statement on whether it intends to adopt treaty changes via the MLI

2.9 Pending tax proposals

▶ Draft decree providing guidance on transfer pricing administration to combat transfer pricing and loss of tax revenue to the state budget
▶ Draft decree providing guidance on business license fee

2.10 Consultations opened/closed

Open

▶ Draft decree providing guidance on transfer pricing administration to combat transfer pricing and loss of tax revenue to the state budget
▶ Draft decree providing guidance on business license fee

Closed

N/A
The outlook for global tax policy in 2017
The **2017 outlook for tax policy** covers a total of 50 jurisdictions. All jurisdictions, as well as daily EY global tax alerts, can be accessed on the internet at:

```markdown
ey.com/2017taxpolicyoutlook
```
# EY contacts

## Global leaders

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<thead>
<tr>
<th>Chris Sanger</th>
<th>Rob Hanson</th>
</tr>
</thead>
<tbody>
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<td>EY Global Tax Controversy Leader</td>
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</tbody>
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| EY EMEIA | Tax Policy and Controversy | Jean-Pierre Lieb | jean.pierre.lieb@ey-avocats.com | +33 1 55 61 16 10 |

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<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Area</th>
<th>Contact Person</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
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