Welcome

Keeping up with the constant flow of international tax developments worldwide can be a real challenge for multinational companies. International Tax News is a monthly publication that offers updates and analysis on developments taking place around the world, authored by specialists in PwC’s global international tax network.

We hope that you will find this publication helpful, and look forward to your comments.

Shi-Chieh ‘Suchi’ Lee
Global Leader International Tax Services Network
T: +1 646 471 5315
E: suchi.lee@us.pwc.com
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Canadian legislative developments


Bill C-43 implements various tax measures, including several of the draft legislative proposals previously released for consultation on July 12, 2013, August 16, 2013, February 27, 2014, and August 29, 2014, as well as part of the Canadian federal budget on February 11, 2014.

These legislative measures include:

- A new anti-avoidance rule in respect of withholding tax (WHT) on interest payments, and an amendment to an existing avoidance measure in the thin capitalisation rules, to address certain back-to-back loan arrangements where third party intermediaries are inserted between a Canadian borrower and a foreign related party lender.
- Amendments to the ‘non-qualifying country’ definition, which is part of the FAPI regime, to exclude countries or jurisdictions for which the Convention on Mutual Administrative Assistance in Tax Matters is in force and effect, and to avoid unintended tax consequences with respect to the British Overseas Territory of the British Virgin Islands, which now has a comprehensive tax information exchange agreement (TIEA) with Canada.
- Amendments modifying certain imputed income rules.
- Amendments to better accommodate foreign affiliate structures that include partnerships.
- Amendments to address taxes paid by shareholders of fiscally transparent entities.
- Amendments providing ownership rules for foreign non-share corporations, such as limited liability companies (LLCs).
- Amendments to the functional currency rules.

PwC observation:

Canadian corporations with foreign affiliates may be affected by these measures, many of which were the subject of comfort letters previously issued by the Department of Finance. These measures have different effective dates, and in certain cases, elections are available to change the effective dates at the option of the taxpayer.

The Department of Finance has offered no further guidance on how it may be proposing to curtail treaty shopping. On September 16, 2014, the organisation for economic co-operation and development (OECD) released its report with recommendations for addressing treaty abuse in connection with Action 6 of its Action Plan on base erosion and profit shifting (BEPS), largely adopting a treaty based approach in addressing treaty abuse. It is unclear what direction will be taken by the Department of Finance, as a domestic anti-treaty shopping rule had originally been proposed as part of the federal budget released on February 11, 2014.
China releases administrative measures on the General Anti-Avoidance Rule (GAAR)

After months of public consultation, China’s State Administration of Taxation (SAT) formally released the Administrative Measures on the GAAR (the Measures) in early December of 2014. The Measures are slightly changed as compared with the discussion draft and mainly include the following features:

Scope of the Measures
The Measures explicitly provide exclusion to the following two scenarios:
• Arrangements not involved in cross-border transactions or payment and
• Failure to make tax payments, cheating of tax refunds, forged tax invoices, and other tax-related violations.

Key principles elaborated in the Measures
The Measures introduce some important principles for GAAR assessment, including:
• A tax avoidance scheme that is intended to obtain a tax benefit and without a reasonable commercial purpose is subject to GAAR adjustment.
• GAAR cases should be assessed based on both reasonable commercial purpose and economic substance tests.
• The methods to make special tax adjustments on GAAR cases.
• GAAR should not be invoked until the specific anti-avoidance rules and tax treaty provisions are exhausted.

Besides, the Measures also provide a set of comprehensive procedures for the GAAR implementation and set forth clear roles and responsibilities for different levels of tax authorities.

PwC observation:
The release of the Measures provide procedural guidance for the entire GAAR life cycle from investigation to determination, which is helpful to ensure a transparent, fair, and consistent procedural framework for GAAR implementation. It is worth noting that the Measures reiterate the SAT’s position and approach that GAAR should serve as the last resort to attack tax avoidance scheme, which may have an impact on the Chinese tax authorities’ mindset and behaviour. Multi-national corporations are suggested to take GAAR into consideration when planning or reviewing their investment structures or operation arrangements and prepare the documentation to record the reasonable commercial purpose and economic substance to withstand potential GAAR challenges.

Matthew Mui
China
T: +86 (10) 6533 3028
E: matthew.mui@cn.pwc.com
France

French finance bill for 2015 and French amended finance bill for 2014

The French 2014 Amended Finance Act and the 2015 Finance Act were released on December 30, 2014 after their constitutional review.

The main provisions dealing with international tax matters are described hereafter.

Horizontal fiscal unity
Taxpayers may now create a fiscal unity between French ‘sister’ companies that are directly or indirectly held by a parent company established in the European Union (EU) or the European Economic Area (EEA), other than Liechtenstein (‘non-resident parent’). Specific conditions have to be met in this respect. Please refer to our previous International tax services (ITS) alert for full information on this topic.

The new regime applies to financial years ending on or after December 31, 2014. For prior fiscal years, relevant horizontal structures can claim a refund of the relevant taxes paid in respect of fiscal years 2012 and 2013.

New limitation to the French participation exemption on dividends
Under the current participation exemption regime, dividends received by a French parent company from qualifying entities are 95% exempt from corporate income tax (CIT). The remaining 5% is taxable at the standard CIT rate of 33.33% (excluding potential CIT surcharges), thus an effective taxation of 1.67%.

In accordance with the EU Directive 2014/86/EU (July 8, 2014), the Amended Finance Act for 2014 (section 72) provides that the participation exemption regime is denied for dividends to the extent that related profits are deductible from the income tax base of the paying subsidiary (anti-hybrid measure codified under section 145 6°-b of the French Tax Code).

This disposal applies regardless of the location of the distributing company (France, EU, or non-EU country). Administrative guidelines are awaited in order notably to clarify the following issues:

i. is the parent subsidiary regime denied where notional interest deduction was granted to the paying subsidiary in 2014,
ii. what kind of proof would be required and when,
iii. how to apply this mechanism if the financial year ends of both companies are different or if an intermediary holding company is involved.

The Act also provided that the participation exemption should be denied for dividends paid out of profits from activities not subject to corporate income tax but, this provision was struck down by the Constitutional Court.

New provisions with regard to the horizontal fiscal unity or the participation exemption regime on dividends should lead international groups with activities in France to review their structure and/or their dividend flows through France in order to avoid any detrimental tax effect of these new provisions or at the opposite, to make use of potential advantages or opportunities.

Please also note that on December 12, 2014, the French Prime Minister published on its website a calendar of milestone reforms over the next five years. He indicated that the French CIT rate will be progressively reduced from 33 1/3% to 32% in 2017 and down to 28% in 2020. This announcement is not binding and is not yet a draft Bill. It is a mere political statement at this stage.

Miscellaneous
Other provisions included in the Finances Act relate to the following:

Reduced real estate capital gain tax rate for certain non-residents
As of January 1, 2015, capital gains derived from the disposal of real estate assets or shares located in France are generally subject to a reduced withholding tax (WHT) rate of 19% (33.33% previously since the 19% rate was only applicable for EU residents). The 19% rate applies to non-resident individuals and individual investors in flow-through entities.

Tax credit for employment and competitiveness (CICE)
Information regarding the use of this CICE is now mandatory and shall be provided in the company’s balance sheet appendix or in a separate appendix attached to the company’s financial statements.

PwC observation:
New provisions with regard to the horizontal fiscal unity or the participation exemption regime on dividends should lead international groups with activities in France to review their structure and/or their dividend flows through France in order to avoid any detrimental tax effect of these new provisions or at the opposite, to make use of potential advantages or opportunities.
Italy

Italian parliament approves the Financial Bill for 2015

On December 23, 2014, the Italian parliament has converted into law the proposed Financial Bill for 2015 (Law No. 190/2014) introducing some relevant measures aimed at enhancing economic growth.

Inter alia, the main changes affecting tax planning strategies are the following:

Revision of ‘tax haven’ list for corporate income tax (CIT) deduction purposes
The 2015 Financial Bill has narrowed the criteria to identify the companies and tax haven jurisdictions whose charges to Italian resident companies are subject to the Italian restrictive regime for the relevant tax deduction. Under the new rule, the tax haven regime shall be identified only with reference to the lack of an adequate exchange of information (and no longer with reference to the applicable taxation regime materially lower than the Italian one).

Change in ‘tax haven’ Countries list for controlled foreign corporations (CFC) purposes
Moving from the current law definition of tax haven Countries for CFC purposes, i.e. those having (i) lack of an adequate exchange of information, and (ii) a level of taxation significantly lower than Italy, the 2015 Financial Bill introduced an explicit definition of the latter requirement, identified with a taxation level lower than 50% of that applicable in Italy. Furthermore, the 2015 Financial Bill widened the ‘tax haven’ CFC regime including those Countries that, albeit not having a standard tax rate lower than 50% of that applicable in Italy, provide for special taxation regimes that actually allow a taxation level lower than 50% of the Italian one. Italian tax authorities shall issue a non-exhaustive list of these special regimes.

Patent box regime
The patent box is an optional regime available to entities with business income in Italy. Under the new regime, business income derived from ‘qualifying intangible assets’ (e.g. copyrights, industrial patents, trademarks, other commercial, or scientific experience protectable by law) is 50% exempt from CIT and Regional Tax (30% in fiscal year (FY) 15 and 40% in FY 16). The election is effective for five financial years and cannot be revoked. Among other peculiarities of the new regime, the income eligible to such an exemption is determined on the basis of the ratio between research & development (R&D) expenses (to maintain and develop intellectual property (IP)) and the overall expenses for the production of the respective IP. In addition, capital gains arising from the sale of qualifying intangible assets are fully exempt from CIT and Regional Tax provided that at least 90% of the sale consideration is reinvested in the maintenance or development of other qualifying intangible assets.

Step-up of non-listed shares
The 2015 Financial Bill extended the possibility for individuals, some partnerships and non-Italian resident taxpayers to step-up the tax basis for capital gain purposes of non-listed shares, owned as at January 1, 2015. In order to qualify for the tax basis step-up, the taxpayer must (i) obtain a sworn appraisal attesting the shares’ value and (ii) pay a substitutive tax on the whole assets’ value, by June 30, 2015 (or in 3 annual instalments). The substitutive tax rate is 4% for non-qualified shareholdings and 8% for qualified shareholdings (i.e. > 20% of the voting rights or > 25% of the issued share capital). The tax step-up may in particular be interesting for non-Italian resident taxpayers who are not fully protected by a double tax treaty (DTT).

PwC observation:
The changes provided by the 2015 Financial Bill represent valid incentives to re-consider tax planning strategies involving matters such as IP allocation and shareholdings’ structures. Foreign investors should carefully evaluate the potential tax benefits deriving from the enforcement of the new tax measures.
Korea tax law changes for 2015

The Korean National Assembly has approved amendments to tax laws for 2015 which include some modifications to the proposals announced in August 2014.

Details related to the tax law changes have also been released in amendments to Enforcement Decrees. The main corporate tax law changes that may impact on Korean inbound investors include:

- The introduction of a 10% additional levy on larger corporations if the use of corporate earnings on qualifying investments, wage increases, and dividend payments falls below 80% of adjusted taxable income for the concerned year. Alternatively, corporations can choose by election for this percentage to be reduced to 30% where only amounts spent on wage increases and dividends are taken into account.
- The introduction of a temporary 10% tax credit (5% for larger corporations) on increase in corporate payroll calculated in a prescribed manner.
- Changes to job-creating and research and development (R&D) tax credit rates in certain circumstances.
- A reduction of the thin-capitalisation threshold for borrowings from overseas controlling shareholders to two times equity (the threshold for financial institutions remains at six times equity).

PwC observation:
The changes are largely intended to stimulate the Korean economy by encouraging corporations to make investment. Companies operating in Korea should assess how they may be impacted by the law changes.

Most of the changes have effect for taxable years beginning on or after January 1, 2015. Some of the details regarding the laws are included in Enforcement Decrees that may be subject to minor modifications before being finalised at the end of January 2015.

Henry An
Seoul
T: +82 2-3781-2594
E: henryan@kr.pwc.com

Sang-Do Lee
Seoul
T: +82 2-709-0288
E: sdlee@kr.pwc.com

Robert Browell
Seoul
T: +82 2-709-8896
E: robert.browell@kr.pwc.com
New Luxembourg tax measures applicable in 2015

On December 19, 2014, the Luxembourg Parliament enacted the bill n°6720 (the ‘Budget Law’) and the bill n°6722 (the ‘Zukunftspack’), introducing new tax measures for corporations and individuals.

The main measures enacted in these bills are summarised in the following paragraphs and entered into force on January 1, 2015.

The corporate income tax (CIT) rate is not being increased. In 2015, the minimum CIT of 3,210 euros (EUR) will apply only when two cumulative conditions are fulfilled: the sum of fixed financial assets etc. must exceed both 90% of the total gross assets and EUR 350,000. Hence, all entities with total gross assets not exceeding EUR 350,000 will be liable to pay only the CIT of 535 EUR minimum, in 2015 (due by entities whose balance sheets do not mainly comprise financial assets).

As announced in the Zukunftspak (bill n°6722 - ‘Measures for the Future of Luxembourg’), a tax ruling commission has been introduced as from January 1, 2015. A written request has to be sent to the Tax Inspector of the competent office. When the request is about companies, the Tax Inspector will submit it to a ruling commission (‘Commission des décisions anticipées’ - CDA) which assists the tax inspector in ensuring a uniform treatment between taxpayers. The decisions will be published in a summarised way anonymously in the annual report of the direct tax administration.

As announced in the draft Budget Law (bill n°6720), the reduced, intermediary and standard value-added tax (VAT) rates will gain two points to stand respectively at 8%, 14%, and 17% as from January 1, 2015. The super-reduced rate of 3% is not increased, but its application is revised for e.g. the supply of alcoholic beverages served and VAT on construction of housing for rent.

In addition, as from January 1, 2015, the place of supply of telecommunication services, electronically supplied services, radio, and broadcasting services provided to EU private customers will shift to the country of the customer. Within the framework of these changes, the definition of telecommunication services as mentioned in the VAT Directive is introduced in the Luxembourg VAT Code.

PwC observation:
The minimum CIT rules are clarified, and in practice, will reduce the amounts payable by many small or dormant entities (i.e. to EUR 535).

The measures related to the tax ruling commission entered into force on January 1, 2015. However, some of the practical aspects of these measures will be finalised over a longer time, with various implementing Grand-Ducal Decrees that will have to be issued.

Sami Douenias
PwC Luxembourg
T: +352494848 3060
E: sami.douenias@lu.pwc.com

Sandrine Buisseret
PwC Luxembourg
T: +352494848 3124
E: sandrine.buisseret@lu.pwc.com
United States

Research credit extended through end of 2014

President Obama on December 19, 2014, signed into law the Tax Increase Prevention Act of 2014 (H.R. 5771), which extends retroactively to January 1, 2014, the Section 41 research credit through December 31, 2014.

The Tax Increase Prevention Act of 2014, provides for a one-year retroactive extension of business and individual tax provisions that expired at the end of 2013. It also includes technical corrections to previously enacted tax law changes, and a new tax-advantaged savings account for disabled persons.

Tax extenders
Key business provisions renewed through December 31, 2014, include the research credit, 50% bonus depreciation, look-through treatment for controlled foreign corporations (CFCs), and a Subpart F exception for active financing income.

Also included among the more than 50 expired tax provisions being renewed for 2014 are the following:

• 15-year recovery for qualified leasehold, restaurant, and retail property.
• Work opportunity tax credit.
• Sec. 179 small business expensing.
• Reduction in S corporation built-in gains holding periods.
• Basis adjustment of S corporation stock for donations.
• Certain regulated investment company provisions.
• Renewable electricity production credit.

PwC observation:
It remains to be seen whether President Obama and Republican leaders in the new 114th Congress will be more successful in making permanent certain of the temporary tax provisions.
Venezuela income tax law reform

Decree No. 1,435 with Rank, Value, and Status of Law amending the Income Tax Law was published in the Extraordinary Official Gazette No. 6,152 dated November 18, 2014.

The reform is enacted as of the publication date and is applicable to tax periods starting from the enactment date.

Main changes include the following:

- Elimination of the exemption previously granted to non-profit organisations, different from charity and social assistance institutions, as well as the exemption granted to professional associations, educational institutions, and universities.
- The tax deduction of employees’ compensation and professional fees is subject, besides conditions previously provided, to compliance of employer’s obligations as provided in the new Income Tax Law. This would mainly entail withholding obligations and requirements for the deduction of foreign employees’ compensation in connection with the maximum number of foreign employees and remuneration expenses and compliance with working permits and visas. In addition, deduction of losses for destruction of inventories, goods for sales and fixed assets is no longer allowed unless they relate to fortuitous or force-majeure causes and such losses have not been indemnified by insurance or any other sort of indemnification.
- The taxable basis for employees’ compensation has been broadened to include regular and accidental compensation items regardless of their character as salary, except for travel expenses and meals bonus.
- It clarifies that Venezuelan source exploitation losses can be only offset by gains of the same source. The three year carry forward period for exploitation losses is maintained, however, the amount of losses available for carry forward cannot exceed 25% of the tax period’s taxable income. Carry forward of losses derived from the adjustment by inflation has been eliminated.
- The obligation to perform the adjustment by inflation calculation to calculate the taxpayer’s taxable income has been eliminated for banking, financial, insurance, and reinsurance activities.
- The Venezuelan tax authority are granted discretion to publish administrative rulings expanding the types of income subject to income tax withholding and broadening the definition of those that can be treated as income tax withholding agents.
- The amendment grants the Executive Branch power to provide for particular tax rates for particular taxpayers or economic sectors.

PwC observation:

Multinational companies (MNCs) with current or future investments in Venezuela should consider the impact of the changes provided in the amended law.
Proposed legislative changes
Ireland

Irish Knowledge Development Box
Consultation process

During the Budget 2015 announcements in October 2014, one of the proposals by the Minister of Finance (MOF) was the introduction of an Irish Knowledge Development Box which was intended to be ‘best in class’ internationally.

As part of the proposals, it was intended to have a public consultation process regarding key aspects of the Knowledge Development Box (KDB).

On Wednesday, January 14, 2015, the Irish Department of Finance launched the consultation process around the KDB following the commitment contained in the Road Map for Ireland’s Tax Competitiveness announced during the Budget.

A number of countries have introduced incentives to encourage investment in this area and the Road Map highlights that putting in place an attractive tax offering for intellectual property (IP) is important for Ireland’s continued success in attracting investment.

The scope of the consultation has evolved since its announcement is reflecting significant developments at organisation for economic co-operation and development (OECD) and European Union (EU) level on the topic of ‘patent boxes’ in the intervening period. However, it is still a very positive development.

The EU and OECD are currently finalising new rules for the design of such tax incentives and the Finance Minister has stressed that the Irish KDB will comply with those international standards which are expected to be finalised by the end of this year. The consultation paper considers the draft international rules in detail.

Interested parties are now invited to submit their views on how the KDB should be designed to ensure that it meets the key objective of being the most competitive in class, within the agreed international parameters for fair tax competition in this area.

The consultation will run for 12 weeks from January 14, 2015 until April 8, 2015 and further details can be viewed in the consultation document below.

PwC observation:
While new to Ireland, the KDB will be based in part on similar patent box measures which have existed for many years in countries that compete with Ireland for foreign direct investment. It will provide an effective tax rate for IP income that is below the normal headline rate of corporation tax with the aim of encouraging companies to locate high-value jobs associated with the development of IP in Ireland.
New decree in relation to ‘cross-border fiscal unities’ published

On December 30, 2014, Decree no. BLKB2014/2137M on the Dutch fiscal unity regime was published.

The decree provides for the formation of a Dutch fiscal unity between a Dutch parent company and a Dutch sub-subsidiary owned by an intermediary company established in another European Union (EU) Member State and fiscal unity between Dutch sister companies owned by a parent company established in another EU Member State.

The Dutch fiscal unity regime provides for consolidation of taxable results between companies included in such fiscal unity. As described in the July 2014 edition of International tax services (ITS) news, the European Court of Justice (ECJ) ruled in three joint cases (June 12, 2014, C-39/13, C-40/13, C-41/14) that the Dutch fiscal unity rules are in breach of the freedom of establishment of Article 49 Treaty on the Functioning of the European Union (TFEU) for not allowing a fiscal unity between a Dutch parent company and a Dutch sub-subsidiary that is held through an EU intermediate subsidiary and fiscal unity between two Dutch sister companies that are held through a joint EU parent company. PwC Netherlands represented SCA Group Holding B.V. in case C-39/13.

On the basis of the above-mentioned rulings, the newly issued Decree (effective as of December 16, 2014) provides for the formation of the above-mentioned cross-border fiscal unities. Cross-border fiscal unity requests that were filed before this date will now also be dealt with.

With respect to the possibility of a fiscal unity between sister companies, the Decree includes the condition to designate the sister company which will be acting as parent company of the fiscal unity.

This cannot be the EU parent company. Both sister companies need to end their current fiscal year before entering into a fiscal unity and the EU parent company must further be subject to a tax on its profits, without having a choice to be exempt from such tax. The background of this subject to tax requirement is not clear yet.

In case of a fiscal unity between a Dutch parent company and a Dutch sub-subsidiary that is held through an EU intermediate subsidiary, the Dutch parent company will continue to be the parent company of the fiscal unity. The Decree further provides for the formation of a fiscal unity if the shares in the Dutch subsidiary are held through more than one foreign intermediate holding company. The subject to tax requirement also applies in this scenario.

PwC observation:
We recommend reviewing existing structures to assess whether any of the fiscal unities mentioned above is possible and would be beneficial. Anti-abuse legislation for the prevention of double loss recognition is expected.
Discussion drafts released in six BEPS-related areas raise more concerns for multinational enterprises

Multinational enterprises (MNEs) may be concerned about various aspects of the six Discussion Drafts recently released as part of the Base Erosion and Profit Shifting (BEPS) Action Plan.

Three of the papers are within Action items 8 to 10 of the BEPS Action Plan dealing with assuring that transfer pricing outcomes are in line with value creation. One of the other papers is the first step towards producing best practice rules to address BEPS through the use of interest expense within Action item 4 of the Plan. The latest proposed additions to the draft International value-added tax/goods and services tax (VAT/GST) Guidelines relate to supplies of services and intangibles to consumers, raised in the initial report on the digital economy within Action 1.

The final paper is an overarching look at the resolution process involving cross-border tax disputes. Business will be keen to see how much tax authorities are prepared to adopt the much-needed improvements necessary for existing mutual agreement procedure (MAP) and alternative methods to provide an effective means for resolving controversy and preventing double taxation.

Businesses have an opportunity to respond in writing to each of the Discussion Drafts and should seriously consider doing so. There are also public meetings at which businesses can convey their main points in person and some may find this an attractive proposition.

Between December 17 and 19, 2014, various Discussion Drafts were released for public consultation by the organisation for economic co-operation and development (OECD) in relation to the G20-sponsored BEPS project.

The OECD Action Plan on BEPS, published in July 2013, identifies 15 actions to address BEPS in a comprehensive manner and sets deadlines to implement these actions. These latest papers cover several of these action items.

They effectively form part of the second phase of BEPS with actions to be agreed by September 2015. In some cases, the papers provide firm recommendations while in other cases they set out options for general comment before recommendations are finalised.

PwC observation:
We recommend that groups take the time to consider how the various Tax Policy Bulletin proposals and options could impact them. Responding directly to the OECD with specific examples is the most powerful way that businesses can address issues which would arise if proposals were adopted. Businesses may also like to consider attending and speaking at the various public consultation meetings on these papers at the OECD’s offices in Paris.

The deadlines are as follows for written responses (together with the associated public meeting dates): January 16 for the dispute resolution paper (January 23); February 6 for the three transfer pricing papers (March 19-20); and the interest deductibility paper (February 17); and February 20 for the VAT/GST paper (February 25).

Pam Olson
Washington
T: +1 (202) 414 1401
E: pam.olson@us.pwc.com
**Treaties**

**Canada**

**Canada-UK protocol**

The Protocol Amending the Convention Between the government of Canada and the government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital (the ‘Protocol’) was signed on July 21, 2014 and entered into force on December 18, 2014.

The Protocol includes:

- An exemption from withholding tax (WHT) for interest payments in respect of loans between persons who are dealing at arm’s length, where the recipient is the beneficial owner of the interest.
- A revised provision reflecting the standard developed by the organisation for economic co-operation and development (OECD) for the exchange of tax information, and
- Provisions for assistance in the collection of taxes and on arbitration.

**PwC observation:**

The Protocol is consistent with measures being undertaken by the Canadian federal government to improve the coordination of tax rules governing cross-border trade and investment, and to promote tax fairness and prevent international fiscal evasion. Generally, the Protocol does not change the WHT rates on dividends, interest payments, and royalties.

**Ireland**

**Recently signed Irish tax treaties**

The new Ethiopia-Ireland tax treaty was signed on November 3, 2014. This treaty provides for a 5% withholding tax (WHT) on dividends, interest, and royalties.

On December 9, 2014, Denmark ratified the protocol to the Denmark-Ireland income tax treaty. The protocol, signed on July 22, 2014 will modify the treaty article concerning elimination of double taxation. The protocol came into effect from January 1, 2015.

**PwC observation:**

These recent ratifications signal Ireland’s commitment to expanding and strengthening its double taxation treaty (DTT) network. Ireland has signed comprehensive DTTs with 72 countries, 68 of which are now in effect and negotiations are ongoing with other territories at this time.

**Kara Ann Selby**
Toronto
T: +1 416 869 2372
E: kara.ann.selby@ca.pwc.com

**Maria Lopes**
Toronto
T: +1 416 365 2793
E: maria.lopes@ca.pwc.com

**Denis Harrington**
Ireland
T: +353 (0)1 792 8629
E: denis.harrington@ie.pwc.com
New Zealand

**New Zealand Officials release progress reports on BEPS**

The Minister of Revenue recently released two reports outlining the New Zealand Inland Revenue’s action plan in combating international Base Erosion and Profit Shifting (BEPS) by large multinational companies (MNCs).

The reports are in line with the organisation for economic co-operation and development (OECD) Action Plan (released in 2013) and demonstrate New Zealand’s on-going commitment to the BEPS project.

The reports identify areas where New Zealand’s domestic rules could be improved and set indicative timeframes for consultation.

The areas that are high on Inland Revenue’s BEPS agenda include the following:

- Hybrid mismatches.
- Interest deductibility and transfer pricing.
- Taxation of foreign trusts.
- Goods and services tax (GST) and online shopping.
- Non-resident withholding tax (WHT) rules.
- Corporate tax compliance matters, such as the development of electronic disclosure, and reducing the length of time large corporates have to file income tax returns.

Inland Revenue will publish consultation papers in 2015 covering the areas listed above. We expect these papers will include suggested solutions to the perceived BEPS risks and plans to implement these solutions.

**PwC observation:**

The recent reports have highlighted some areas where, in Inland Revenue’s view, New Zealand’s domestic law can be improved to counter BEPS related concerns. However, as a whole, New Zealand’s international tax rules are robust and we are not expecting these potential reforms to result in wholesale changes to New Zealand’s domestic tax rules.

The areas of focus identified by Inland Revenue seem relevant. However, it is surprising that the thin capitalisation regime has been identified as an area for possible review, given that these rules have only recently been bolstered and are generally considered robust and effective.

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Singapore

**Tax treaties updates**

**Exchange of information**

The Income Tax Act has been amended to enable Singapore to assist with Group Requests from our treaty partners with effect from November 28, 2014, subject to reciprocity.

In addition, on December 9, 2014, Singapore and the United States signed a Foreign Account Tax Compliance Act (FATCA) Model 1 Intergovernmental Agreement (IGA), thus facilitating the compliance with the US FATCA provisions by Singapore-based financial institutions.

**Tax treaties**

On December 15, 2014, Singapore and Indonesia agreed to update the existing tax treaty.

**PwC observation:**

The proposal to update the existing Indonesia-Singapore tax treaty is notable as certain of its provisions are less favourable than those contained in recent treaties concluded by Indonesia, e.g. the Hong Kong treaty. The level of trade and investment flows between Singapore and Indonesia is significant. The review is thus timely, and it is hoped that the revised treaty will, as a minimum, put Singapore on par with Hong Kong.
Uruguay

Approval of tax information exchanges agreement (TIEA) with Brazil

Uruguayan government passed on December 29, 2014 law no. 19,303, approving the TIEA signed with Brazil in October 2012.

The TIEA will apply to fiscal periods beginning on or after the date of entry into force (once the Contracting States exchange the corresponding ratification notes in the diplomatic arena). Where there is no fiscal period, the TIEA will be applicable for tax obligations that arise after the date of entry into force. In terms of tax fraud, the provisions of the agreement will apply as from the date it enters into force.

The agreement follows Organisation for Economic Co-operation and Development (OECD) guidelines.

PwC observation:
The TIEA with Brazil is part of the international treaty network that Uruguay continues expanding, in the frame of the negotiation of TIEAs and Conventions to avoid double taxation that Uruguay has been engaged in since 2009.
Contact us

For your global contact and more information on PwC's international tax services, please contact:

Anja Ellmer
International tax services
T: +49 69 9585 5378
E: anja.ellmer@de.pwc.com

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