The outlook for global tax policy and controversy in 2023: Jurisdiction reports

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Contents


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

This information is current as of 31 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	35%	35%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	Standard 21% (reduced rate 10.5%)	Standard 21% (reduced rate 10.5%)	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The government has a significant deficit, and since tax collection is not enough to cover it and the country is not able to access easily to the market for debt, it is solved through issuance of currency, which creates a significant inflation (almost 100% for 2022).
- The government is seeking to reduce inflation, possibly by cutting expenditures and potentially increasing taxes or tax enforcement.
- General elections will take place in October 2023, with the change of government scheduled for December 2023. Many developments can take place prior to the election and especially after the election.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Argentina

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No significant changes are expected for corporate income tax. The lack of adjustment of tax losses for inflation is a controversial matter; recent jurisprudence ruled in favor of taxpayers allowing the adjustment.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Although the matter has been under discussion, a change is not expected in 2023, since being an electoral year no comprehensive tax reforms are projected. Opinions from the tax authorities may appear, though not much development has taken place in recent years.

VAT/GST or sales taxes

- No significant changes are expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No significant changes are expected. Considering the inflationary environment, all tax scales, deductible amounts, etc., are automatically adjusted for inflation and that is no longer a matter of discussion.

Windfall taxes *(please specify broad or sector specific)*

- No windfall taxes are expected for 2023.

Taxes related to climate change or sustainability

- No developments are expected for 2023.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No developments are expected for 2023, though in the search for greater tax collection, no measure increasing tax rates, or postponing benefits/reductions, etc., can be disregarded.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant developments are expected for 2023.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No significant effect is expected.

2.6 Political landscape in your jurisdiction

- The general presidential election will be held in October 2023, and the new government will assume office in December 2023. The current president can be reelected; no candidates have been confirmed. A tight election between current Peronist party and the more moderate "Juntos por el Cambio" coalition is expected.
- In an electoral year, it is unlikely that significant tax reforms will be enacted. This topic may be a priority for the party winning the election at the end of 2023.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No announcements have been made.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- There were no significant tax policy changes in 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- At the end of 2022 a new mandatory disclosure regime was enacted, which replaced the former one, which had been in force for a limited time but was then suspended. The regime requires taxpayers to report certain international transactions with foreign related parties or tax havens that follow certain hallmarks indicated by the tax authorities.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Several treaties signed between 2017 and 2019 are pending ratification. The Multilateral Instrument is also pending ratification by Congress and is, therefore, not in force.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Nothing specific has been announced, but increased audit activity is expected due to the need for greater tax collection.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The exchange of information agreement with the US recently signed will likely make the authorities review accounts held in US and related matters.
- The government is proposing a tax amnesty regime for taxpayers to disclose undeclared accounts and assets, in the context of the agreement with the US.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Income tax – special payment on account**	General Resolution No. 5248/2022 implemented an extraordinary measure of a new and additional obligation related to the payment on account of income tax for corporate taxpayers. The resolution is under challenge.
2	**Adjustment for inflation of "tax loss" in income tax**	The admissibility or not of the adjustment for inflation of the "tax loss" is controversial. The tax authority considers that the adjustment is inappropriate, but there are precedents of the Supreme Court of Justice that, based on previous regulations, considered it enabled when the tax becomes confiscatory.
3	**Income tax and VAT**	Tax audits are common and related to the use of invoices qualified as fake by the tax authority. The tax authority may challenge the VAT credits, the deduction of the expenses related to such invoices and demand payment of the 35% rate in substitution for the tax amount applicable to the unknown or hidden beneficiary. Compensatory interests and fines can also be applied, and it can lead to criminal actions.


Crowds at Melbourne Cricket Ground

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This information is current as of 18 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	30% (25% for base rate entity)[1]	30% (25% for base rate entity)	–
Personal income tax – top rate	45%[2] (Excluding Medicare levy of 2%)	45% (Excluding Medicare levy of 2%)	–
VAT, GST or sales tax – standard rate	10%[3]	10%	–

[1] Section 23(2)(b) of the Income Tax Rates Act 1986 (Cth)
[2] Schedule 7 of the Income Tax Rates Act 1986 (Cth)
[3] Section 9-70 of a New Tax System (GST) Act 1999 (Cth)

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Implementation of OECD's Model Rules globally – As a "critical mass" of countries begins to implement Pillar Two, the government will be able to observe some of the practical issues that arise in introducing a 15% minimum tax into domestic law.
- Government's focus on reducing the budget deficit and stimulus in an inflationary environment – A key focus of government has been to make sure multinationals pay their "fair share of tax" (by introducing earnings-based thin cap rules and restricting certain royalty deductions) and are transparent about their tax paid.
- Increased Australian Tax Office (ATO) funding for key tax compliance programs (Personal Income Taxation Compliance Program, Shadow Economy Program and the Tax Avoidance Taskforce) signals increased ATO audit activity and potentially increased tax revenue.
- The introduction of windfall taxes in foreign jurisdictions may place pressure on the government to consider a similar windfall tax.
- Ongoing drive for greater transparency in tax disclosures.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
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Australia

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
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Tax types	Likelihood of changes in 2023	Direction of change
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14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Corporate tax rate: standard rate to remain at 30% and at 25% for "base rate entities" for entities with less than $50m of aggregated turnover
- With the May 2022 election seeing a change in government, the new government has commenced consultation on their proposed MNEs tax integrity package. Measures include:
  - Changes to the thin capitalization interest deduction limitation rules (replacing safe harbor test and worldwide gearing test with earnings-based tests — limiting entity's debt deductions to 30% of EBITDA, and the arm's-length debt test can be applied to unrelated party debt only)
  - New rule limiting MNEs ability to claim tax deductions for payments relating to intangibles and royalties that lead to insufficient tax paid (paid to jurisdiction where payments taxed at < 15%, or paid to preferential patent box without sufficient economic substance)
  - "Enhanced" tax transparency measures (public release of certain CbC information, public companies to disclose country of tax domicile/number of subsidiaries, tenderers for government contracts > $200,000 must disclose country of tax domicile)
- Proposed franking integrity rule for distributions funded by particular capital raisings: for distributions made on or after 12:00 p.m. ACT time, 19 December 2016
  - A specific tax integrity measure preventing the distribution of franking credits
- Under proposed legislation, listed public companies from 25 October 2022 to no longer use off-market share buy-backs to take advantage of the concessional tax status of shareholders as part of capital management activities
- Still unknown: status of previous government measures impacting corporates, including the 17% Patent Box regime scheduled to commence from 1 July 2022 and intangible asset depreciation measures from 1 July 2023, the corporate residency test rewrite, and expansion of the patent box regime to green tech
- Treaty with Iceland signed following a previous announcement to sign 10 new and updated tax treaties by 2023 with only 6 countries named so far (India, Luxembourg, Iceland, Greece, Portugal and Slovenia); other four countries unknown

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Australia applies GST on digital supplies and has a Diverted Profits Tax and avoided PE (Multinational Anti-Avoidance Law) unilateral measures with treaty overwrite but has not implemented DST or virtual PE deeming provisions.
- An expansive ATO view on royalty withholding tax was asserted in *TR 2021/D4 – Royalties: character of receipts in respect of software.*

VAT/GST or sales taxes

- As GST is collected at the federal level before it is distributed to the states and territories, any change to the system requires agreement between the states and territories. As such, any changes to the GST rate of 10% are highly unlikely to occur in 2023.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Following the 2022 Federal Election, the government has not yet provided an update on proposed changes to individual residency rules, which includes the "bright line" test recommended by the Board of Taxation. Given the ATO's release of draft Taxation Ruling TR2022/D2, it is possible that we will see further developments on this front in 2023, including the legislative change being dropped.
- While, net wealth taxes featured prominently in the Greens Party's 2022 Federal Election campaign, given the current composition of the House of Representatives and the Senate, any developments on this front in 2023 remain unlikely.

Windfall taxes *(please specify broad or sector specific)*

- In October 2022, Treasurer Dr. Jim Chalmers confirmed the government has not been working on a windfall tax. The government will consider technical changes to the petroleum rent resource tax (PRRT) — details should be released later in 2022.

Taxes related to climate change or sustainability

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

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Major bank levy continues to apply to authorized deposit-taking institutions (ADIs) with licensed entity liabilities of at least $100b calculated quarterly as 0.015% of an ADI's licensed entity liabilities for an annualized rate of 0.06%.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- In August 2022, the government issued a Media Release stating that Treasury will consult with stakeholders on a framework for crypto assets and related services. The first step in the reform agenda is token mapping — the government's aim is to identify gaps in the regulatory framework, progress work on a licensing framework, reviewing innovative organizational structures, consider custody obligations for third-party custodians of crypto assets and provide additional consumer safeguards.[4]

[4] Joint Media Release, The Hon Jim Chalmers MP Treasurer and Dr Andrew leigh MP Assistant Minister for Competition, Charities and Treasury, https://ministers.treasury.gov.au/ministers/stephen-jones-2022/media-releases/work-underway-crypto-asset-reforms

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Minimal impact. The new government has stated multiple times (including in their election campaign) that, aside from their MNE tax integrity package, they will not be introducing any new taxes.[5] They have also explicitly stated they would not be introducing a windfall tax on oil and gas. It is likely they are wary of public perception should they break key election promises.

2.6 Political landscape in your jurisdiction

- Australia's 47th Parliament opened on 26 July 2022, after an election win in May 2022 by the Labor Party led by Prime Minister Anthony Albanese.
- The political party holding the majority seats in the lower house, the House of Representatives, either outright or as a coalition forms government for a maximum term of three years. The next federal election will be held some time before the end of July 2025.
- Labor with 26 of the 76 seats in the upper house (Senate) will rely on members of the 18-person strong crossbench (6 independents plus 12 Greens) to legislate bills.
- Refer to 2.1 for the current policy agenda by the Labor government.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The government is currently undertaking a consultation process in relation to implementation of the OECD's two-pillar solution, which closed on 1 November 2022. EY has lodged a submission.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- See Section 2.7 above in relation to BEPS 2.0.
- The government has undertaken initial consultation on its Multinational Tax Plan. The October 2022-23 Federal Budget featured three key measures, including:
  (1) An earnings-based thin capitalization rule that will apply to income years commencing on or after 1 July 2023 — only one of the following three alternatives can be applied in an income year:
    (a) The existing Safe Harbour Test will be replaced with an earnings-based test that will apply to limit an entity's net interest deductions to 30% of EBITDA. Denied debt deductions can be carried forward and claimed in a subsequent income year (up to 15 years).
    (b) Alternatively, an earnings-based group ratio will apply to allow an entity in a group to claim debt deductions up to the level of the worldwide group's net interest expense as a share of earnings (which may be greater than 30% of EBITDA). This will replace the existing Worldwide Gearing Test.
    (c) Alternatively, an arm's-length debt test can be applied to unrelated-party debt only.
  (2) A royalty deduction denial rule that applies to significant global entities (SGEs) (entities with global revenue of at least AUD1 billion) who make payments, directly or indirectly, in relation to intangibles in low- or no-tax jurisdictions. The measure is proposed to apply to payments made on or after 1 July 2023. The anti-avoidance measure will apply to payments where either:
    (a) The payments are made to jurisdictions where they are taxed at a rate of 15% or less
    (b) The payments are made to jurisdictions with a tax preferential patent box regime without sufficient economic substance.
  (3) Refer to the imptax transparency measures in 2.9 for detail.
- Certain payments or credits made to Indian residents were adjusted — to unilaterally remove this Australian deemed source taxation, following on from the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) signed in April 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- The October 2022-23 Federal Budget Tax Transparency measures increase requirements:
  (a) SGEs to prepare for public release of certain tax information on a country-by-country basis and a statement on their approach to tax, for disclosure by the ATO
  (b) Listed and unlisted Australian public companies to disclose information on the number of subsidiaries and their country of tax domicile
  (c) Tenderers for Australian government contracts worth more than $200,000 to disclose their country of tax domicile by supplying their ultimate head entity's country of tax residence
- Public beneficial ownership register companies will have to publicly disclose information on who owns, controls and received benefits from a company (phase 1) and legal vehicle (phase 2) operating in Australia.

[5] https://www.ey.com/en_gl/tax-alerts/australian-labor-party-wins-2022-federal-election-overview-of-key-policies

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Proposals:
  - Amending income tax residency rules for corporates
  - Amending income tax residency rules for individuals
  - Patent Box tax regime, and proposals to expand the regime to agricultural, chemical and low-emission technology measures
  - Board of Taxation's review into CGT rollover: the review of capital gains tax rollover rules ongoing; upon completion, board to submit a report to the government and recommend improvements needed to the regime
  - Amending Australia's Offshore Banking Unit (OBU) Regime — Removing concessional tax treatment
  - Digital Economy Strategy — includes measures such as self-assessing effective life of certain depreciating intangible assets, a 30% refundable tax offset for digital games developers

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Under the ATO's Justified Trust program, specific tax assurance engagements with the top 100 and top 1,000 (turnover above AUD250 million) public and multinational businesses and the top 500 and next 5,000 private groups
- The government to provide funding to extend three key revenue authority compliance programs, including the Tax Avoidance Taskforce (AUD200 million of additional funding for each year over the next four years) and the Shadow Economy Program and Personal Income Taxation Compliance Program

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- We expect the ATO to continue its compliance programs with an ongoing focus on multinational enterprises and large taxpayers as part of both assurance and audit programs, across all major tax focus areas. The additional funding of key revenue authority compliance programs signals the government's continuing commitment to detecting tax avoidance/noncompliance, whether carried out by taxpayers or promoted by their advisors or intermediaries. Tax authorities will continue enhancement of tax corporate governance requirements. Tax reviews will become more granular in data production requirements.
- The Australian government will amend the existing thin capitalization rules to limit debt deductions to 30% of EBITDA. The amended rules will apply to income years on or after 1 July 2023.
- The Australian government will introduce an integrity rule that will apply to SGEs to deny deductions for payments made to related parties after 1 July 2023, relating to intangibles and royalties that are paid directly or indirectly to entities in jurisdictions with a less than 15% tax rate or that are subject to a patent box without sufficient economic substance.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)) – loss carry back and accelerated depreciation/capital write offs*	☐	☐	☒
New disclosure/transparency requirements	☒	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☒	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☒	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)) already had companies in pilot	☒	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☒	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

Australia

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	International related-party financing transactions including arm's-length conditions, related-party derivatives, interest-free loans (outbound and inbound), cash-pooling arrangements and guarantee fees; ongoing attack on distributor margins (pressure to increase)
2	Thin capitalization	Issues related to asset revaluations and not including some arrangements as debt, such as preference shares and notes, and the use of the arm's-length debt test
3	GST	Compliance with GST rules – focus across all aspects
4	Intangibles and corporate restructures	Focus on arrangements involving intangibles, including transfer and migration of intangibles, the mischaracterization of intangibles and the DEMPE of intangibles; in addition, focus on restructures that result in MNEs disposing of interests in Australian businesses without tax
5	Hybrids	The ATO to identify and review circumstances where the hybrid mismatch rules apply, including the integrity rules and the imported hybrid rules

Bahrain

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EY key contacts

Tax policy and controversy

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

This information is current as of 25 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	46% Rate applies only to tax on income from O&G activities.	46%	–
Personal income tax – top rate	NA	NA	–
VAT, GST or sales tax – standard rate	10% (In some cases, VAT rate at 0% and VAT exemption may apply.) The standard rate of VAT increased to 10%, effective from 1 January 2022. Transitional rules apply whereby some supplies made in 2022 could still be taxed at the 5% standard rate (subject to certain conditions).	10% (In some cases, VAT rate at 0% and VAT exemption may apply.)	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- It is expected that Bahrain will continue its engagement with the OECD in introducing policies that prevent harmful tax practices, foster tax transparency and effective exchange of information along with its commitments to the BEPS Inclusive Framework (IF) initiative.
- Parliamentary discussion around the introduction of corporate income tax outside the O&G sector is also expected.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023

Bahrain

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Introduction of a wider corporate tax system is increasingly being discussed among government and business leaders in Bahrain, especially post-BEPS Pillar One and Pillar Two. While there has been no formal communication on the matter, it is expected that Bahrain may introduce corporate income law outside the O&G sector in 2023/2024.
- Since 2001, Bahrain has been cooperating with the OECD in the overall initiative to address the international issue of harmful tax practices. More recently in 2018, Bahrain committed to the implementation of the BEPS IF minimum standards. These include Actions 5, 6, 13 and 14 with the requirement to undertake domestic framework to allow for the collection and sharing of information and CbCR requirements as well as introduce mutual agreement procedure guidelines. To date, Bahrain has implemented Economic Substance Regulations and CbCR regulations. Bahrain has recently also signed the MLI.
- It is expected that Bahrain will continue its engagement with the OECD in introducing policies that prevent harmful tax practices, foster tax transparency and effective exchange of information along with its commitments to the BEPS IF.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- There is no corporation tax in Bahrain on non-oil and gas sectors.
- No tax policy shift is expected on digital businesses from a VAT perspective. The VAT rules are relatively new and cover most digital activities on the tax treatment.

VAT/GST or sales taxes

- VAT was introduced in Bahrain from 1 January 2019. While the tax authority has been issuing regular guidance around the applicability of tax, the precedence of practice and interpretation of the legislation by the tax authority remains unclear in many areas.
- Bahrain is part of the Gulf Cooperation Council VAT framework. Its VAT policies are similar to policies adopted by neighboring GCC member countries.
- The standard rate of VAT increased from 5% to 10%, effective from 1 January 2022.
- The tax authority is expected to continue with regular audits of businesses with the intent to increase the level of compliance from taxpayers in the country.
- It is expected that Bahrain may introduce e-invoicing in 2023.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

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

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The Central Bank of Bahrain (CBB) issued the final rules on a range of activities relevant to crypto assets in 2019. The CBB rules are aimed at confirming that activities related to crypto assets are brought within a regulatory perimeter and are subject to comprehensive regulatory and supervisory measures.
- The National Bureau for Revenue updated their VAT financial services guide to include a section on the treatment of cryptocurrency transactions, as of January 2022.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- There is nothing further than what was discussed in 2.4.

2.6 Political landscape in your jurisdiction

- Bahrain is a sovereign hereditary constitutional monarchy ruled by the Al Khalifa royal family (Article 1b of the Constitution). Bahrain is a unitary state and has a single national law. The constitution provides for Sharia law to be the main source of legislation (Article 2 of the Constitution) with Arabic as the official language.
- Bahrain's legislature is composed of two chambers: the elected Chamber of Deputies and the appointed Shura Council. Bahrain's government, as represented by the Council of Ministers, is appointed by the King of Bahrain. The legislature or the government can propose draft laws. It must be approved by the government, the legislature, signed by the King and published in the official gazette. (Articles 51, 70 and 122 of the constitution.)
- Ministers, as empowered by laws or Royal Decrees, may issue secondary legislation in the form of ministerial orders, which must be published in the official gazette. Ministers may issue internal by-laws, governing the conduct and practices of their individual ministries, which are not published in the Official Gazette.
- Bahrain's commercial laws are influenced by civil law.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- There is nothing further than what was discussed in 2.4.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- From a corporate tax perspective, there were no changes as such. CbCR rules were introduced during 2021, effective for fiscal years beginning on or after 1 January 2021. It is expected that Bahrain will continue its engagement with the OECD in introducing policies that prevent harmful tax practices, foster tax transparency and effective exchange of information along with its commitments to the BEPS IF initiative.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There is nothing further than what was discussed in 2.4.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Consultations: Potentially corporate tax

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

Corporate tax related:

- From a corporate tax perspective (oil and gas), the approach is consultative, cooperative and transparent.

VAT related:

- VAT enforcement is undertaken via compliance audits of taxpayers. The approach to date has been to engage with taxpayers to verify VAT declarations made. Overall, the process is cooperative.
- Compliance rates for VAT return submission and VAT collection is 97% to date.
- The information collected by the tax authority is used for the purpose of profiling and to undertake data and trend analyses.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Potential introduction of corporate income tax
- Impact of the rise in the standard rate of VAT
- Continuing audits from a VAT perspective

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☒	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☒	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Refunds**	Seeking refunds of VAT from the tax authority may spur an audit.
2	**Identified (hybrid services) sectors**	The sectors that are predominantly providing exempt and taxable supplies may be more likely to be picked up for an audit by the tax authority (for example, financial services).
3	**Large taxpayers**	An increase in the level of operations of a business could spur an audit from the tax authority.

Aerial of Antwerp city along Scheldt river

Belgium

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This information is current as of 23 January 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	50%	50%	–
VAT, GST or sales tax – standard rate	21%	21%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The ongoing development of a broader tax reform, aimed at modernizing and simplifying the tax system, making it fairer and more neutral, while focusing on the ongoing energy crisis, limiting the budget deficit, protecting the buying power of households, increasing the employment ratio and reducing the taxes on labor costs, supporting climate ambitions and sustainability, entrepreneurship and stimulation of investments, and digitalization of the tax administration
- A focus on a fair taxation on international level, transparency and implementation of robust anti-fraud measures
- Administrative simplification and a more efficient, harmonized tax compliance, e-audits

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023

Belgium

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Tax deductibility of depreciations on charging stations (200% until 31 March 2023 and 150% between 1 April 2023 and 31 August 2024)
- For SME companies, the one-off (ordinary) investment deduction: 8% as of 1 January 2023
- Temporary increase of minimum taxable basis for financial years starting on or after 1 January 2023 (tax year 2024)
- Elimination of the notional interest deduction for taxable periods ending on or after 31 December 2023
- Limit to the foreign tax credit for royalty income to the withholding tax actually in the source state, with a maximum cap of 15%, as from 1 January 2023
- Tax deductibility of certain annual taxes for the financial sector that is limited to 20%, resulting in a disallowed expense that equals 80% of these annual taxes, as from 1 January 2023
- Tax shelter for video games
- Non-justified expenses, subject to the special secret commissions tax, to be considered as disallowed expenses
- Boarding taxes, recharged to third parties, that are deductible as professional expenses
- Limitation of the R&D tax credit, if the same company also claims the 80% payroll withholding tax exemption for R&D employees

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- A law proposal was submitted in parliament, introducing a DST, but it has not been passed into law at this stage.
- A law proposal was submitted in parliament, introducing a digital services PE. At the moment, it seems that negotiations of this draft legislation are still on hold.

VAT/GST or sales taxes

- New rules on the VAT reverse charge mechanism on immovable property as from 1 January 2023
- A new procedure for exercising VAT recovery/deduction based on the direct attribution method (“effective use”) to apply to mixed taxable persons as from the 1 January 2023
- Potential temporary benefit for residential dwellings in use for less than 10 years from the reduced 6% VAT rate for the supply and installation of solar panels, heat pumps and solar boilers as from 1 April 2022 until 31 December 2023
- Extension of the reduced VAT rate for demolition and reconstruction of residential property until the end of 2024
- Temporary (until 31 March 2023) VAT reduction for electricity, natural gas and heat

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Reform of the copyright/software tax regime as of 1 January 2023, with new underlying conditions that need to be fulfilled on behalf of eligible employees
- Tax credit for alimony paid by nonresidents taxpayers who earn less than 75% of their worldwide professional income in Belgium
- Broadened scope of the special tax regime for inbound tax payers and researchers — companies or branches registered in the Belgian Crossroads Bank for Enterprises are all eligible employers
- New taxation rules for houses, rented to companies for social housing
- Tax reduction for the installation of a bidirectional charging station; subject to conditions, the reduction amounts up to maximum EUR8,000 as of 1 January 2023
- Increased amount of tax reduction (EUR1,750) for expenses paid by taxpayers for the purchase and placement by a professional of an intelligent charging station at their home address

Windfall taxes *(please specify broad or sector specific)*

- **Windfall tax for the oil sector**
  - The tax is to be paid in 2022 and 2023 by petrochemical companies operating in the refining sector and with refining capacity and petroleum companies that are to be considered as “primary participants“ for diesel, gas oil and petrol products.
  - It is an indirect tax on the amount of product processed (per ton) or released for consumption (per cubic meter), at a rate of EUR6.9 per ton of crude oil processed or EUR7.8 per cubic meter of product released for consumption.
  - The contributions are provisional, minimum contributions. As soon as the annual balance sheet of the previous year is submitted, the contribution shall be calculated in accordance with Articles 15 and 16 of Council Regulation (EU) 2022/1854 (33% on the profits that are above a 20% increase of the average of the taxable profits in the four fiscal years).
  - A few Belgian oil companies have already launched a lawsuit before the Belgian Constitutional Court to challenge this tax.
- **Windfall tax for the gas sector**
  - A single, exceptional solidarity contribution imposed on natural gas transmission system operator (Fluxys), set at EUR300 million, is to be paid to the Federal Public Service Finance no later than 16 January 2023.
- **Revenue cap on inframarginal electricity producers**
  - Inframarginal electricity producers produce electricity from mainly renewable and nuclear sources and provide electricity to the grid at a cost below the price level set by the more expensive “marginal” producers (producing electricity from natural gas).
  - This cap shall apply to market revenues produced from wind energy, solar energy, geothermal energy, hydropower without reservoir, biomass fuel, waste, nuclear energy, lignite, crude petroleum products and peat.
  - In general, the cap is EUR130 per MWh and a maximum of EUR180 per MWh, applicable for profits from 1 August 2022 until 30 June 2023.

Taxes related to climate change or sustainability

- There were amendments related to excise duties on energy products and electricity. Suppliers of "green" electricity may no longer qualify as a "distributor" for excise duty purposes and, accordingly, must not be registered as such. Where relevant, they will not have to file excise declarations for its supply of gas or electricity, if the electricity originates from (i) renewable energy sources (e.g., solar, wind, biomass) or (ii) environmentally friendly cogeneration for which the actual user may already benefit from an excise duty exemption.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There have been no developments; the general profit provision still applies on capital gains on income derived from investments in cryptocurrencies (Article 24 ITC92 juncto Article 183 ITC92).

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

The general purpose of the Belgian Tax policy is to strengthen the purchasing power of households and the competitiveness of companies, as well as increase the employment rate. The announced tax reform is expected to take into account these objectives and have a positive impact on the budget in an initial phase (about EUR6 billion over a three-year period).

2.6 Political landscape in your jurisdiction

Implement

- The "De Croo government" is a coalition government ("Vivaldi" coalition) bringing together seven parties. It is an ambitious government with a focus on COVID-19 recovery and investments, who has in general progressive goals in the areas of climate change, gender neutrality and the fight against poverty, stress and burnout, and discrimination. They are aiming for workable employment and the rollout of a fairer tax system.
- Budget 2023 negotiations ended in a compromise between the various parties.
- The broader tax reform is probably the biggest challenge facing the Vivaldi coalition: the minister of finance is charged with developing the tax reform in two phases:
  - In the first phase, the Minister intends to strengthen purchasing power and increase the employment rate. This phase will be spread over a period of three years, has a size of EUR6 billion and should start taking effect on 1 April 2023, according to press communications.
  - According to the same press release, a second phase should contain the remaining part of the tax reform and be worked out in the second half of 2023, to be spread over a period of seven years. The intention is that this second phase starts taking effect on 1 January 2026.
- The government has numerous other ambitions, such as more people at work, payable pensions and a greening of taxation. These are all linked to the reform as an integral part of the process.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- There are no concrete announcements yet with respect to the implementation of the EU Directive. Behind the scenes, the Minister of Finance is working on implementation legislation, but we do not have any insights in this respect.
- Note that the temporary increase of the minimum taxable basis for financial years starting on or after 1 January 2023 (tax year 2024) is actually an early response to the minimum taxation directive.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- New legislation, including important steps toward a greener mobility and toward strengthening the climate ambitions:
  - In the future, only carbon-emission-free company cars to be tax deductible
  - Tax incentives (for individuals and companies) to install charging stations at home or at work
  - A simplified mobility budget, more flexible and expanded in order to realize a mobility shift
- Reform of the withholding tax system with focus on R&D and innovation
- Amended VAT rules with respect to the provision of furnished accommodation
- Introduction of a temporary VAT reduction for electricity, natural gas and heat
- A new tax regime for inbound taxpayers and researchers
- Reform of the current tax and parafiscal benefits of high-earning professional athletes and sports clubs
- Law amending the Belgian income tax code with regard to income from real estate located abroad — new reporting obligation for Belgian residents with real estate abroad

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Transposition of DAC7 Directive as from 1 January 2023:
  - Digital platform operators, "regardless of whether the platform is located in the EU or outside the EU, must report the revenue earned by sellers and service providers through a digital platform. Data will be automatically exchanged with other affected Member States ..."
  - "Joint audits"

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There are no major pending tax proposals.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Action plans in the fight against tax fraud — key initiatives:

  First action plan:
  Multidisciplinary investigation teams (MOTEMs) — Special tax inspectors (BBI) may participate as experts in criminal investigations of major tax frauds.

  Second action plan:
  Focusing on measures against international and complex fraud and granting the tax authorities with more power against taxpayers:

  - Extension of the investigation and assessment periods, the retention period and the period for filing an administrative appeal
  - Importance of the UBO register
  - Better insight into the financial and tax situation of foreigners in our country
  - Tax authorities can introduce before the tax court a claim for a penalty payment under the condition that they demonstrate the taxpayer's refusal to cooperate in a tax investigation

  Third action plan:
  Measures still have to be worked out, but the Minister indicated that he will focus on improving the operational functioning of the tax administration and of the tax audits, with the recruitment of extra tax officials.

- In the field of taxation and tax audits:
  - Further efforts made to increase the number of participants in the Co-operative Tax Compliance Programme (CTCP) for large companies
  - E-audits
  - Focus on the fight against tax and social fraud in a more integrated way, audits and investigations of larger construction sites to have priority
  - Full commitment to international cooperation and data exchange
- With regard to the collection and recovery of tax debts:
  - Further efforts were being made on digitalization
  - Stimulating measures for voluntary payment of taxes and repayment of overpayments and the realization of forced payment at the right time

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- **The extension of the investigation and assessment periods, the retention period and the period for filing an administrative appeal a of Tax year 2023.**

  With respect to income taxes:

  - Three years remains the standard investigation and assessment period.
  - Four years is the standard in case of no or late filing of the income tax return.
  - Six years is the standard in case of no or late filing or in case the tax due would exceed the tax, based on a timely filed tax return, having a specific cross-border element (filing of the local transfer pricing form; the entity is subject to CbCR; presence of payments to tax havens; application of withholding tax reductions or exemptions; a foreign tax credit and if information would be received from reportings under the DAC6/MDR legislation).
  - 10 years is standard in case of a "complex" tax return, in three specific cases: legal constructions subject to the so-called Cayman tax, hybrid mismatches and companies that are subject to CFC (controlled foreign companies) rules.
  - Retention period for books, records, other documents and for information on computer systems "based on which the amount of the taxable income may be determined" is extended to 10 years.
  - To compensate for the extension of the investigation and assessment periods allocated to the tax authorities, the draft law proposes that the taxpayer be granted extra time to file an administrative appeal.
  - The period to file an administrative appeal is prolonged from six months up to one year as from 1 January 2023.

  With respect to VAT:

  - Retention period is 10 years as well as an extension of the investigation period up to 4 years in the event of no or late filing of the VAT return and up to 10 years in case of tax fraud.

- **The fight against withholding tax fraud, in particular the application of exemptions**
- **Measures to increase transparency:**
  - Implementation of DAC7 — reporting of revenue (including royalties) earned by sellers and service through a digital platform, automatic data exchange between impacted EU Member States and organization of joint audits

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☒	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☒	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	Transfer pricing audits
2	**Withholding tax**	Abusive application of the withholding tax exemption
3	**Payments to tax havens**	Payments to tax havens
3	**Beneficial ownership**	Tax audits in which the Belgian tax authorities intend to apply the principles of the Danish court cases
3	**Permanent establishment**	Existence of a personal PE

Brazil

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

This information is current as of 26 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	34%	34%	–
Personal income tax – top rate	27.5%	27.5%	–
VAT, GST or sales tax – standard rate	12%-25%	12%-25%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Executive and legislative branches of the Brazilian federal government are committed to implementing comprehensive tax reforms addressing unification of taxes and contributions charged on consumption or changes to income taxation. On 25 November 2022, Fernando Haddad (anticipated to be the Minister of Economy of the new government) spoke to the members of the Brazilian Federation of Banks and confirmed that the tax reforms should be a priority in 2023. At the start of the year, the discussions will be focused on the taxation on consumption (he mentioned the Constitutional Amendment PEC 45/2019, further explained in this document). At a later point in the same year, the reforms related to income and wealth taxation are likely to be discussed.
- It is expected that Brazil will keep introducing measures to demonstrate Brazil's commitment to align with the OECD guidelines, as Brazil is committed to becoming an OECD member. Transfer pricing is expected to be the area mostly impacted in view of the potential ascension of Brazil to the OECD. Although Brazil has been committed to this goal, it is still not clear if the recently elected President will keep this matter as a priority. The expectation, however, is that, at least, the changes in the TP rules will be implemented.
- Regarding the digital tax environment, tax authorities are expected to keep the trend of becoming more digital and increasing scrutiny of taxpayer information by means of automated procedures. In addition, there are now discussions about the adoption of different forms of digital taxation, both focused on payments, on digital services and on digital platforms.
- Tax transaction should be amplified in 2023 to allow taxpayers to discuss and negotiate with tax authorities better conditions to manage tax debits and pay this value.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules

Brazil

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

A significant income tax reform has been discussed in the National Congress in recent years (Bill 2.337). Among other changes, Bill 2.337 proposed:

- Reduction of the combined CIT rate from 34% to 26% and to 27%
- Introduction of a WHT of 15% on payment of dividends
- Elimination of the possibility to pay and deduct interest on net equity
- Requirement for domestic intragroup transactions to be carried out at market conditions

Due to the elections in 2022 and considering that the government articulated other funding alternatives to generate means to fund Brazil's welfare program (Auxílio Brasil), the discussions regarding the income tax reform did not progress.

However, in 2023, it is expected that the discussions related to an income tax reform will resume. Brazil recently elected the former President Luiz Inácio Lula da Silva, whose agenda revolves around expanding services for the poor, including more social welfare payments, a higher minimum wage and programs to feed and house more people.

Therefore, Brazil is expected to raise taxes in 2023 to fund such welfare programs.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- Currently, there are several separate bills proposing to establish some form of a digital services tax in Brazil. These bills are still being discussed and further changes shall be monitored to confirm if a digital service tax will be introduced in 2023.

VAT/GST or sales taxes

- In recent years, different bills have been proposed with the purpose of introducing changes to simplify taxation on consumption.
- In 2020, the Brazilian government proposed a bill that would replace the PIS (Program of Social Integration) and COFINS (Social Security Contributions on Sales) with a new tax, the Contribution on Goods and Services (CBS, for its Portuguese acronym). Like the PIS and COFINS, the CBS would apply to local sales, as well as imports, of goods and services. In the same manner, exports of goods and services remain exempt from the CBS. The bill, however, would include in services (especially imports of services) payments for licensing of rights and intangibles. The CBS would be levied at a flat rate of 12% on gross revenue (reduced by taxes due on revenue, such as the State Value-Added Tax — ICMS, and the Municipal Service Tax — ISS, as well as unconditional discounts). It is intended to work as a federal VAT in the sense that full input tax credit would be available. The bill also would simplify and reduce the number of ancillary obligations related to the CBS, and eliminate several tax incentives and tax regimes, in an effort to simplify the Brazilian tax system. However, it would maintain certain regimes, such as the SIMPLES regime for small businesses and the Manaus Free Trade zone exemption. Additionally, the bill would retain the special customs regimes that allow for the suspension of the import duty and the federal excise tax, and these regimes could lead to the suspension of the CBS. It also would retain the agriculture regime, which would exempt small producers from the CBS and grant a credit to legal entities that acquire agricultural goods from small producers. The bill would retain the single-phase system applicable to products, such as gas, diesel, alcohol and cigarettes. Different CBS rates would apply to those products. The bill also would retain the cumulative regime for financial institutions, and the CBS would apply at a 5.8% rate with no right to input tax credits. Both chambers of the National Congress (i.e., Chamber of Deputies and Senate) still need to discuss and approve the bill in different voting rounds. The legislative process usually takes time in Brazil, and the current wording of the bill may be changed during this process.
- In 2022, the discussions around the indirect tax reform have been postponed due to the elections. However, in 2023, there is a high likelihood of this significant reform being discussed.
- Note, however, that the bills proposing constitutional amendments (which require more voting rounds and a greater quorum for approval) should be more difficult to be approved, especially considering that the elections have given right-leaning parties the most seats in both chambers of the National Congress.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- The President elected proposed during the campaign to increase the amount of income exempt from income taxes every month. Therefore, this may be discussed in upcoming years.

Windfall taxes ***(please specify broad or sector specific)***

- No developments on the matter.

Taxes related to climate change or sustainability

- The economic team supporting the President elected during the campaign proposed to introduce tax measures to reduce the impacts of climate change. Therefore, this may be discussed in upcoming years.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- In 2022, Brazil's executive branch published Presidential Decree 10.997/2022, reducing the Brazilian financial transaction tax (IOF-FX) due on the settlement of foreign exchange currency (FX). This change is part of Brazil's efforts to join the OECD.
- Currently, the IOF-FX is levied at rates ranging from 0% to 6.38% on the gross amount of foreign currency transferred to or from Brazil, depending on the nature of the FX transaction (certain transactions are exempt from IOF-FX).
- Decree 10.997 will gradually reduce the IOF-FX rates on all eligible FX settlements to 0% by 2029, as follows:
  - Within three days of publishing the decree (19 March 2022), the IOF-FX will decrease from 6% to 0% on the settlement of FX related to the currency inflow from short-term loans to Brazilian borrowers.

- Beginning 2 January 2023, the IOF-FX will decrease by one percentage point each year on the settlement of FX related to the currency outflows for international credit, debit, prepaid card and traveler check transactions (getting from 6.38% to 0% by 2 January 2028).
- Beginning on 2 January 2028, the IOF-FX will decrease from 1.1% to 0% on the currency outflows for acquiring foreign cash or transferring to an account abroad with the same accountholder's name.
- Beginning on 2 January 2029, the IOF-FX will decrease from 0.38% to 0% on all other currency inflows to and outflows from Brazil.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- In December 2021, Bill 2140/21, which aimed to establish a 180-day period for the executive branch to regulate financial transactions with cryptocurrencies, was archived due to the fact that the same matter was already being discussed in PL 2303/15.
- PL 2303/15, which regulates crypto exchanges and virtual currencies, was approved by the Chamber of Deputies in 2021. As Brazil has a bicameral legislative assembly, the bill was voted by the Senate, which approved it with changes in May 2022. Chamber of Deputies now must revise the Senate changes and vote once again on the bill.
- The bill does not include any provisions on the taxation of cryptocurrencies and digital assets.
- It is expected that the regulation of cryptocurrencies, digital assets and crypto exchanges would fall under Central Bank of Brazil (BC) umbrella.
- In September 2022, the Brazilian Securities Commission (CVM, for its Portuguese acronym) issued guidance opinion 40. The guidance consolidated CVM's understanding about the definition and regulation of crypto assets and digital assets in Brazil and their relation with securities.
- Moreover, BC agenda to implement a central bank digital currency (CBDC) is advancing. The idea is that Brazilian CBDC should utilize blockchain technology to represent the Brazilian real (BRL) and not substitute the BRL in and of itself.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- We have seen that the government is more concerned on the funding of social program, which may lead to the increase of tax collection.

2.6 Political landscape in your jurisdiction

- Brazil recently elected former President Luiz Inácio Lula da Silva. During the election campaign, Lula said he would expand services for the poor, increase social welfare payments and minimum wage, and implement more programs to feed and house more people.
- In order to implement the above, the transition team of the elected president is seeking to exempt social expenses from Brazil's main fiscal rule, a spending cap that limits growth of public expenditure to the previous year's inflation rate. In addition, it is expected some discussions around tax reforms focused on making the tax system more progressive, increasing the taxation of the rich.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Brazilian Internal Revenue Office (RFB) is committed to the implementation of Pillar One and Pillar Two of BEPS 2.0; however, further guidance has not yet published.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Reduction of financial transaction tax on foreign exchange settlements
- Enactment of legal framework for foreign exchange market
- Development of discussions regarding a new transfer pricing system aligned with OECD's transfer pricing guidelines

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Approval of Provisional Measure 1,137 (PM 1,137) that reduces to zero the withholding tax levied as of 1 January 2023 on certain income earned by nonresident investors in the Brazilian financial and capital markets

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- In the last year, tax authorities have been increasing technology and specialized teams to enhance tax audits and tax collections.
- In addition, tax authorities created Tax Compliance Program (CONFIA, for its Portuguese acronym) to establish an environment of trust for both tax authorities and taxpayers.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Change in rules related to tax transactions
- Possibility for changing rules in the Regulation of Emergency Program for Resumption of Events Sector (PERSE, for its Portuguese acronym), a specific tax benefit for the events/ tourism sector

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☒	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Corporate restructuring**	Related to goodwill and capital gains involving corporate restructuring
2	**Transfer pricing discussions**	TP issues under discussion with tax authorities; calculation of adjustments and the proper documentation to support these numbers are of concern
3	**Discussion specialized in sectors**	Specialized teams to focus on sectors to increase the number of the tax audits that result in tax infraction notices
4	**Tax credits recognized by judicial claim**	Related to tax credits recognized by judicial decision, tax authorities to potentially challenge the amount and proper documentation related to these credits

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This information is current as of 12 January 2023

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	27.42%	27.42%[1] Simple (unweighted) average combined federal rate (15%) and provincial/territorial rates (vary) on general income. Combined rates by province/territory range from a low of 23% in Alberta to a high of 31% in Prince Edward Island (PEI).	–
Personal income tax – top rate	50.44%	50.71%[2] Simple (unweighted) average of combined top federal (33%) and provincial/territorial tax rates. The top combined federal (33%) and provincial (21.8%) marginal rate is 54.8% in Newfoundland. Other top combined provincial/territorial marginal rates range from a low of 44.5% (Nunavut) to a high of 54% (Nova Scotia).	.54% The increase represents the highest combined personal marginal tax rate. The only rate that changed was in Newfoundland where a new top bracket of more than CAD1 million in taxable income was created with a marginal tax rate of 21.8%. In 8 of Canada's 10 provinces, the top personal marginal tax rate exceeds 50%. Only Alberta (48%) and Saskatchewan (47.5%) have top marginal rates below 50%.

	2022	2023	% change
VAT, GST or sales tax – standard rate	Combined rates vary by province and territory, ranging from a low of 5% in Alberta and the three Territories (where only the federal GST applies) to a high of 15% (in each of the four Maritime provinces).	Combined rates vary by province and territory, ranging from 5% to 15%.[3] Five provinces (New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and PEI) have a multi-stage VAT administered by the Canada Revenue Agency (CRA) called the Harmonized Sales Tax (HST), which consists of a 5% federal component (the GST) and the respective provincial component. Three provinces have a retail sales tax, which they administer: British Columbia (BC), Manitoba and Saskatchewan. These are called Provincial Sales Tax (PST) in BC and Saskatchewan and Retail Sales Tax (RST) in Manitoba. The GST also applies in these three provinces and is administered by the CRA. Quebec administers both the federal GST and its own multi-stage VAT known as the Quebec Sales Tax or QST (*Taxe de vente de Québec* or *TVQ* in French). Alberta has no provincial sales tax. Only the 5% federal GST applies, as is the case in the three Territories.	–

[1] Federal Income Tax Act, s. 123; various provincial/territorial tax statutes
[2] Federal Income Tax Act, s. 117; various provincial/territorial tax statutes
[3] Federal Excise Tax Act, s. 165; various provincial tax statutes

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- New key drivers affecting both Canada and the global economy in 2023 are rising levels of inflation and the possibility of a recession. The source of Canada's inflation is partly international (continued supply chain shocks that started due to the COVID-19 pandemic and have been exacerbated by the war in Ukraine) and partly domestic (significant deficit-financed federal government support and recovery spending due to COVID-19 and very tight labor and housing markets). As in other countries, monetary policy is the key tool being used by the government to reduce inflationary pressures (the Bank of Canada raised its benchmark interest rate seven times in 2021). It is not clear at this time what impact these current economic conditions will have on fiscal policy in the 2023 federal budget, including tax policy.
- Another new key driver is the passage of the Biden administration's Inflation Reduction Act with its significant tax incentives for clean technology investments in the US. This has put Canada at a competitive tax disadvantage vis-à-vis the US and it risks losing major investments due to the integrated nature of the two economies. Canada's 2022 Fall Economic Statement provided several new investment tax credits for clean technologies and committed to providing further details and possible additional measures in the 2023 Federal Budget.
- A continued key driver at the federal level since the 2019 general election is that a minority government is still in power (meaning the governing Liberal Party needs the support of at least one opposition party to pass key legislation without risking a defeat that would trigger a general election). The minority Liberal government called a general election in September 2021 but again failed to win a majority. It entered into a Supply and Confidence Agreement with the left-leaning New Democratic Party (NDP) on 26 April 2022, guaranteeing its support until June 2025 (the statutory limit before a general election must be called) subject to the fulfillment of certain conditions. It is unclear whether the agreement will last until that time. If not, there could be a general election before then, including sometime in 2023.
- A continued driver for international tax policy is the BEPS 2.0 initiative, whose two-pillar core design features were agreed to by 137 member countries, including Canada, in October 2021. In the context of the Pillar One (Reallocation of Taxing Rights) proposals, Finance Minister Chrystia Freeland confirmed the federal government's intention to implement a DST as of 1 January 2024 (in keeping with a proposal first announced in the 2020 Fall Economic Statement and again in Budget 2021), but only if the convention implementing the BEPS 2.0 tax regime has not come into force by 31 December 2023. This commitment was reiterated in the 2022 Budget.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT * However, there is a 50% income inclusion rate for capital gains and losses.

Tax types	Likelihood of changes in 2023	Direction of change
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☒ Reduced incentives in 2023

Canada

Tax types	Likelihood of changes in 2023	Direction of change
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine As mentioned, the tax reforms most likely in Budget 2023 are those in response to the US Inflation Reduction Act.	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 – detail

Corporate income taxes

- No significant rate or base changes are expected.
- Relating to business interest deductibility: On 3 November 2022, the federal government released for public comment revised legislative proposals on the proposed excessive interest and financing expenses limitation rules (EIFEL rules) in response to comments received since their initial release on 4 February 2022. The stated objective is to address concerns raised by the OECD/G20 in its BEPS Action 4 report. These rules are now proposed to be effective in respect of taxation years that begin on or after 1 October 2023 (instead of 1 January 2023 as initially proposed).
- Relating to anti-hybrid rules: Budget 2021 proposed the introduction of new hybrid mismatch arrangements rules consistent with the OECD BEPS Action 2 recommendations. Draft legislative proposals were released on 29 April 2022, inviting comments by 30 June 2022. They have not yet been enacted.
- Relating to controlled foreign company rules: The Department of Finance released draft legislative proposals on 9 August 2022 to eliminate the tax-deferral advantage available to Canadian-controlled private corporations (CCPCs) and their shareholders earning investment income through controlled foreign affiliates, applicable for taxation years beginning on or after 7 April 2022. This proposal has not yet been enacted.
- Relating to transfer pricing rules: As a result of an adverse court decision, Budget 2021 announced the government's intention to consult on Canada's transfer pricing rules "with a view to protecting the integrity of the tax system while preserving Canada's attractiveness as a destination for new investment and business activity," adding "in the coming months, the Department of Finance will release a consultation paper to provide stakeholders with an opportunity to comment on possible measures to improve Canada's transfer pricing rules." Since that time, no paper has been released, and so, no formal consultation process has yet commenced.
- Relating to research and development incentives: Budget 2022 announced that the government would review the existing Scientific Research & Experimental Development (SR&ED) program (the cornerstone of its innovation strategy) and examine the suitability of adopting a patent box regime. The 2022 Fall Economic Statement stated that work on the review is underway and further details would follow in Budget 2023. It is not yet clear whether this review will result in enhanced or reduced incentives in 2023.
- Relating to other business incentives: As stated in 2.1, above, new tax incentives are likely to be included in Budget 2023 in response to certain of the incentives contained in the US Inflation Reduction Act.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- As outlined in 2.1, above, the federal government confirmed its intention to implement a DST as of 1 January 2024 (in keeping with a proposal first announced in the 2020 Fall Economic Statement and again in Budget 2021), but only if the convention implementing the BEPS 2.0 tax regime has not come into force by 31 December 2023.

VAT/GST or sales taxes

- No significant rate or base changes are expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Budget 2021 included a proposed 10% luxury tax on cars, planes and boats over a certain price threshold for recreational use. The Select Luxury Items Tax Act came into force on 1 September 2022 having been included in Bill C-19, the Budget Implementation Act, 2022, No. 1, which received Royal Assent on 23 June 2022.

Windfall taxes *(please specify broad or sector specific)*

- In a December 2022 year-end media interview with the Canadian Broadcasting Corporation, Prime Minister Trudeau dismissed the idea of imposing any windfall profits taxes on the grocery and energy sectors as "simplistic," saying it would only be passed on to consumers in the form of higher prices.

Taxes related to climate change or sustainability

- Under the existing Greenhouse Gas Pollution Pricing Act, the federal carbon pollution pricing system has two parts:
  - A regulatory charge on fuel (the federal fuel charge)
  - A regulatory trading system for industry — the federal Output-Based Pricing System (OBPS)
- As announced by the federal government in December 2020, the existing price on carbon is scheduled to rise by CAD15/ton per year from its then current CAD30/ton of greenhouse gas emissions to CAD170/ton by 2030; i.e., to CAD65/ton in 2023 until it reaches CAD170/ton in 2030.
- A temporary 50% reduction in the corporate income tax rate for zero-emission technology manufacturers (to be gradually phased out for taxation years from 2029 to 2031) and an accelerated capital cost allowance for clean energy equipment received Royal Assent in Bill C-19, the Budget Implementation Act, 2022, No. 1, on 23 June 2022.
- Budget 2021 included a proposed investment tax credit for capital invested in Carbon Capture Utilization and Storage (CCUS) projects to come into effect in 2022, but provided few details. The Department of Finance subsequently concluded a formal consultation process that ran from 7 June 2021 to 2 December 2021 and on 9 August 2022 released draft legislative proposals for public comment. Interested parties were invited to provide comments by 30 September 2022; as such, the proposals may undergo further amendments before they are tabled in a bill.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- A permanent increase of 1.5 percentage points (from 15% to 16.5%) in the corporate income tax for banks and life insurers, as initially proposed in the Liberal Party's 2021 election platform and confirmed in the 2022 Federal Budget, was given Royal Assent in Bill C-32, the Fall Economic Statement Implementation Act, 2022, on 15 December 2022.
- The 2022 Fall Economic Statement announced the government's intention to introduce a corporate-level 2% tax that would apply on the net value of all types of share buybacks by public corporations in Canada, similar to a recent measure introduced in the United States. Details of the new tax will be announced in Budget 2023, and the tax would come into force on 1 January 2024.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The 2022 Federal Budget announced the government's intention to launch a financial sector legislative review focused on the digitalization of money and maintaining financial sector stability and security. The consultation was launched on digital currencies, including cryptocurrencies, stablecoins, and central bank digital currencies on 3 November 2022.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Any consideration of a tax policy relief or stimulus package in response to the current economic slowdown will need to be tempered by the consequential risk of adding to already high inflationary pressures in the economy, the existing federal budgetary deficit and the rising cost of debt financing as interest rates continue to rise.
- Job growth continues to be strong in Canada's tight labor market, and the economic risk and political consequences of sustained inflation appears to be a greater policy concern than the risk of an economic recession.

2.6 Political landscape in your jurisdiction

- As outlined in 2.1 above, a Supply and Confidence Agreement with the NDP that is keeping the minority government in power at the federal level may last until 2025, but if the NDP withdraws its support, an election is possible as early as 2023.
- At the provincial level, there will be elections in Alberta in May 2023 and in Prince Edward Island and Manitoba in October 2023.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- In reference to Pillar Two, the 2022 Fall Economic Statement stated "To function effectively, Pillar Two requires participation and extensive coordination from international partners around the world. Canada is committed to the global minimum tax on large corporations. We continue to work closely with our international partners to develop a coordinated implementation framework, to be put in place in a timely and coordinated manner."

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- These tax policy changes have been identified in 2.2 and 2.4 above.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Budget 2021 announced a public consultation on proposals to enhance Canada's income tax mandatory disclosure rules. Draft legislative proposals were released by the Department of Finance on 9 August 2022, including changes to "reportable transactions," "notifiable transactions" and "uncertain tax treatments."

- However, on 9 November 2022, the government announced that it intends to delay the coming into force date of the reporting requirements for reportable transactions and notifiable transactions until the date on which a bill implementing these changes receives Royal Assent. The coming into force date for uncertain tax treatments would remain the same as described in the August proposals (i.e., taxation years beginning after 2022, with penalties only applying after Royal Assent).

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The CRA continues to be well-resourced and has a mix of sophisticated electronic and manual audit tools at its disposal.
- The CRA has historically adopted a relatively strong audit posture, in particular with regards to transfer pricing audits and assessing positions for large corporations with significant cross-border transactions. It continues to deploy considerable funding and resources earmarked for enforcement activities.
- Consistent with previous Liberal budgets since 2015, Budget 2022 provided an additional CAD1.2 billion over five years to the CRA, starting in 2022-23, "to expand audits of larger entities and non-residents engaged in aggressive tax planning; increase both the investigation and prosecution of those engaged in criminal tax evasion; and to expand its educational outreach." This funding is expected to recover CAD3.4 billion in federal tax revenue over five years (with additional revenue to provinces and territories).

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Continued focus on transfer pricing audits
- Additional restrictions on interest deductibility
- Trailing effects of treatment of COVID-19 government support programs

Canada

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☒
An increase in tax authority funding/budget	☒	☒	☐
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☒	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**COVID-19-related impacts and outcomes**	Numerous reviews are expected to be eligible to receive government subsidies in the early stages of the pandemic.
2	**COVID-19-related impacts and outcomes**	Transfer pricing impacts of subsidies received by Canadian taxpayers are expected to be closely reviewed.
3	**Transfer pricing – Intercompany financing transactions**	New legislation was introduced on limitation of excess interest deduction, and continued scrutiny of hybrid-debt transactions is expected.
4	**Underground economy**	Continued focus of CRA enforcement resources on domestic underground economy issues is expected.
5	**Tax refunds**	Expected widespread utilization of 2020 and 2021 incurred losses will trigger widespread refund requests and associated scrutiny.


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

This information is current as of 16 January 2023

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	27% 10% for SMEs	27% 25% for SMEs	– Until 2022, SMEs were subject to a 10% rate, returning to 25% by 2023. In the tax reform bill currently under discussion (to enter into effect in 2024), it is proposed to set the SME rate to 12% in 2023.
Personal income tax – top rate	40%	40%	– The tax reform bill contemplates increasing brackets and rates as of 2024.
VAT, GST or sales tax – standard rate	19%	19%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- A major tax reform is under discussion in Congress. The government seeks to have it approved in 2023 with most provisions to enter into effect by 2025.
- Key changes include:
  - New corporate taxation systema (shifting from an "integrated" tax system, where corporate taxes serve as credit against taxation on dividends, to a non-integrated one, where no such credit applies)
  - Corporate tax rate lowering from 27% to 25% (yet with a special 2% surtax applicable to companies that lack investment or expenses related to productivity or R&D)
  - Relevant extension of GAAR applicability (Internal Revenue Service (IRS) no longer required to obtain previous judicial approval)
  - Increase in personal taxes (upper brackets only affected)
  - Introduction of a bespoke wealth tax
  - New taxation on accumulated earnings (somewhat similar to that of US corporations)
  - Modernization of transfer pricing rules
  - New regulation of IRS appraisal powers
  - New benefits for R&D
  - New VAT special anti-avoidance rules
  - Carryforward losses limitations (only 50% of taxable base to be deductible, albeit with a progressive transition)
- A new mining royalty bill is also being discussed (in parallel to the tax reform bill), which will also introduce major changes (most of them of great concern for businesses) to the existing one. Namely, an ad valorem component is introduced along with several other modifications.
- A stronger audit approach from the IRS is expected, with great focus on MNEs, corporate groups and high-wealth individuals and large family offices. If GAAR modifications are passed, a great increase in GAAR audits is expected.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023

Chile

Tax types	Likelihood of changes in 2023	Direction of change
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023

Tax types	Likelihood of changes in 2023	Direction of change
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☒ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☐ No – tax changes expected to be routine	

Chile

2.3 Tax policy outlook in your jurisdiction for 2023 — summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The SME tax rate will return from 10% to 25% (unless bill approved).
- A special, transitory benefit of "instantaneous depreciation" ends.
- Intangibles can no longer be amortized instantaneously (also a transitory benefit).
- Major tax reform underway in Congress, with major changes to take place in 2024 and 2025.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No changes are currently expected (no Pillar One adoption has been discussed in Chile as of yet).
- Tax reform would enhance the scope of VAT on digital services by shifting the taxable event from "digital services" to "remotely provided services."

VAT/GST or sales taxes

- Several services (most notably professional services) hitherto exempt are now subject to VAT as of 1 January 2023, unless the service providers reorganize themselves as "professional partnerships" or the services are rendered directly by individuals.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are currently expected.
- The tax reform bills include an increase for upper brackets.

Windfall taxes *(please specify broad or sector specific)*

- No changes are currently expected.

Taxes related to climate change or sustainability

- The government announced a package of "corrective" taxes to be presented to congress in March. Such package would include additional emission taxes, sugar taxes, and the like. No further detail has been made public yet.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- New taxes on certain luxury goods (luxury cars, yachts, planes and helicopters owned by individuals) entered into effect as of 1 January 2023.
- The tax reform bill includes a bespoke wealth tax on estates larger than about USD5 million, to enter into effect in 2024.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No special tax regulation has been set forth or proposed, but the new FinTech law has entered into effect.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- As the country's economy is also slowing down significantly, the ambitious tax reform that entered Congress in June 2022 may incur changes as a result of such scenario. Specifically, significant changes are expected to be introduced by the Senate (although the government has anticipated some of those and has already introduced significant modifications to the original bill). At the same time, the need for additional revenue is acknowledged by nearly all political sectors.

2.6 Political landscape in your jurisdiction

- The government has seen a decline of its approval ratings. This may lead to a potential waning of the political support for tax reform.
- A second constitutional process is to begin in May 2023 (after the September 2022 referendum resulted in a landslide against the new Constitution proposed by the elected Constitutional Convention). This second constitutional project is likely to be much more moderate than the first, as a result.
- In parallel to the tax reform bill, a major pensions bill is also being discussed; both their fates are intertwined as without the former's additional revenue the latter would be infeasible unless public debt is increased significantly.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- As of September 2022, the tax exemption on stock exchange transactions capital gains ended (save for institutional investors).
- Certain VAT tax benefits aimed to household constructions started to be progressively terminated.
- A new donations law was enacted, which expanded the type and purposes of donations to be eligible for a tax deduction.
- A new law on financial institutions reporting obligations entered into effect, obliging banks and other institutions to report the balances of several financial products held by individuals to the tax authorities.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were not. However, many companies began to voluntarily carry out tax reporting to stakeholders as part of their ESG strategy.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There is nothing expected outside of the aforementioned tax reform bill.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Strong focus on tax avoidance, especially MNEs, corporate groups, family offices and wealthy individuals
- Auditing strategy consisting of encompassing the whole ownership chain under the same audit group (tax reform would further enable this if passed)
- New financial institutions reporting obligations for the strengthening of audit efficiency

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☒ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☐ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- New GAAR regulations (included in the tax reform bill) and enforcement
- New tax on accumulated earnings (included in the tax reform bill)
- New mining royalty

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☒	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☒	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☒	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Digital VAT	IRS is very active in identifying foreign companies receiving credit card payments from Chilean customers and appointing withholding agents when they refuse to comply with VAT regulations.
2	Disallowance of deductions	This has always been one of the main focuses of audit activity, especially since a new, pro-taxpayer regulation of expenses entered into effect in 2021, thereby reducing revenue for this concept.
3	Transfer pricing	More cases appear year after year. There is a special focus on financial transaction and distribution activity.
4	Treaty benefits	Article 7 transactions are expected to be under greater scrutiny.
5	Losses	As Chile has an unlimited carryforward, it has always been a strong focus of tax enforcement.

Busy street in China

China Mainland[1]

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Tax policy and controversy

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

This information is current as of 30 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	Different personal income tax (PIT) rates applicable subject to income types:[2] • General consolidated income (wages): 45% • Business operation income: 35% • Interest and dividend: 20%	Different PIT rates applicable subject to income types: • General consolidated income (wages): 45% • Business operation income: 35% • Interest and dividend: 20%	–
VAT, GST or sales tax – standard rate	6%, 9%, 13% (depending on the industries) and 0% for certain eligible activities as well as export of goods and services	6%, 9%, 13% (depending on the industries) and 0% for certain eligible activities as well as export of goods and services	–

[1] This submission does not cover related tax policy and controversy updates in Hong Kong Special Administrative Region (SAR), Macau SAR or Taiwan.

[2] Order of the President [2018] No. 9

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

The 20th National Congress of the Communist Party of China (CPC)

- **The 20th CPC National Congress was held from 16 to 22 October 2022, which provides a roadmap for China's future development.**

  From the perspective of economic development, China reiterates it will keep focusing on high-quality and market-oriented development and continue to build a new advanced "double circulation" (domestically and internationally).

  Key takeaways from the 20th National Congress, further details to be issued accordingly:

  - Quality development of brick-and-mortar economy as a core foundation for building up China's economic resilience
  - Enhance common prosperity, continue to encourage entrepreneurship and private businesses, while supporting state-owned enterprises
  - Encourage innovation to enhance competitiveness
  - Attract and retain quality FDIs, particularly in the manufacturing sectors
  - Attract quality talents
  - Enhance the rule of law
  - Green development

Foreign direct investment (FDI)[3]

- **China proposed a batch of policy measures to further attract and retain FDI:**
  - FDI attraction and retention
    - Further relaxation for market entry
    - Enhancement of utilities and infrastructure support (e.g., on land use, utilities and other logistic supports)
    - More involvements in international organizations/ institutions cooperation
    - Enhancement of communications between businesses and policymakers
    - Facilitation for the entry and exit of expat employees
    - Enhancement of financial support for the promotions to the foreign invested enterprises (FIEs) to be listed in China security exchanges
    - Streamlined incentive implementation for FIEs profit reinvestment
    - Facilitation of import and export
  - High-quality FDI
    - Industrial perspective — encourage foreign investment in advanced manufacturing, high-tech industries, R&D and design, modern logistics, new energy, etc., promote innovation and green development
    - Geographical perspective — support foreign investment in the central, western and northeast regions
- Local governments will also launch policies to promote higher-level opening up, e.g., Shanghai recently updated its policy measures to encourage establishment of MNC regional headquarters. It is expected that detailed support policies will be announced soon.

Digitization of tax administration[4]

- China proposes to deepen the application of big data, AI, cloud computing to:
  - Empower more efficient tax administration, such as further facilitate tax filing and invoicing, etc.
  - Exchange information among governmental authorities[5]

Real estate[6]

- Local governments are allowed to roll out new measures to revive the property sector.

Tax audit trend[7]

- In the second half of 2022, China tax authorities have been focusing on the following sectors: automobile sales, media and entertainment, private education institutions for profit-making, real estate, online businesses through livestream, tax agent business, etc. In addition, China has been investigating violations related to fraudulent input VAT credit refunds.
- China State Taxation Administration (STA) announced that it will continue to strictly crack down on the false issuance of tax invoices, fake exports defrauding tax refunds, fake tax filings defrauding tax incentives, etc.

Administrative discretion and penalty[8]

- China proposes to:
  - Further regulate discretion of administrative penalties to achieve consistency in law enforcement
  - Cancel a batch of administrative penalties to streamline administration

Legislation[9]

- For the coming annual National People's Congress (NPC) in March 2023, it is expected that the law drafting section of the NPC may:
  - Submit 16 draft laws to the Standing Committee of the NPC for deliberation, including the draft Customs Duty Law, VAT Law and revised Administrative Review Laws, etc.
  - Submit a list of draft laws, including the draft Consumption Tax Law to the Standing Committee of the NPC for deliberation

Belt and Road Initiative (BRI) cooperation and collaboration[10]

- China proposes to work to further strengthen mutual cooperation in tax cooperation, improve information sharing platforms, promote digitalization of tax administration, etc.

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3 https://www.ndrc.gov.cn/xxgk/zcfb/tz/202210/P020221025312057016986.pdf
http://www.gov.cn/zhengce/content/2022-10/26/content_5721739.htm

4 http://www.gov.cn/zhengce/content/2022-10/31/content_5722748.html

5 http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5172035/content.html
http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5174022/content.html

6 http://www.gov.cn/zhengce/content/2022-10/26/content_5721739.htm

7 http://www.chinatax.gov.cn/chinatax/n810219/c102025/common_listwyc.html

8 http://www.gov.cn/zhengce/content/2022-10/26/content_5721739.htm

9 http://www.gov.cn/zhengce/zhengceku/2022-07/14/content_5700974.htm

10 http://www.chinatax.gov.cn/chinatax/n810219/n810724/c5181647/content.html

China Mainland

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023

Tax types	Likelihood of changes in 2023	Direction of change
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base[11]	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

[11] http://www.chinatax.gov.cn/chinatax/n360/c5182342/content.html

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 – detail

Corporate income taxes

- China continues to offer tax incentives to specific regions to facilitate investments, innovation and R&D, promote green development, etc.
  - Hainan Free Trade Port
  - Western Region
  - Nansha Area of Guangdong Free Trade Zone (FTZ)
  - Lingang New Area of Shanghai FTZ
  - Guangdong-Macau Comprehensive Collaboration Zone in Hengqin (Hengqin Zone)
  - Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and Fujian Pingtan Comprehensive Experimental Zone

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No specific DST is applied in China currently.

VAT/GST or sales taxes[12]

- The draft VAT Law was released for public consultation on 27 November 2019, and the public comments closed on 26 December 2019. The draft VAT Law would:
  - Redefine VAT taxpayer and VAT withholding agent
  - Officially update VAT rates (13%, 9%, 6%, 0%)
  - Introduce provisional refunds of input VAT credit brought forward from previous periods
  - Tax reduction/exemption procedures: empower the State Council to formulate VAT preferential policies and shall submit to the Standing Committee of the NPC for record-filing purposes
- China will establish a new batch of cross-border e-commerce comprehensive pilot zones (EPZs). (Note: In November 2022, China approved the establishment of a new batch of EPZs in 33 cities and regions. By the end of November 2022, there are 165 EPZs in China.[13] VAT export exemption is simplified in the EPZs.[14])

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The Chinese government said it would explore the chance to further improve the PIT system, for the purpose of better adjusting income allocation.[15]

Windfall taxes *(please specify broad or sector specific)*

- Not applicable in China

Taxes related to climate change or sustainability

- China issued a preferential VAT policy for comprehensive resource utilization industry.[16]
- China issued the "Guidelines for Preferential Tax Policies to Support Green Development" in May 2022, which summarized prevailing preferential tax policies for environment protection.[17]

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[12] http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5140207/content.html
[13] http://www.gov.cn/zhengce/content/2022-11/24/content_5728554.htm
[14] http://www.gov.cn/xinwen/2022-09/15/content_5709932.htm
[15] http://www.npc.gov.cn/npc/c30834/202205/64d6514cc174f8787e53be2ca0e986c.shtml
[16] http://www.gov.cn/zhengce/zhengceku/2022-02/28/content_5676109.htm
[17] http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5175740/content.html

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Effective from 1 November 2022, China expanded the tax base of consumption tax (CT) by imposing a CT on e-cigarettes[18]
  - A tax rate of 36% on the production or import of e-cigarettes
  - A tax rate of 11% on the wholesale distribution of e-cigarettes

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- In September 2021, China's central bank announced the following:
  - All transactions of cryptocurrencies are illegal
  - Foreign websites providing such services to Chinese citizens online is also an illegal activity

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- It is expected that China will release more preferential tax policies to attract and retain foreign investment.

2.6 Political landscape in your jurisdiction

- The first plenary session of the 20th Central Committee of the Communist Party of China was held on 23 October 2022 in Beijing.[19]
  - Xi Jinping was elected the General Secretary of the CPC Central Committee and the Chairman of the Central Military Commission
- The 20th Congress Report stated that China will continue high-level opening up, will further widen market access and improve business environment for high-quality economic development.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No policy related to BEPS Pillar Two has been formally announced.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

Major tax incentives related to CIT, VAT and PIT

- CIT
  - R&D promotion:[20]
    - Allow 100% super deduction on a one-off basis for High and New Technology Enterprise (HNTE) equipment purchased between 1 October 2022 and 31 December 2022
    - Allow industries eligible for the 75% R&D super deduction to claim 100% super deduction between 1 October 2022 and 31 December 2022
    - Enterprises may claim a 200% deduction of their contribution to qualifying entities (i.e., not-for-profit R&D institutions, universities, governmental natural science funds) in qualified basic research, effective from 1 January 2022
    - Funds received by not-for-profit R&D institutions and universities from enterprises, individuals and other organizations for qualified research are exempt from CIT
    - Technology-based small and medium-sized enterprises may claim a 200% deduction of their R&D expenditures, effective from 1 January 2022
    - For micro, small and medium-sized enterprises, newly purchased fixed assets (from 1 January 2022 to 31 December 2022) with single value of more than RMB5 million could opt for a certain percentage to be one-off deducted
- Green development:[21]
  - CIT incentive (i.e., reduced tax rate of 15%) for eligible third-party pollution prevention and control enterprises that ended at the end of 2021 has been extended for another two years to the end of year 2023
- Tax relief for real estate investment trusts (REITs):
  - CIT related to asset transfers can be exempted before the REITs are set up and can be deferred during the setup process, effective from 1 January 2021[22]
- VAT:
  - Starting from 1 July 2022, China expanded the applicable scope of policy on the refund of input VAT credits from manufacturing industry to an additional seven industries.[23]
  - From 1 May 2022 to 31 December 2022, VAT is exempt on express delivery service of essential living materials for residents.[24]
  - VAT is exempt for taxpayers' income from providing public transport services in 2022.[25]

[18] http://www.chinatax.gov.cn/chinatax/n360/c5182342/content.html
[19] http://www.mofcom.gov.cn/article/zt_20thCPC/zypl/202211/20221103366960.shtml
[20] http://szs.mof.gov.cn/zhengcefabu/202209/t20220926_3842852.htm
[21] http://www.gov.cn/premier/2022-01/19/content_5669352.htm
[22] http://www.chinatax.gov.cn/chinatax/n362/c5172552/content.html
[23] http://www.chinatax.gov.cn/chinatax/n359/c5175898/content.html
[24] http://www.chinatax.gov.cn/chinatax/n359/c5175049/content.html
[25] http://www.chinatax.gov.cn/chinatax/n359/c5173293/content.html

- The "super input Value-added tax credit" policy for production and lifestyle service industries is extended to the end of 2022.[26]
- VAT prepayment for the air and rail transportation industry was suspended in 2022.[27]
- Small-scale VAT taxpayers who were subject to VAT at 3% are exempt from VAT from 1 April 2022 to 31 December 2022.[28]
- Effective from 1 January 2022, legal aid subsidies received by legal aid personnel in accordance with the "Legal Aid Law" shall be exempt from VAT.[29]

PIT

- Certain PIT Incentives have been extended:[30]
  - Certain qualified non-taxable benefits (e.g., meals and laundries, housing, children's education, home trip, language training, and relocation cost) applicable to expatriate's foreign employees will be extended further until the end of 2023.
  - PIT favorable treatment for stock option income from listed companies was extended for one more year until the end of 2022.
- Support for housing upgrading: From 1 October 2022 to 31 December 2023, taxpayers who sell their own house for buying a new one (located in the same city) within one year can claim a refund of the PIT paid on the gain from the old house.
- Childcare: Effective from 1 January 2022, taxpayers' expenses related to caring for children under the age of 3 can be deducted at a fixed amount of RMB1,000 per month for each child for PIT purposes.
- Pension funds: Effective from 1 January 2022,35 PIT treatment for pension funds in certain pilot cities can be deferred.
- Legal aid services: Effective from 1 January 2022, legal aid subsidies received by legal aid personnel in accordance with the "Legal Aid Law" shall be exempt from PIT.

Other taxes

- Vehicle purchase tax (VPT)
  - Extend the VPT exemption policy for new energy vehicles for another year until the end of 2023
  - Reduce VPT by half for passenger cars with a displacement of 2.0 liters or less that are purchased from 1 June 2022 to 31 December 2022 and the vehicle price (excluding VAT) does not exceed RMB300,000

Regional Tax Incentives

- China provides income tax incentives (including CIT and PIT) to different designated special zones/areas. (e.g., Guangzhou Nansha, Hengqin Zone, etc.) The goals of these incentives are mainly designed to promote innovation, attract talents and foreign investments.
  - Hengqin Zone, effective from 1 January 2021 to 31 December 2025:
    - Exemption for PIT burden exceeding 15% for domestic and foreign high-end talents and urgently needed talents working in the Hengqin Zone
    - Exemption for PIT burden exceeding Macau tax for Macau residents working in the Hengqin Zone
  - Guangzhou Nansha, effective from 1 January 2022 to 31 December 2026:[31]
    - Exemption for PIT burden exceeding Hong Kong/Macau tax for Hong Kong/Macau residents working in Guangzhou Nansha
- China expanded the scope of "zero-tariff" commodities in the Hainan Free Trade Port. Eight types of production equipment needed in the culture, sports and tourism sectors (merry-go-round, swing, roller coaster, aquatic rides, etc.) are exempt from Customs Duties, Import VAT and Consumption Tax at importation.

New Tax Law[32]

- The Stamp Duty Law took effect on 1 July 2022; key changes include:
  - Reduced SD rate (from 0.05% to 0.03%) applicable to certain contracts such as "contracts for processing work," "transportation contracts" and "the instruments for the transfer of trademarks, copyrights, patents and know-how"
  - Removal of certain taxable/dutiable items (i.e., "Certificates of rights, licenses and approvals" and "other accounting books")
  - Incorporation of "finance leasing contracts" and "securities transactions" into the Stamp Duty Law
  - More certainties with clearer interpretation provided for implementations

Other updates related to treaty network

- The MLI entered into force on 1 September 2022 in China.[33] Forty-seven DTAs China has entered with will be subject to this and the earliest effect may be taken on 1 January 2023, subject to respective provision in each individual DTA.

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[26] http://www.chinatax.gov.cn/chinatax/n359/c5173293/content.html
[27] http://www.chinatax.gov.cn/chinatax/n359/c5173293/content.html
[28] http://www.chinatax.gov.cn/chinatax/n359/c5173850/content.html
[29] http://www.chinatax.gov.cn/chinatax/n363/c5180817/content.html
[30] http://www.chinatax.gov.cn/chinatax/n363/c5171841/content.html
[31] http://www.gzns.gov.cn/tzns/tzzc/gjzc/content/post_8501763.html
[32] http://www.npc.gov.cn/npc/c30834/202106/ac04259fbbc24b9581156b81d3c76275.shtml
[33] http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5178626/content.html

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Not observed

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- VAT Law (Draft)[34]
- CT Law (Draft)[35]
- Land Appreciation Tax Law (Discussion Draft)[36]
- Revised Draft of the Tax Collection and Administration Law (Discussion Draft)[37]

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- With the stated objective of improving the business environment and stimulating market vitality, the STA continues to roll out tax reduction policies in 2022. We anticipate that the STA will roll out more and more tax reduction policies in 2023 to continue boosting the economy.
- Meanwhile, with the development of tax digitalization, we expect there will be higher number and higher intensity of tax audit in 2023 by utilizing the strong data analytic function of Golden Tax Phase IV.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The development of Golden Tax Phase IV aiming to detect tax avoidance activities
- Further strengthen the promotion of and use of comprehensive digital electronic invoices

[34] http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5140207/content.html?from=timeline&isappinstalled=0

[35] http://www.gov.cn/xinwen/2019-12/04/content_5458247.htm

[36] http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5136578/content.html

[37] http://www.gov.cn/xinwen/2015-01/05/content_2800208.htm

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing audits	The China tax authority is paying more attention to transfer pricing matters, including: low profitability of MNC subsidiaries in China, large amounts of cross-border payments, outbound service fees, royalty fees and payments for ownership or use of IPs, continuous loss from significant intercompany transactions, and others.
2	Tax inspection on fake invoice (Fa Piao)	Fake VAT invoices is consistently a tax audit focus of the STA every year. Along with the development of big data analytical function of Golden Tax Phase IV, the rolling out of an Electronic VAT special invoice system, and joint investigation with other government authorities and financial institutions, the STA has more resources to detect fake invoice cases.
3	Tax inspection of VAT refund	The STA rolls out a series of tax incentive policies this year, and one important policy is that enterprises would be able to claim VAT refund for uncredited input VAT on their balance sheet, subject to certain conditions and procedures to complete. Since rolling out the policy, the STA has identified several cases where taxpayers applying for input VAT refund by underreporting sales proceeds or other illegal behaviors. And since then, the tax authority started to conduct intensive tax inspection for enterprises applying the VAT refund to avoid taxpayers' misuse of the tax incentive policy.
4	Tax incentives provided to HNTE	There are various tax incentives provided to HNTEs, e.g., reduced CIT rate of 15%, tax holiday of "two-year exemption and three-year half" in certain cities and super deduction of qualified R&D expenditures. In recent years, tax authorities are conducting more strict reviews on HNTEs by assessing whether conditions are met to enjoy the above-mentioned tax incentives, including volume of R&D expenditures, percentage of qualified income, number of headcounts of R&D team, etc. HNTEs that are under assessment, if considered as not qualified, will need to pay back 10% corporate tax, along with late payment surcharge, and sometimes may be subject to penalties as well if the behavior is considered as tax evasion.


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

This information is current as of 9 February 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	35%	35% (+) surcharges in some industries between 3% and 15%	– Between 3% and 15% in some industries
Personal income tax – top rate	39%	39%	–
VAT, GST or sales tax – standard rate	19%	19%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- In the elections for the period 2022-2026, Gustavo Petro, a leftist candidate, was elected. He proposes multiple reforms to the labor regime, taxation, pensions, justice, and a new vision about total peace.
- Other priorities include:
  - Refocusing of the tax system
  - Incentives for environmental protection activities and underprivileged classes
  - Disincentive to fossil fuels exploration and exploitation activities
  - Emphasis on wealth and high-income taxes

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☒ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023

Colombia

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The 2022 tax reform introduced several modifications:
  - Surcharges for the financial sector, hydrocarbons, gas and hydroelectric energy
  - Modifications to the base through reduction and limitation of deductions
  - New rules for taxing foreign companies with effective headquarters in Colombia

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- The tax reform of 2022 included regulation of significant Economic Presence for nonresident or non-domiciled entities that sell goods or provide services in favor of users in Colombia under certain conditions (income of USD280,000 and deliberate and systematic interaction in the Colombian market) and for those who provide digital services abroad (e.g., online advertising, digital services, streaming, monetization of information, online intermediation and other electronic services. It will be subject to tax at 3% of gross income, in which case no withholding tax will be applied.

VAT/GST or sales taxes

- In general, the regime is maintained for 2023.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Modifications were made to the rates and bases. Deductions and exemptions in force until 2022 are eliminated. The rate for occasional gains and dividends is increased.

Windfall taxes *(please specify broad or sector specific)*

- A surcharge of between 3% and 15% is established on hydrocarbon exploration and exploitation activities, hydroelectric power generation and financial services. Gradual conditions are established.

Taxes related to climate change or sustainability

- Taxes were established on single-use plastics, and measures were tightened in relation to the carbon tax.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Tax on sugary ultra-processed food
- Wealth tax on individuals and foreign companies with assets in Colombia (exclusions apply)

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The economic situation will probably result in lower collections of some taxes, which will put pressure on the tax administration to increase the enforcement.
- Interest rate intervention will probably continue as an effort to control the inflation. This will keep increasing the default interest rate for tax obligations, which has already created tax obligation amnesty for the payment of tax obligations in arrears.

2.6 Political landscape in your jurisdiction

- The election of President Petro resulted in proposals for changes at all levels in the political landscape.
- The National Development Plan refocuses state priorities, and many policy changes are expected.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The Colombian government has not announced anything in relation to the implementation of Pillar Two. However, in the last tax reform, approved in December 2022, a minimum 15% tax applicable to Colombian tax residents was introduced. This new rule is inspired by Pillar Two; nevertheless, the approved rule has many differences with the OECD proposal, and it may not technically be considered as a qualifying domestic minimum top-up tax.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- A new government took office in August 2022 and approved a massive tax reform introducing tax increases at many levels, including taxation of individuals, corporations, dividends, and capital gains, and others. It also introduced sugary drink and processed foods taxes, as well as a single-use plastic tax. The reform heavily taxes (with surtaxes and limitations on royalties' deductibility) some industries engaged in the exploitation of non-renewable resources. A rule to tax nonresident entities that are considered to have a substantial economic presence in Colombia was also implemented.
- Collections will be directed to fund social spending programs.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- It has been mentioned that reforms to the tax regime of territorial entities will be proposed.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax administration is in the middle of a technological modernization process.
- Even at the beginning of this process, the tax administration intensified the use of information for tax purposes, gathered from agreements to avoid double taxation, information exchange treaties, information from local public entities and companies and individuals obliged to provide information on transactions with third parties.
- There are recurrent massive audit programs.
- Transfer pricing audits are intensifying, and the processes are becoming more sophisticated.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- 2022 tax reform
- The tax administration modernization plan (including electronic invoicing and eradication of cash payments as deductions)
- The new government's general approach

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☒	☒	☐
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☒	☒	☐
New or expanded criminal tax law(s)	☐	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☒	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☒	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing challenges**	Acceptance/rejection matrix of comparables, method, profile characterization, change of analyzed part Recalculation of the interquartile range to make adjustments
2	**Materiality of services**	Detailed demonstration required of the services rendered by related and third parties abroad
3	**Technical services and technical assistance services challenge**	Rejection of deductibility of payments that do not comply with the requirements (withholding, contracts registration, materiality)
4	**E-invoice as requirement for deductibility**	Rejection of deductibility of payments not supported Many requirements related to e-invoice
5	**Formal obligations**	Massive audit programs to control compliance of formal obligations High penalties applicable

Costa Rica

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This information is current as of 4 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	30%	30%	–
Personal income tax – top rate	25%	25%	–
VAT, GST or sales tax – standard rate	13%	13%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Strengthening of public finances and fiscal consolidation
- Compliance with international tax standards set by international organizations, such as the OECD and the European Union
- Increase of tax revenue and reduce government expenditures
- Implementing measures agreed with the International Monetary Fund as consequence of the loan granted
- Eliminate tax fraud

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023

Costa Rica

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☒ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The government announced a tax reform as part of the commitments with the IMF. However, as of the date of this writing, it has not been formally submitted to Congress, and therefore, the details and scope are not known as of today. Also, changes can be expected due to the inclusion of the country in the Annex II of the European Council conclusions on the revised EU list of noncooperative jurisdictions for tax purposes.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- There are no income tax-specific measures related to taxation of the digital economy. However, it is highly probable that Costa Rica will follow the results from the OECD's or other international organizations initiatives. There are certain VAT-related rules that, as of 2019, have included certain types of digital transactions as taxable and subject to domestic VAT.

VAT/GST or sales taxes

- The government is expected to present formal proposals to Congress to eliminate the VAT exemption on car rentals and eliminate the reduced VAT rate of 4% applicable to airfares.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The government announced a tax reform to the personal income tax. However, it has not been formally submitted to Congress, and therefore, the details and scope are not yet known.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- To date, there are two initiatives that seek to regulate the taxation of cryptocurrencies. One of them is a draft resolution of the tax authority, while the other is a bill filed by a Congresswoman before the Legislative Assembly. Both initiatives have different scope and legal ranks, while the bill the most comprehensive. Neither have been approved.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- This trend may reinforce the need for the tax authority to seek new revenue through tax audits to offset the loss of revenue due to the slowdown in the economy.

2.6 Political landscape in your jurisdiction

- Since May 2021, Costa Rica became the 38th OECD member, so a greater commitment of the government and the tax authority regarding the adoption of international tax standards or initiatives is expected.
- The current government took office in May 2022, with a political promise not to approve new taxes. However, there is a need to strengthen public finances as well as pressures from international organizations such as the OECD, IMF and the EU, which will require tax reforms that could result in new taxes or at least in broadening of the tax bases, elimination of exemptions, etc.
- The government has announced on several occasions that a bill to reform the personal income tax will be submitted early 2023 to Congress. Also, it has announced that a bill to eliminate some VAT exemptions will be also submitted to Congress.
- It is also important to highlight that the government party only has 10 representatives out of 57. Therefore, any tax initiative proposed by the government will require consensus with other political parties and opposition groups in Congress, since tax reforms required a qualified majority for its approval (37 out of a total of 57 votes).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Regarding BEPS 2.0, Pillar Two, the government and business sector are analyzing the potential impact it may have on the Free Trade Zone (FTZ) Regime, which grants a corporate income tax holiday to companies operating under the regime. The FTZ Regime is the primary generator of foreign direct investment in the country. As of today, tax authorities have not made a formal communication regarding the implementation of Pillar Two.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- A law on tax exemption regimes that are under Treasury was enacted. The law includes provision related to the procedure of granting tax exemptions, procedures for the control and revocation of tax exemptions as well as a new sanctioning regime applicable for noncompliance with the tax exoneration regime. In relation with the law the tax authority publishes new criteria for selecting tax exemption regimes and beneficiaries for audits.
- The OECD Forum on Harmful Tax Practices concluded that Costa Rican FTZ Regime is not harmful.
- In 2021, Costa Rica was included by the EU in Annex II of the European Council conclusions on the revised EU list of noncooperative jurisdictions for tax purposes, as a consequence of the revision of the foreign-source income regime (i.e., foreign source income is not taxable with a few exemptions). Costa Rica states commitment to amending this regime; as of today, no formal bill to address this issue has been submitted to the Congress.
- On 12 October 2022, the Constitutional Chamber of the Supreme Courthouse ruled in favor of an extensive interpretation held by the tax authority and the First Chamber of the Supreme Court of Justice that considers that passive income linked to an economic structure or generating source in Costa Rica should be considered source in Costa Rica and, therefore, be taxable. This, despite the clarity of Article 1 of the Income Tax Law and the territoriality principle applicable under which foreign-source income is not taxable since it is not considered a Costa Rican source.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- No.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- As in previous years, there is a strong need for the government to raise revenue to recover deficits resulting from COVID-19, as well as other events such as the container crisis, the war in Ukraine, high inflation rates, among others, which tend to lead to an increase of tax audits.
- Tax issues continue to be the subject of public debate, which may result in an increase of tax audits and greater controls over taxpayers.
- The tax authority has presented an initiative to move toward a more cooperative compliance approach for large taxpayers (Dialogue Forum, in Spanish "Foro de Diálogo"); however, in practice, the challenging behavior of the tax authority toward taxpayers and within tax audits prevails.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Approval of new tax reforms that can imply significant changes to the income tax
- Greater pressure and control over taxpayers
- New tools and capacities for the tax authority to control and fight tax avoidance and tax evasion

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Disallowance of deductible expenses	The tax authority reviews with detail that deductible expenses are linked and necessary for generating taxable income and that they are duly supported (i.e., electronic invoices).
2	Tax refunds	Tax refund requests may involve an extensive review from the tax authority to determine the existence of the balance.
3	Transfer pricing	The tax authority is focusing on companies' transactions with related parties (e.g., headquarter and management services transactions, intercompany financing transactions, royalties or licensing fees) as well as their transfer pricing policies and documentation.
4	Withholding taxes	The tax authority is reviewing with greater detail the application of withholding taxes, especially for those applicable for payments abroad.
5	Losses	The tax authority is checking that tax losses are carried forward in accordance with the requirements established in the Income Tax Law.
6	Interest deductions/limitations	The tax authority may review if nonfinancial interests are deducted in accordance with the limitation established in the Income Tax Law.

Croatia

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Tax policy and controversy

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

This information is current as of 9 February 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	18%	18%	–
Personal income tax – top rate	30%	30%	–
VAT, GST or sales tax – standard rate	25%	25%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Under the Program of the government of the Republic of Croatia for period 2020-2024 (the Program), multiple legislative changes took place with the aim, inter alia, to reduce overall taxes and reduce administrative processes.
- There are no major tax policy changes in 2022 with effect for 2023. The legislative changes adopted under the Program are being evaluated and monitored.
- In 2023 the Republic of Croatia becomes the twentieth member of the eurozone. In July 2022, the Council of the European Union adopted the Decision (EU) 2022/1211 on the introduction of the euro by Croatia on 1 January 2023, as well as Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Croatia.
- Changes in the laws governing taxes already occurred or will occur during 2023 to reflect the change in currency.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Croatia

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- As of 1 January 2023, changes in CIT legislation have been announced to reflect the change of currency based on a fixed conversion rate determined by the Act on the Introduction of Euro as Official Currency.
- As of 1 January 2023, the following provision enters into force, and it also refers to the change of currency:
  - Differences that the taxpayer determines and records by applying the rules for recalculation and rounding or for ex officio write-offs, in accordance with the Introduction of the Euro as Official Currency in the Republic of Croatia (Official Gazette, no. 57/22 and 88/22), are included in the tax base.
- On 16 December 2022, the Act of Additional Corporate Income Tax, an extra profit tax, passed the national legislative body and came into effect as of 1 January 2023.
- Act of Additional Corporate Income Tax states the following:
  - The Additional Corporate Income Tax (extra profit tax) is a one-time tax applicable for the year 2022.
  - The tax rate is 33%.
  - A taxpayer is a taxpayer whose revenues in 2022 exceed HRK300 million regardless of the type of performed business activity.
  - Tax base is determined as a difference between taxable profit (before utilization of tax loss carry forward (TLCF) and tax incentives) in the fiscal year starting on or after 1 January 2022, and the taxable base calculated as an average taxable profit (before utilization of TLCF and tax incentives) in the fiscal years 2018-2021 increased for 120%.
  - The 33% rate is applied to the above tax base, in parallel to the regular CIT rate.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- N/A

VAT/GST or sales taxes

- As of 1 January 2023, changes in VAT legislation have been announced to reflect the change of currency.
- The latest amendments to VAT Act with effect in 2023 refer to the reduction of the tax rate for the supplies of heating, and supplies and installation of solar panels:
  - In the period from 1 October 2022 until 31 March 2023, VAT is calculated and paid at a reduced rate of 5% on supply of heating from thermal stations, including fees related to respective supply, and for the supplies of firewood, pellets, briquettes and wood chip.
  - As of 1 January 2023, VAT is calculated and paid at a rate of 0% on supplies and installation of solar panels on private residential buildings, residential areas and public and other buildings used for activities of public interest, as well as the supplies and installation of solar panels near such buildings.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- As of 1 January 2023, changes in PIT legislation have been announced to reflect the change of currency.
- As of 1 October 2022, amendments to PIT bylaw refer to an increase of nontaxable income. Accordingly, employers can pay out to their employees a nontaxable:
  - Award in the amount of up to HRK5,000.00 per year
  - Severance payment upon retirement up to HRK10,000
  - Gift to a child up to 15 years of HRK1,000 per year
  - Fee for using a private car for official purposes up to HRK3.00 per kilometer travelled
  - Performance bonus for work results and other forms of additional remuneration for employees up to HRK7,500 per year
  - Flat-rate monetary compensation for food expenditure up to HRK6,000.00 per year
  - Gift in kind up to HRK1,000 per year
- As of 1 January 2023, amendments to PIT bylaw refer to the possibility of changing the method of paying the food expenditure to employees:
  - HRK500.00 per month in cash; or
  - HRK1,000.00 per month if underlying documentation proving that meals were provided exists
  - Possibility to pay nontaxable compensation for several missed months of the same tax period, i.e., compensation will be able to be paid for months in the past, but no longer for months in advance

Windfall taxes ***(please specify broad or sector specific)***

- The temporary solidarity contribution is introduced according to Council Regulation (EU) 2022/1854 of 6 October 2022 on an emergency intervention to address high energy prices.
- That temporary solidarity contribution was introduced in Croatia through the Act of Additional Corporate Income.

Taxes related to climate change or sustainability

- The use of renewable energy sources will be stimulated by the abolition of VAT for supplies and installation of solar panels.
  - As of 1 January 2023, VAT Act prescribes the abolition of the VAT rate on supplies and installation of solar panels on private residential buildings, residential areas, and public and other buildings used for activities of public interest, as well as supplies and installation of solar panels near such buildings.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- Special taxes on motor vehicles — no changes expected in 2023
- Special taxes on coffee and alcoholic beverages — no changes expected in 2023
- Tax on compulsory (third-party) and comprehensive motor vehicle insurance premiums — no changes expected in 2023
- Games of chance tax — no changes expected in 2023
- Real estate transfer tax — no changes expected in 2023

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Arrangements to mitigate the consequences of price increases include an increase in nontaxable compensation prescribed by PIT bylaw, which is intended for all employees.
- The Act of Additional Corporate Income Tax, an extra profit tax, passed the national legislative body and came into effect as of 1 January 2023.

2.6 Political landscape in your jurisdiction

- Under the Program, multiple legislative changes took place with the aim, inter alia, to reduce overall taxes and reduce administrative processes.
- There are no major tax policy changes in 2022 with effect for 2023. The legislative changes adopted under the Program are being evaluated and monitored.
- On 10 June 2022, the OECD Council adopted the Plan for the accession process of Croatia to the OECD.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- There are no major tax policy changes in 2022 with effect for 2023.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There are no major changes in ongoing practices.
- The tax authorities in the Republic of Croatia offer their services online to both legal and natural persons through online portal — ePorezna. Many services are already available on ePorezna, which taxpayers can use without going to the tax administration.
- Ministry of Finance developed a mobile application (mPorezna) that allows taxable persons to have access to their data, communicate with tax authorities, submit reports and get information.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There are currently no major pending tax proposals.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Continuous harmonization with the EU legislation to counter tax avoidance practices that directly affect the functioning of the EU internal market by moving profits out of the boundaries where profit is made in terms of exit taxation and hybrid mismatches
- Legislative solutions incentivizing transparent and complete tax reporting
- The legislative changes adopted under the Program
- Adjustment to change of currency (from HRK to EUR)

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The Act of Additional Corporate Income Tax, an extra profit tax

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	Analysis of a transfer pricing documentation (e.g., TP study, agreements, invoices and other supporting documentation) in order to review the assertion that transactions with related parties are performed under the market conditions
2	Corporate income tax	Statutory changes and tax deductibility of costs at the level of the surviving entity
3	Tax losses	Checking that tax losses carried forward are within the legally prescribed period and utilized in the order in which they were incurred (i.e., the earliest losses should be utilized first)
4	Interest deductions/limitations	Analyzing whether interest is deducted in accordance with limitations and legal provisions
5	Tax refunds	Analyzing whether the requested tax refund is legitimate based on legislation provisions, i.e., emphasis on checking invoices, VAT books and VAT returns


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Cyprus

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Tax policy and controversy

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

This information is current as of 21 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	12.5%	12.5%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	19%	19%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Introduction of new transfer pricing legislation as of 1 January 2022
- Impact of Pillar Two and relevant EU Directive
- Introduction of withholding taxes for payments to jurisdictions included in the EU's list of nonparticipating jurisdictions
- Developments within the context of the Unshell Directive

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023

Cyprus

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No major changes are expected in terms of the corporate tax rate. In 2021, the Minister of Finance made public statements about raising the rate to 15%. However, to date, there have been no developments.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- New taxes being introduced on digital business activity are expected to follow and be aligned to any relevant EU legislative initiatives.

VAT/GST or sales taxes

- A change is anticipated in the application of 5% reduced VAT rate on the purchase of first dwelling (used as private home).
- There is potential for the introduction of reduced VAT rates per newly adopted Council Directive (EU) 2022/542 in light of anticipated green tax reform.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- No significant changes are expected.

Windfall taxes ***(please specify broad or sector specific)***

- Cyprus is expected to be aligned with the EU Council Regulation on an emergency intervention to address high energy prices.
- Windfall taxes on extraordinary profits of companies in the renewable energy sector are also expected.

Taxes related to climate change or sustainability

- The introduction of green taxes (i.e., carbon tax, water taxation, landfill tax, tourist tax) is expected.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- No significant changes are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- A circular that governs the direct and VAT treatment of income derived from cryptocurrencies is expected to be issued.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- While no official announcements have been made, it is expected for the Cypriot tax authorities to revisit their policy and practices as to increase tax collection. We expect a higher number of examinations/investigations to take place.

2.6 Political landscape in your jurisdiction

- In February 2023, presidential elections will occur. Any major tax reform is expected to take place once the new government takes over (expected after March 2023).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Cyprus has not expressed any dissent, either publicly or within the European Union forums. It is therefore expected to support and adopt a Pillar Two legislative framework.
- A public consultation was launched in 2021 and follows developments, preparing for the introductions of a Cypriot Pillar Two framework.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Transfer pricing legislation was introduced that includes the requirement for a local and a master file, as well the filing of a summary information table on intragroup transactions.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Proposed withdrawal of VAT dispute jurisdiction from Cyprus Tax Tribunal (thus restricting tax dispute resolution to two methods Administrative Court or Commissioner). The bill is subject to consultation.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

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

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- VAT treatment of immovable property transactions in relation to private dwellings disposals (associated with by-exception citizenship program) along with recent legislation amendments of taxable disposals of new buildings (requirement change from first occupation to defined time span of erection and systematic use)
- Introduction of green taxation with associated countervailing direct tax — VAT measures
- Given the introduction of transfer pricing legislation, transfer pricing matters also to be raised, i.e., on the content of transfer pricing documentation

Cyprus

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Tax refunds	Tax examinations triggered through claims for tax refund
2	Transfer pricing	Introduction of transfer pricing legislation is expected to give rise to increased attention on transfer pricing matters. Previously, only intragroup financing transactions have been covered.
3	Disallowance of deductions	Expected to remain as one of the most frequent challenges made by the tax authorities within the process of a tax examination
4	VAT	VAT treatment of FinTech, immovable property transactions, payment – processing systems, holding – financing companies, missing trader fraud, loyalty schemes and input VAT recovery
5	Transparency/disclosure/MDR issues	Cypriot tax authorities already initiated information requests for MDR reports filed. Audits may be initiated in 2023, specifically for MDR compliance.

The Czech Republic

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

This information is current as of 16 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	15%, 23% (for tax base above 48 times of average salary)	15%, 23% (for tax base above 48 times of average salary)	–
VAT, GST or sales tax – standard rate	VAT – 10%, 15%, 21%	VAT – 10%, 15%, 21%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Intention to introduce a windfall tax (banking and energy sector) – just being finalized
- Focus on electromobility
- Decrease of administrative burden for taxpayers (but some additional reporting at the same time)
- Implementation of the solidarity contribution as published by the European Commission as an intervention to address high energy prices

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 * Windfall tax should be applicable on certain taxpayers only
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

The Czech Republic

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Windfall taxes proposed within Income Tax Act amendments

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Selected platform operators will be required to report information to the tax authorities once a year (always by 31 January) regarding the income generated by selected users of digital platforms (sellers).
  - The year 2023 will be the first reporting period (i.e., in 2024).

VAT/GST or sales taxes

- Cancellation of electronic evidence of revenues (this should decrease administration for companies)

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Propositions on introduction of tax-exempt remuneration of employees for costs related to home offices

Windfall taxes *(please specify broad or sector specific)*

- A tax is expected to apply to companies with significant activities in the areas of electricity and gas production, and trade, banking, fossil fuel extraction and production, and distribution of petroleum and coke products.
- 60% tax surcharge will apply on extraordinary profits of large companies with significant activities in the areas of electricity and gas production, and trade, fossil fuel extraction and production, and distribution of petroleum and coke products, and banking.

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Increased tax audits to review correct taxation of revenues related to cryptocurrencies

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Focus on efficient collection of taxes

2.6 Political landscape in your jurisdiction

- Implementation of changes by the new government elected in 2021

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Simplification of road tax (very narrow range of taxpayers for which it is still applicable)

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- More emphasis on ability to prove incurred costs
- Transfer pricing audits
- More strict reviews of research and development tax credits
- VAT audits
- Slightly lower number of tax audits and more wins for the taxpayers than in the previous years

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Increased reporting obligations (DAC6, DAC7)
- Simplification of administration
- Efforts to ease the impact of inflation and the energy crisis on taxpayers

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☒	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	TP setup, cost+ margin
2	**Withholding tax**	Beneficial ownership declaration
3	**Incentives – R&D**	Eligible costs, keeping track of the costs
4	**Disallowance of expenses (from services)**	Insufficient argumentation/documentation that the costs were incurred in order to generate, maintain and assure taxable income
5	**Indirect tax – VAT**	Carousel frauds, documentation to support input VAT claim


MUSEUM · REGNI · BOHEMIAE

Denmark

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

This information is current as of 29 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	56%	56%	–
VAT, GST or sales tax – standard rate	25%	25%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Global minimum taxation (GloBE)
- Mark-to-market taxation of capital gains on certain real estates
- Taxation of nonresident companies and employees performing work in Denmark's Exclusive Economic Zone
- Making temporary super deduction for R&D expenses permanent

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Denmark

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No significant changes are expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Proposal to introduce digital tax on certain EU-based streaming services

VAT/GST or sales taxes

- No significant changes are expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No significant changes are expected.

Windfall taxes *(please specify broad or sector specific)*

- No significant changes are expected other than those agreed at the EU level.

Taxes related to climate change or sustainability

- No significant changes are expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No significant changes are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant changes are expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None

2.6 Political landscape in your jurisdiction

- The general election was held on 1 November 2022, which may cause changes.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No official announcements but GloBE is expected to be enacted if agreement is reached on EU level.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- There were no major changes.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Focus on international tax avoidance and evasion

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- GloBE

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	**Description**
1	**Transfer pricing**	Audit of cross-border intercompany transactions
2	**Withholding taxes**	Audit of payment of dividends, interest and royalties cross-border


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Dominican Republic

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This information is current as of 22 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	27%	27%	–
Personal income tax – top rate	25%	25%	–
VAT, GST or sales tax – standard rate	18%	18%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Reduce tax evasion and increase transparency among taxpayers by making electronic invoicing obligatory for all taxpayers: There is currently a bill under discussion in the National Congress that would regulate the mandatory use of electronic invoicing in the Dominican Republic (DR), as well as establish the electronic invoicing tax system. This bill is expected to be approved and to enter into force at the beginning of 2023.
- Make nonresident foreign suppliers of services pay VAT for services provided to customers in DR and increase tax revenues for said concept: Dominican Tax Authorities have circulated a draft (for discussion purposes) of a regulation that establishes the guidelines of the procedure for the application of VAT on digital services provided by foreign suppliers in the DR. Approval of this regulation has been held for more than a year, but it could be approved in 2023.
- Increase tax revenues for capital gains: Dominican tax authorities have circulated a draft (for discussion purposes) of a general norm that establishes the forms and conditions that must be met for the assessment of the income tax for capital gains. Approval of this norm has been held for more than a year, but it could be approved in 2023.
- Limit/control the application of provisions or tax benefits of tax treaties to avoid double taxation signed by the DR: Dominican tax authorities issued General Norm No. 11-2022, establishing the guidelines for the application of the provisions of DTTs signed by the DR. Taxpayers that are willing to apply the provisions and benefits of a DTT signed by the DR are covered by this norm and will have to request the application of the dispositions/benefits in a DTT to tax authorities before applying the same and file and pay the corresponding taxes prior filing.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules

Dominican Republic

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No changes are currently expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Dominican tax authorities have circulated a draft (for discussion purposes) of a regulation that establishes the guidelines of the procedure for the application of VAT (at an 18% rate) on digital services provided by foreign suppliers in the DR. Approval of this regulation has been held for more than a year, but it could be approved in 2023.

VAT/GST or sales taxes

- No changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are currently expected.

Windfall taxes *(please specify broad or sector specific)*

- No changes are currently expected.

Taxes related to climate change or sustainability

- No changes are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Currently, the DR does not recognize the legal use of cryptocurrency.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Scrutiny of the incentives and exemptions scheme
- Expansion of the tax base
- Democratization and readjustment of tax rates, as well as the updating of the figures contained therein according to recent changes in tax patterns (consumption and the productive structure of the DR)
- Increase in tax revenue from new tax measures, including administrative improvements and new technologies in tax collection and inspection to combat tax avoidance, evasion and fraud

2.6 Political landscape in your jurisdiction

- There are no relevant political landscape considerations.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No plans are in place regarding Pillar Two of BEPS 2.0.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- DR recently amended transfer pricing legislation to align it with OECD Action 13.
  - TP transfer local and master file must be submitted to the Dominican tax administration on a yearly basis.
  - CbC report must be submitted by ultimate parents or surrogate entities.
  - Entities within a multinational group must submit a CbC notification to the tax administration.
- A general norm (11-22) was issued by tax authorities that establishes that taxpayers that are willing to apply the provisions and benefits of a DTT signed by the DR will have to request the application of the dispositions/benefits in a DTT to tax authorities before applying the same and file and pay the corresponding taxes prior to filing.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The Tax Authorities have put into circulation a preliminary proposal to reform Title 1 of the Dominican Tax Code, which covers substantive tax regulations, procedures, offenses and sanctions

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Administrative improvements and new technologies are expected in tax collection and inspection to combat tax avoidance, evasion and fraud.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The approval of the bill that makes it obligatory for all taxpayers to use electronic invoicing
- The publication of the general norm that establishes the forms and conditions that must be met for the determination of the income tax for capital gains
- The publication of the bill that reforms Title 1 of the Dominican Tax Code, which covers substantive tax regulations, procedures, offenses and sanctions

Dominican Republic

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)* *All incentives/stimulus are being revised.*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Indirect taxes – VAT	Tax authorities have questioned VAT in general (input and output VAT). This is usually a reviewed audit through cross-examination between taxpayers.
2	Capital gains tax	Tax authorities have questioned indirect transfer and claiming DR taxes.
3	Withholding taxes	Tax authorities have questioned payments abroad made to nonresidents in general, remittances and interests paid abroad.
4	Transfer pricing	Due to changes in transfer pricing legislation in the DR, the Tax Administration now has more access to taxpayers' information. Because the DGII (for its Spanish abbreviation; the relevant Tax Administration) has available taxpayers' local file, master file, and country-by-country notification, it is expected that they will increase TP scrutiny and TP audits. Additionally, the commodities and the hotel industries are expected to be challenged more.
5	Disallowance of deductions	Tax authorities have questioned the conditions for deductibility of costs and expenses, including causality principle, annuity principle, accrual and reliable receipts or documentation, among others. These processes are based on the use of cross-examination and field audits.

Rio Napo in the Ecuadorian Amazon rainforest

Ecuador

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EY key contacts

Tax policy and controversy

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

This information is current as of 13 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25% Up to 28% only in specific cases	–
Personal income tax – top rate	37% Application throughout Ecuador	37% Application throughout Ecuador	–
VAT, GST or sales tax – standard rate	12%	12%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Incentives for foreign investment through tax deductions for international capital and entrepreneurships
- Accelerate tax collection, through the application of more efficient mechanisms, including the faculty to mediate with the taxpayers
- Provide liquidity for local governments by raising of taxes from individuals

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Ecuador

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☒ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- 10% rate is only on the profit on the sale of shares of companies domiciled in Ecuador.
- A deduction was added for the depreciation of machinery, equipment and sustainable construction technologies in accordance with the regulations issued by the environmental authority.
- A deduction was repealed for net job growth affiliation payments and provisions for eviction and employer retirement pensions.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- The importation of digital taxes will be subject to a 12% VAT rate. Currently, there are no more applicable taxes for digital business activity.

VAT/GST or sales taxes

- VAT has a rate of 12% and is currently applied to most transactions of goods and services.
- There are a few exempt transactions and 0% VAT rate for others.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Personal taxes are levied in accordance with progressive tables.

Windfall taxes *(please specify broad or sector specific)*

- There are no provisions for FY 2023.

Taxes related to climate change or sustainability

- There are no provisions for FY 2023.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Corporations will determine and pay a temporary contribution for FY 2022 and FY 2023 of 0.8% on the net worth equal to or greater than USD5 million as of 31 December 2020.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There are no provisions or draft bills being discussed in our legislative organism regarding cryptocurrency as of December 2022.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- It is uncertain; however, wealth could have a higher rate for FY 2024.

2.6 Political landscape in your jurisdiction

- Mayoral elections will be held in early 2023.
- The provisions incorporated for FY22 are in discussion in the legislature.
- The legality of some articles of the Tax Reform of FY 2022 is unclear. Therefore, FY 2021 rules will be applied to FY 2023.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- There are no provisions or draft bills being discussed in our legislative organism regarding specifically to Pillar Two as of December 2022.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- 5% deductibility limitation of the taxed income for administrative, technical services and royalties

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Ecuador has several international agreements for the exchange of information. The information that can be transferred is limited to those agreements.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- As of now, there are no relevant tax bills being discussed.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Ecuadorian Internal Revenue Service (IRS) has a digital platform for companies and individuals to file their tax returns.
- All invoices, purchase orders and withholding receipts have an authorization number provided by the entity, which allows the government to keep track of economic transactions.
- Tax collection agents have taken measures to make the process more effective and efficient.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Companies will no longer have to withhold the 25% on international transactions with countries that have signed double taxation agreements with Ecuador.
- The use of electronic invoices is mandatory.
- There are incentives with the intent of promoting foreign investment.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☒	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☒	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Economic substance**	The IRS will review the economic substance of the transactions made with related parties.
2	**WHT receipts**	Some companies issue the WHT receipts after the legal term to do so or use a non-authorized document.
3	**Deductibility**	Companies sometimes made some deductions that they are not entitled to.
4	**Difference in VAT rates**	The difference between VAT rates in the information filed of the provider and customer.
5	**Debit/credit notes**	The accounting registration of credit/debit notes.


Giza, Egypt

Egypt

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

This information is current as of 6 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	22.5%	22.5%	–
Personal income tax – top rate	Progressive rates starting from 10% up to 25%	Progressive rates starting from 10% up to 25%	–
VAT, GST or sales tax – standard rate	14%	14%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Improving tax legislation and modernizing tax administrations
- Applying digital portals to monitor revenues and public expenditures
- Providing incentives, discouraging noncompliance (tax avoidance or evasion)

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Egypt

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No changes are currently expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No changes are currently expected.

VAT/GST or sales taxes

- Introduction of new VAT law, VAT Law No. 3 of 2022 (effective 27 January 2022), was responsible for major changes, including:
  - Introduction of a simplified vendor registration system for nonresident or unregistered person
  - Registration requirement for reverse charge purposes in certain instances
  - Nonpayment of tax on imported services where the nonresident service provider is registered under the simplified vendor registration system
  - Nonpayment of tax on imported goods, if it is proven that VAT was collected by the nonresident registrant
  - Suspension of payment of VAT due for a certain period on machinery and equipment used for industrial purposes (whether imported or purchased form the local market), subject to certain conditions
  - Advertising services now subject to VAT instead of stamp duty
  - Amendments to schedule tax
- On 12 January 2023, the executive regulations of the VAT law amendments have been recently issued, providing further clarification to the amendments issued back in January 2021.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Progressive rates can be up to 22.5%.
- Some changes applied on the taxes on wages in mid-2020 changed the salary tax brackets and the exemptions.
  - As per the last meeting held by the Minister of Finance, some points were discussed, such as an increase of the highest salary tax bracket reaching to 27.5%.
  - Increase of the personal exemption from is from EGP24,0000 to EGP30,000.

Windfall taxes *(please specify broad or sector specific)*

- No changes are currently expected.

Taxes related to climate change or sustainability

- No changes are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The Egyptian Tax Authority is not currently dealing with any cryptocurrency cases.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Devaluation of the local currency
- High inflation rate expected in year 2023

2.6 Political landscape in your jurisdiction

- There are currently no changes expected in the pollical landscape.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No plans have been announced so far regarding implementation of Pillar Two of BEPS 2.0.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The new Amnesty Law provides a 65% wavier of any outstanding delay interest, additional taxes and duties if the principal amount of tax is paid before 31 August 2022, for all taxpayers.
- The new Amnesty Law also allows the Dispute Resolution Committee (DRC) to continue accepting new tax dispute applications until 31 December 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- No.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax authorities in Egypt are focused on tax collection, which consequently has a huge impact on the tax audit process with taxpayers. The tax authorities tend to inspect a higher number of tax files.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The tax authorities are applying aspects of digitalization to enhance recognition and monitoring of revenues and expenditures.
- E-inspection is expected to occur in year 2023.

Egypt

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☒	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify) (e-inspection during 2023)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify) (e-inspection during 2023)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Disallowance of deductions	The Egyptian Income Tax Law states that deductions are allowed for any actual costs and expenses that are necessarily incurred in realizing such activity if relevant to the ordinary course of business and essential for the business activity and supported by documents. In the case of an expense or transaction between two related parties, the pricing of the expense or transaction should be priced according to the arm's-length principle to comply with the Egyptian Transfer Pricing Guidelines. Accordingly, the Egyptian Tax Authority will disallow such expenses on the basis that the transaction is not at arm's length, which is not in line with the Egyptian tax law and TP guidelines.
2	Indirect taxes — VAT, GST, sales and use, service taxes	The tax authorities are currently aiming to audit a larger number of VAT registrants to reach the targeted governmental treasury collections.
3	Transfer pricing	The tax authorities are relying heavily on assessing the risk regarding related parties' transactions, especially of taxpayers that are incurring losses. The primary focus during the TP audit is "substance."
4	Carry forward losses	If the business operations result in a loss in any year, then such loss will be deducted from the profits of the following years until the fifth year (five-year limit).
5	Debt-to-equity rules (thin capitalization rules)	Debt-to-equity ratio is 4:1. If the debt exceeded such ratio, the excess interest is not allowed as a deductible expense by the Egyptian Tax Authority.


Tazumal Mayan Ruins in El Salvador, Santa Ana

El Salvador

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

This information is current as of 15 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25-30%	25-30%	–
Personal income tax – top rate	Starting at 10% up to 30%	Starting at 10% up to 30%	–
VAT, GST or sales tax – standard rate	13%	13%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Correct the imbalance in public finances and achieve a trend toward fiscal sustainability
- Improve the allocation of resources and the quality of public spending, while protecting investment and social spending
- Implement a progressive tax policy to generate sufficient income in a sustained way to finance public spending and public investment
- Have efficiency and equity in the administration of the tax and customs system
- Strengthen, modernize and innovate the processes and services oriented to the satisfaction of taxpayers

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

El Salvador

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

● Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- There are no changes known to date.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- There are no changes known to date.

VAT/GST or sales taxes

- There are no changes known to date.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- There are no changes known to date.

Windfall taxes *(please specify broad or sector specific)*

- There are no changes known to date.

Taxes related to climate change or sustainability

- There are no changes known to date.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- There are no changes known to date.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There are no changes known to date. *(Please consider that in 2022 the Bitcoin Law was approved and said law established an exemption on capital gains derived from transactions on Bitcoin specifically.)*

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None.

2.6 Political landscape in your jurisdiction

- Since Mr. Nayib Armando Bukele Ortez assumed office on 1 June 2019, as President of the Republic of El Salvador, Tax Authorities (TA) have increased the tax audit procedures and activities related to the control of taxpayers' operations.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- No major tax policy changes have occurred in 2022 in El Salvador, only minor ones.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no developments in El Salvador in 2022 with respect to increased requirements for public disclosure of tax information.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There are no pending tax proposals in El Salvador not otherwise covered.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

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

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

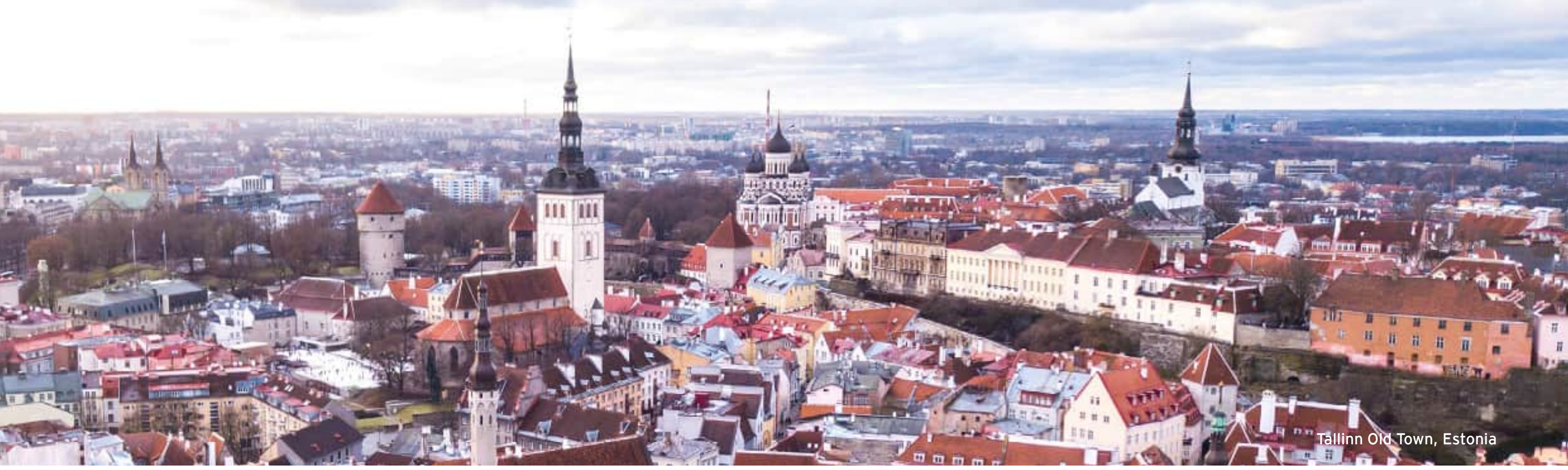
- Electronic invoicing
- Requirements for deductibility of expenses
- Increasing of audits related to intercompany operations and international transactions

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Materialization of services rendered between related parties	The TA are objecting to the deductibility of expenses related to services rendered among related parties. The TA are also questioning the documentation that supports the materialization of these services.
2	Adjustment of operations made with Credit Notes	The TA are questioning the adjustments made by taxpayers through VAT Credit Notes that have been issued in relation to discounts or bonifications granted to clients since these documents do not make reference to the number of the Tax Invoices that have been adjusted.
3	Withholding applicable to international transportation services	The TA are objecting to the deductibility of expenses related to international transportation services included in the value of goods purchased under CIF incoterms, considering that 5% income tax withholding should be applied over the value of the services even though Salvadoran taxpayers have not directly contacted the transportation services.
4	Denial of tax refunds requested by non-domiciled entities	The TA are denying tax refunds requested by non-domiciled entities, considering that tax withholdings applied should be considered as definitive.
5	Accounting records to support deductions	The TA are examining company accounting records regarding the deductibility of expenses.



Estonia

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This information is current as of 1 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	20%	20%	–
VAT, GST or sales tax – standard rate	20%	20%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The government's goal is to shift the tax burden from taxation of income to taxation of consumption, use of natural resources and pollution of the environment.
- At the same time the system should remain simple and transparent with as few exceptions and differences as possible.
- The main principles of Estonian tax policy:
  - Simple and stable tax system
  - Broad tax base, low rates
  - Optimal tax burden and structure

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Estonia

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No significant developments are expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- The Estonian Parliament adopted on 14 December 2022 changes to the Tax Information Exchange Act and the Taxation Act based on DAC7, according to which platform operators will start submitting information to the Estonian Tax and Customs Board about the sellers and service providers operating on the platforms and the income they earn.
- Estonian Tax and Customs Board entered into agreements with some platforms, and these platforms voluntarily provided information about sellers who have given their consent.
- The regulation entered into force on 1 January 2023 and will be partially amended on 1 January 2024 (changes to the Taxation Act related to common tax control).

VAT/GST or sales taxes

- No significant developments are expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The Estonian Parliament, on 23 November 2022, adopted changes to the Income Tax Act, which from 1 January 2023 the general monthly basic tax-exempt allowance increased from EUR500 to EUR654 for individuals whose annual taxable income will not exceed EUR14,400. Thus, the annual general basic tax-exempt allowance will be raised from EUR6,000 to EUR7,848.
- From 1 January 2023, a separate basic exemption applies to people who have reached the old age pension age — EUR704, and it does not depend on the amount of the person's income.
- The minimum wage increases to EUR725 per month or EUR4.30 per hour starting from 2023.

Windfall taxes *(please specify broad or sector specific)*

- No significant developments are expected.

Taxes related to climate change or sustainability

- Solidarity Contribution according to the European Regulation 2022/1854, whereas Estonia has issued a proposition regarding the establishment of the solidarity contribution in Estonia. According to this proposition, Estonia can support the adoption of the draft regulation, provided that an EU Member State is not obliged to implement a solidarity contribution if it already has a measure similar to a solidarity contribution — in Estonia energy mineral resource extraction charge.
- According to our understanding, this is still in process.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Land tax — Local governments will implement the new tax rates by 1 July 2023.
- The Estonian Parliament, on 23 November 2022, adopted changes to the Income Tax Act in force as of 1 January 2023. The change extends the opportunity for legal persons to make donations and gifts free of income tax for maintaining the territorial integrity and sovereignty of Ukraine as well as for giving and organizing humanitarian aid. It will be possible to make donations free of income tax until 31 December 2023 to nonprofit organization (NPO) Estonian Refugee Council, NPO Mondo, the Ukrainian Cultural Centre, the National Defense Promotion Foundation, the Estonian Red Cross, the Estonian Voluntary Rescue Association and Tallinn Old Town Rotary Club.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant developments are expected in relation to taxes.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- From 1 January 2023, the general monthly basic tax-exempt allowance will be increased from EUR500 to EUR654 per month. Around 368,000 people or 56% of working-age people will benefit from the amendment. People EUR654 to EUR1,200 per month will gain most, that is, EUR370 per year, from the amendment of the minimum rate for tax-exempt income.

2.6 Political landscape in your jurisdiction

- The general parliamentary election will happen on 5 March 2023, as the President of Estonia Alar Karis signed respective resolution on 28 November 2022.
- Estonia will be able to delay the implementation of the global minimum corporate income tax rate until 2030, Minister of Finance Keit Pentus-Rosimannus said after a meeting of EU ministers on 5 April 2022.
- The government agreed to extend the currently reduced excise duties on electricity, fuel and specially-marked diesel until 30 April 2024. The regulation entered into force on 8 December 2022.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Estonia has been against the annual global minimum tax because, in Estonia, only distributed profits are subject to corporate income tax.
- Estonia can postpone minimum corporate tax until 2030.
- Estonia will be able to maintain the current system where income tax is exempt for undistributed earnings.
- The Minister of Finance highlighted the possible postponement of the tax until 2030 for countries hosting fewer than 12 group headquarters with a turnover of EUR750 million.
- "This would mean that we would start applying the minimum tax domestically only after 2030 and even then only to large corporations with an annual turnover of more than EUR750 million. For 99% of Estonian companies, nothing would change regarding taxation according to the current agreement," said the Minister of Finance.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Income tax liability of a hybrid entity. Starting from 2022, in certain situations, Estonia will tax trust fund income. Generally, a trust fund is considered transparent for Estonian tax purposes, meaning that the trust fund income is considered as it is shareholders' income respective to the proportion of their ownership in the trust fund and taxed on the shareholder level.
- In 2022, the transfer price regulation was updated. According to the amendments, the regulation "Methods for determining the value of transactions conducted between associated persons" was brought in line with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2017. Subsequent guidelines developed by the OECD Transfer Pricing Working Group was also taken into account when amending the regulation. The regulation entered into force on 1 January 2022.
- Estonia submitted its first notification under Article 35 (7) (b) of the MLI confirming the completion of its internal procedures on 25 November 2021, and the provisions of the MLI entered into effect to the seven tax treaties listed in the notification from 1 January 2022. The next notification was submitted by Estonia on 1 June 2022, and the latest one also covers seven tax treaties. The provisions of the MLI will generally apply to these tax treaties from 1 January 2023.
- Changes to the list of transport services subject to a 0% VAT rate. Effective 1 July 2022, the transport services are taxable at a rate of 0% only if the services are supplied directly to the consignor or consignee.
- Cash-based VAT accounting and deduction of input VAT upon purchase from user of cash-based VAT accounting. Effective 1 July 2022, a new subsection 10 of section 31 of the VAT Act is added, according to which a taxable person has the right to deduct input VAT on the purchase of goods or services from a taxable person applying the special arrangement for cash accounting for VAT in accordance with the payment for the goods or services, in the extent of the amount of input VAT calculated on the amount paid.
- Exclusion of collector coins from VAT exemption. Under the EU VAT Directive, only coins and banknotes normally used as means of payment are exempt from VAT. Therefore, from 1 July 2022, import, intra-community acquisition and domestic supply of collector coins will be excluded from the VAT exemption and transactions in collector coins from the exemption for payment services.
- On 18 May 2022, the parliament passed an act amending the Value-Added Tax Act, which will establish the rate of VAT on press publications, both on a physical and electronic medium, at 5% instead of 9% as of 1 August 2022.
- The government extended the currently reduced excise duties on electricity, fuel and specially-marked diesel until 30 April 2024. The regulation entered into force on 8 December 2022.
- The Estonian Parliament, on 14 December 2022, adopted changes to the Tax Information Exchange Act and the Taxation Act based on DAC7, according to which platform operators will start submitting information to the Tax and Customs Board (MTA) about the sellers and service providers operating on the platforms and the income they earn. Estonian Tax and Customs Board entered into agreements with some platforms, and these platforms voluntarily provided MTA with information about sellers who have given their consent. The regulation entered into force on 1 January 2023 and will be partially amended on 1 January 2024 (changes to the Taxation Act related to common tax control).

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Nothing significant that we are aware of.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Estonia will be able to delay the implementation of the global minimum corporate income tax rate until 2030,

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

Same as for 2022, the Estonian tax authorities are focused on a risk-based approach and their main purpose is to influence taxpayers to comply with laws (i.e., purpose is not to punish, but to change their behavior). Tax default interest on 0.06% per day is always applied in case of late tax payments or tax assessments.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The government extended the currently reduced excise duties on electricity, fuel and specially-marked diesel until 30 April 2024. The regulation entered into force on 8 December 2022.
- Land tax — Local governments will implement the new tax rates by 1 July 2023.
- The Estonian Parliament on 23 November 2022 adopted changes to the Income Tax Act in force as of 1 January 2023. The change extends the opportunity for legal persons to make donations and gifts free of income tax for maintaining the territorial integrity and sovereignty of Ukraine as well as for giving and organizing humanitarian aid. It will be possible to make donations free of income tax until 31 December 2023 to NPO Estonian Refugee Council, NPO Mondo, the Ukrainian Cultural Centre, the National Defense Promotion Foundation, the Estonian Red Cross, the Estonian Voluntary Rescue Association and Tallinn Old Town Rotary Club.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Capital gains and treaty benefits**	Artificial corporate structures have been created for tax benefit.
2	**Corporate restructurings**	Market value of shares sold or purchased are checked by the tax authorities if transactions take place with related parties.
3	**Deemed profit distribution**	Estonia has a unique cash-based corporate income tax system, and loan payments to cash pools may be considered as taxable deemed profit distributions.
4	**Transfer pricing**	Loan interest rates, intragroup services and enterprise value in corporate restructurings are included.
5	**Intragroup loans**	Intragroup loans may give rise to a tax liability. If the term for repayment of a loan granted to a parent company or sister company is longer than 48 months, the taxpayer has the obligation to prove the ability and intention to repay the loan at the request of the tax authority. The tax authority shall grant the company a term of at least 30 days for submitting such proofs.

Helsinki, Finland

Finland

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

This information is current as of November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	56.75%	56.75%	–
VAT, GST or sales tax – standard rate	24%	24%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The view of the Finnish government is that the digital and traditional economy should be taxed where the value is generated.
- Confirming revenue to the government and tax base in the future is a key goal.
- In FY 2023 and FY 2024 there will be new tax incentives for R&D activities.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Finland

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The aim is to tax international real estate investors more extensively. Indirect immovable property will be subject to Finland's taxation authority.
- The right to deduct interest will be further restricted.
- An Act on a combined deduction of R&D activities in corporate income taxation entered into force on 1 January 2023. The general additional deduction is available in tax year 2023. The additional supplementary deduction is available in tax year 2024.
- The Act on the combined deduction for R&D activities is presented as follows:
  - The deduction is a combination incentive with two elements. The basic element is an additional deduction based on the volume of R&D activities. This incentive is called "the general additional deduction" in the Act. The additional element is an additional deduction based on an increase in the volume of activity, which is called the "additional supplementary deduction" in the Act.
  - The Act is applied to taxpayers engaged in business activities or agriculture. The additional deduction is based on wage costs of R&D activities and expenses of services purchased from the R&D activities arising from the R&D activities related to the taxpayer's own activities. Expenditure should be incurred during the tax year.
  - The general additional deduction is 50% of the expenditure calculated as a basis for the additional deduction. However, the amount to be deducted in a tax year should be at least EUR5,000. The upper limit for the additional general deduction is EUR500,000.
  - The additional supplementary deduction is 45%. It is based on the increased total expenditure on wages and purchasing services in R&D activities. The basis is the difference between the items of expenditure on which the general additional deduction is based and the corresponding items of expenditure in the previous year. As with the general additional deduction, the maximum amount of the additional supplementary deduction is EUR500,000. There is no lower limit for the additional supplementary deduction.
  - The additional deductions are taxpayer specific.
  - If the availability of additional deductions triggered tax losses, they could be carried forward for tax purposes.
  - No additional deductions are available concerning received group contributions under the Act on Group Contribution. The additional deductions are made from business income that does not include received group contributions that are considered as taxable income. Therefore, because of the additional deductions, it would be possible that a company would be liable to pay income taxes from a taxable profit that includes received group contributions even though at the same time (within same tax year) a loss in taxation would be confirmed, which could be carried forward.
  - A taxpayer should claim the additional deductions before the end date of the taxpayer's tax assessment. The taxpayer should also argue, when requested by the Finnish Tax Administration, whether the prerequisites for additional deductions have been fulfilled or not (including how the additional deductions have been calculated based on the wage costs and purchased services).

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Finland currently has no specific digital-tax-related laws in place, but Finland is generally at the forefront of the global battle against tax avoidance and has actively participated in the work done within the EU and in the OECD to combat BEPS, holding that the digital and traditional economy should be taxed where the value is generated. The approach of the Finnish government is the same as in the joint statement issued on 1 June 2018 in which the Finance Ministers of Denmark, Finland and Sweden called for a reform of the digital tax system to be taken forward at the global level by OECD and European Commission's digital tax proposals should be put on hold. Finland will continue to participate actively and constructively in work of the OECD and will support an acceleration of the OECD discussions on the digital taxation system.

VAT/GST or sales taxes

- In 2022, specific provisional and defined VAT reliefs were introduced to combat COVID-19, but most of them are not in force anymore in 2023.
- There are provisional VAT rate reductions introduced to combat soaring inflation. The VAT rate for electricity is reduced from the standard 24% to 10% between 1 December 2022 and 30 April 2023. In addition, the VAT rate for passenger transportation is reduced from 10% to 0% (VAT exemption with credit right). This amendment is applicable from 1 January 2023 to 30 April 2023.
- A specific regulation concerning a VAT relief for helping Ukrainian refugees was introduced for the period of 1 October to 31 December 2022, and this will possibly be extended to 2023 as well.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The income brackets for earned income tax will be adjusted for the year 2023 following the general development of average salaries, i.e., the income brackets will be increased slightly. Health insurance contribution rates will be increased slightly for the year 2023. The employee unemployment insurance and pension insurance contribution rates will remain the same. The overall impact of these changes will be a slight increase or decrease on the combined employee tax and employee social security tax rate on the same income level, depending on the level of annual taxable income. The average income tax and social tax rates will remain approximately on the same level as for the year 2022 (estimated change is a 0%-0.3% increase or decrease depending on the income level).
- The inheritance tax rates and taxable base will remain unchanged.
- Finland does not levy a wealth tax.

Windfall taxes *(please specify broad or sector specific)*

- The government has announced planned studies on possibly introducing a windfall tax in Finland, but at the moment there is no decision or detailed plan on this. A potential windfall tax would likely concern companies in the energy business (electricity in specific). Public discussions around a potential windfall tax have increased due to the current energy crisis, combined with announcements on energy producers' profits.

Taxes related to climate change or sustainability

- There have recently been many legislative changes for excise duties with some level of connections to the ESG agenda, for example, increases to excise duty rates, taxability of biogas, phased cuts to energy tax refunds.
- There will be some changes to waste tax as of January 2023 by extending the scope of waste tax and increasing the waste tax rate.
- The government is preparing to propose legislative changes to excise duties on soft drinks and other nonalcoholic beverages by changing the tax classifications and rates more toward health-based taxation. However, planned implementation date is not known yet as the government is considering requesting EU Commission's approval for the new soft drink tax model.
- The Ministry of Finance is expected to publish a Government Bill to introduce a Mining Tax in Finland as of 2024. This tax on mining minerals is intended to collect a reasonable compensation for the use of nonrenewable natural resources.
- EU-level legislative proposals for amendments to energy tax directive and introduction of CBAM would have effects also in Finland, and amendments to the energy tax directive would also require amendments to Finnish excise tax legislation, but these proposals are still being negotiated and processed at the EU level.
- The Finnish government has previously announced its plans to consider introducing a national emission trading system (ETS) for transportation, if other measures already introduced for reducing emissions on transportation are found insufficient to meet agreed climate targets. However, at the moment there are no official decisions on this, and it is unlikely that such national ETS would be introduced already in 2023.
- Currently, there are no specific sustainability-based tax incentives in Finland or official plans to introduce such tax incentives, but the recent tax policy approach on sustainability/ESG has been more focused on increasing taxation on detrimental activities and products. However, in energy taxation, certain sustainable and renewable energy products are subject to lower excise duty rates.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- We do not foresee enactment of such taxes at this point.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The tax authorities will continue to emphasize that capital gains related to cryptocurrencies are considered as taxable income. Taxation is triggered at the time the cryptocurrencies are converted to other cryptocurrencies or official currencies, or if the cryptocurrency is used to buy goods or services. The potential loss related to cryptocurrencies is considered as deductible. Further, the income generated from the cryptocurrency mining is considered as taxable income.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- In Finland, efforts are being made to combat the economic slowdown.
- The aim is to tax international real estate investors more extensively.

2.6 Political landscape in your jurisdiction

- Finnish parliamentary elections are upcoming in 2023, at this point there is no knowledge which parties will form the new government or what tax policy will be like.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No significant actions were announced.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- International real estate investors are taxed more extensively.
- In FY 2023 and FY 2024 there will be new R&D incentives.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- DAC7 directive reporting requirements for digital platforms will be enacted in 2023.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Government has announced performing studies on possibilities to introduce a windfall tax in Finland, but at the moment there is no decision or detailed plan on this.
- The Ministry of Finance is expected to publish a Government Bill to introduce a Mining Tax in Finland as of 2024. This tax on mining minerals is intended to collect a reasonable compensation for the use of nonrenewable natural resources.
- The government's proposal proposes a flow-through model that would be applied in the taxation of both domestic special investment funds investing in real estate and foreign special investment funds comparable to them.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Finnish Tax Authority has made major investments toward real-time and self-assessment taxation as well as collaborations with both corporations and individual taxpayers.
- The investments comprise various digital services, and furthermore, the trend is to relegate more responsibility of the correctness of tax filings to the taxpayer itself. In addition, legislation has been updated regarding the tax procedures. Updates relate to more real-time processes and eliminating the excess bureaucracy within those processes.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- International real estate investors could be taxed more extensively.
- Regulation that tightens the right to deduct interest is possible.
- Transfer pricing continues to be high on the agenda of the Finnish tax authorities.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☒	☐	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Interest expenses**	Tax authorities may challenge group internal debt push downs.
2	**Cross-border transfer of intangibles**	Reviews of cross-border transfer of intangibles are a priority of the local tax administration.
3	**Disallowance of deductions**	Expenses relating to share acquisition should be activated to the purchased shares.
4	**Indirect taxes**	Deductibility of VAT if the company is engaged in financing or other VAT exempted activities may be reviewed.
5	**Indirect taxes – VAT, GST, Sales and use tax, services tax**	The deductibility of VAT if the company is engaged in financing or other VAT exempted activities (including holding company function) may be reviewed. Tax authorities are interested in allocation of costs to deductible and nondeductible parts.

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This information is current as of 25 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	< EUR10,225: 0% < EUR26,070: 11% < EUR74,545: 30% < EUR160,336: 41% > EUR160,336: 45%	< EUR10,777: 0% < EUR27,478: 11% < EUR78,570: 30% < EUR168,994: 41% > EUR168,994: 45%	–
VAT, GST or sales tax – standard rate	20%	20%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- After reelection of President Macron and despite loss of the majority in the National Assembly, the government intends to maintain its previous policy through decreasing the tax level on companies (no increase in CIT, progressive withdrawal of business contribution on added value) without increasing the tax level of individual taxpayers.
- Some members of Parliament (far right and far left) repeat their will to increase the tax level of both high-net-worth individuals and large companies. However, without a majority in the National Assembly, a change in current tax policy is unlikely.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

France

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

● Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Progressive withdrawal of business contribution on added value (division by two in FY23 and full withdrawal in FY24)
- Deductible reserve for reinsurance captive companies

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Slight adjustments on DST following decisions rendered by the Administrative Supreme Court (Conseil d'Etat)

VAT/GST or sales taxes

- No significant changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No significant changes are currently expected.

Windfall taxes *(please specify broad or sector specific)*

- Temporary contribution on profits for companies in the fossil fuels sector

Taxes related to climate change or sustainability

- No significant changes are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No significant changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant changes are currently expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No effect is currently expected.

2.6 Political landscape in your jurisdiction

- President Macron was reelected in 2022.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The French government is expected to follow European legislation and transpose it in French law.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- No major tax policy change occurred.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The French tax authorities (FTA) have two approaches: (1) to be more business friendly with companies that respect their tax obligations and open their books to tax administration and (2) a stronger approach toward companies and individuals in the event of tax avoidance and tax fraud, particularly when transactions with foreign jurisdictions are at stake.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- More audits focusing on tax research credit
- More transfer-pricing-centric audits
- More attention paid to tax losses carried forward

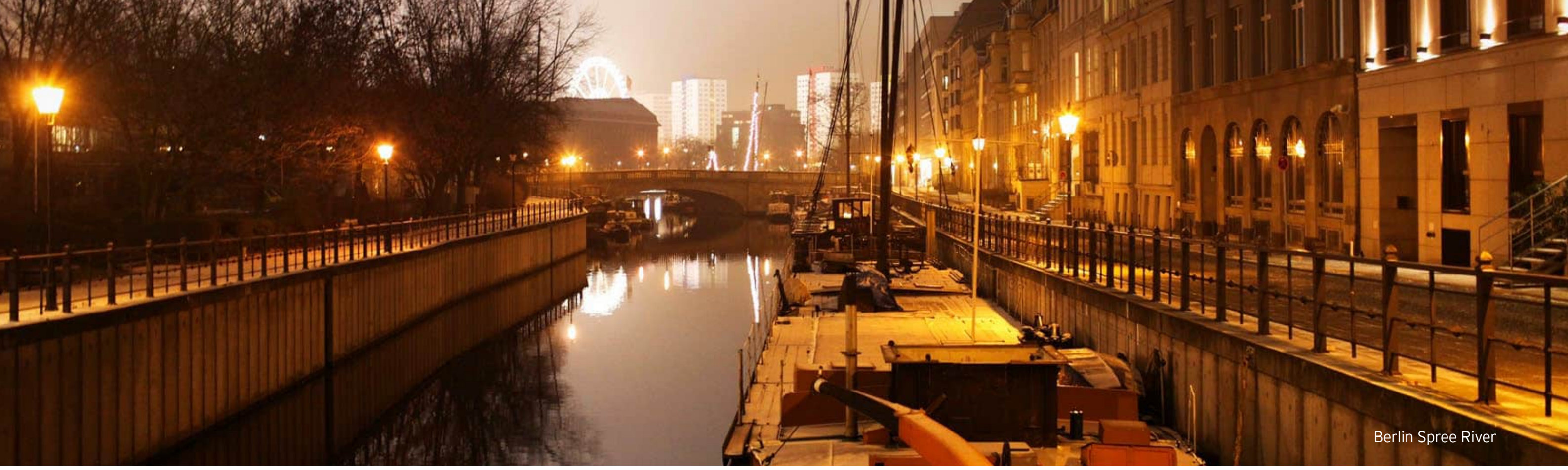
France

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Incentives – R&D	Denying eligibility of research programs to tax research credit
2	Intercompany financing transactions	In relation to interest deductions or limitations
3	Permanent establishment	In relation to limited-risk entity structure and holding
4	Intellectual property	With IP in France, potential for FTA to challenge the royalty rate applied
5	Losses	Strong pressure on an audited company to bring a lot of evidence of losses (sometimes beyond the period during which companies are bound to keep accounting files)


Berlin Spree River

Germany

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

This information is current as of 19 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	Top federal (national) CIT rate: 15% (plus solidarity surcharge of 5.5%) Trade tax (local): 7%-19.25% Total average: ~30%	Top federal (national) CIT rate:[1] 15% (plus[2] solidarity surcharge of 5.5%[3]) Trade tax (local): 7%-19.25%[4] Total average: ~30%	– (Somewhat possible, that solidarity surcharge might be suspended for all tax payers – up to pending decision of Federal Constitutional Court)
Personal income tax – top rate	45% (plus solidarity surcharge of 5.5%)	45%[5] (plus[6] solidarity surcharge of 5.5%[7])	– (Somewhat possible, that solidarity surcharge might be suspended for all tax payers – up to pending decision of Federal Constitutional Court)
VAT, GST or sales tax – standard rate	19% (reduced rate of 7% applies in many areas)[8] food service: temporarily reduced rate of 7%	19% (reduced rate of 7% applies in many areas)[9] food service: temporarily reduced rate of 7% prolonged until 12 March 2023	–

[1] Sec. 23, para. 1, KStG (Corporation Tax Act).
[2] The combined burden of CIT and Solidarity Surcharge is 15.825%.
[3] Sec. 4, SolzG (Solidarity Surcharge Act).
[4] Only very few small municipalities have higher trade tax rates.
[5] Sec. 32a, para. 1, EStG (Personal Income Tax Act).
[6] The combined burden of PIT and Solidarity Surcharge is 47.48%.
[7] Sec. 4, SolzG (Solidarity Surcharge Act). Starting in 2020, the solidarity surcharge was abolished for personal income tax
[8] Sec. 12, para 1, UStG (VAT Act).
[9] Sec. 12, para 1, UStG (VAT Act).

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The German government remains committed to the goal that the federal budget should again meet the requirements of the constitutional debt brake from 2023 and borrowing should only be possible within narrow limits.
- However, depending on how the German economy fares during a potential global slowdown, tax policy in Germany could react with further stimulus packages.
- A trend in the current legislation is that those debt financed packages are labeled as special funds (e.g., a supplementary budget for the German military forces worth EUR100 billion and a EUR200 billion emergency package during the energy crisis), which is not calculated as part of the newly accumulated national debt for the purposes of the debt brake.
- As high energy costs are reducing Germany's business attractiveness, the government might want to find other ways to be competitive and innovative. Currently, no major steps in this direction are planned.
- Aside from the relief packages the government passed, no major tax reform, especially regarding the CIT, are expected. Inheritance and wealth tax are also not on the table.
- In November 2022, the German government passed a national bill to cap the windfall profits of energy companies. This was done in an orchestrated attempt with all Member States of the European Union.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules

Germany

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Implementation of the EU Directive regarding cross-border conversions, mergers and demergers into German Law: facilitation of cross-border mergers, demergers and changes of legal form
- Coalition announcement of a "Tax Fairness Act" that will implement several restrictive announcements of the coalition agreement:
  - Expansion of withholding taxation by adopting double taxation agreements
  - Introduction of an "interest rate limit" within transfer pricing rules or the hidden profit distribution regime besides the existing interest deduction barrier
  - Mandatory disclosure rules for domestic tax arrangements
  - Blacklist of non-cooperative jurisdictions that goes beyond the EU Blacklist, will likely affect the application of the Tax Haven Defense Act
  - Real estate taxation measures (possibly share deals in the real estate income tax),
  - Measures to combat trade tax heavens
  - Curbing of arrangements with family foundations
- "Innovation bonus" on certain technologies fostering climate protection and digitalization for 2023

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Germany supports the efforts at OECD/G20 level on implementing the new tax rules for multinationals under BEPS 2.0 Pillar One.
- Germany supports the BEPS 2.0 Pillar Two Multilateral Convention negotiations and will likely press for a swift implementation.

VAT/GST or sales taxes

- VAT in the Digital Age Package: The initiative pertains to the introduction of a new electronic reporting system for the creation, review and delivery of invoices, a so-called e-invoicing or e-reporting.
- Timely extension of the reduced VAT rate: In the 8th Excise Tax Amendment Act, changes in beer tax law and the extension of the application of the reduced VAT rate on catering services (with the exception of the supply of beverages) until 31 December 2023 were adopted. Gas deliveries via the natural gas grid and district heating deliveries in the period from 1 October 2022 to 31 March 2024 will also be subject to the reduced VAT rate of 7%.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Reduction of the inflation effects: Based on the 14th Subsistence Minimum Report and the 5th Tax Progression Report, which were adopted by the federal government on 2 November 2022, an adjustment to the current inflation rates will be made. Accordingly, the income tax rate for the years 2023 and 2024 will be shifted further to the right.
- Future Finance Act (Zukunftsfinanzierungsgesetz): More attractive models for employee equity participation, including a further increase in the tax-free allowance. Introduction of a separate allowance for profits of shares and equity fund units made in private assets. Abolition of separate loss allocation groups/restrictions for losses from the sale of shares, forward transactions and bad debts.
- Ban on discounting (Abzinsungsverbot): In principle, the discounting requirement for non-interest bearing liabilities ceases to apply with effect from the 2023 tax year.
- Loss carryback (extended to 2023): The 3rd Corona StHG of 10 March 2021 already extended the tax loss carryback to EUR10 million (or EUR20 million in the case of joint assessment) for the tax years from 2020. With the 4th Corona StHG v. 19 June 2022, the increased loss offset was extended to the tax years 2022 and 2023.

Windfall taxes *(please specify broad or sector specific)*

- The EU solidarity contribution is to be implemented in a new EU Energy Crisis Contribution Implementation Act (EU-EKBEG). It provides for an energy crisis contribution amounting to 33% of the positive difference between the taxable profit determined according to income or corporation tax regulations and the four-year average of the taxable profit increased by 20% in the financial years 2018 to 2021. The EU energy crisis contribution is to be levied for both the financial years 2022 and 2023.

Taxes related to climate change or sustainability

- Introduction of a new "Plastic Tax:" The plastic levy introduced under the EU Own Resources Decision is planned to be passed on manufacturers and distributors of plastics, which could mean the introduction of a new tax on plastic.
- Company car taxation: The coalition plans a revision of the legislation. Among other things, there shall be a stronger focus on purely electric driving performance for plug-in hybrid vehicles. The topic is part of the coalition agreement but at the moment not ranked on top of the agenda.
- Additional budgetary leeway can be through reduction of superfluous, ineffective and environmentally and climate-damaging subsidies and expenditures.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Real estate transfer tax: To facilitate the acquisition of private residential property, federal states could be given the opportunity for flexible rules in real estate transfer tax (RETT), which may lead to the introduction of personal allowances. To fund this measure, it is discussed to impose a higher RETT on corporate real estate acquisitions via share deals.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There is still a lack of clear legislative or administrative opinion on the income tax treatment of cryptocurrencies and tokens. A Circular of the Ministry of Finance (BMF) was published in 2022, setting out the taxation principles applicable to cryptocurrencies and tokens. However, it does not include any statements regarding the taxpayers' recording and cooperation obligations as well as non-fungible tokens (NFTs). It can be assumed that the BMF will comment on these topics separately at a later stage.
- DAC8 will shape the landscape of cryptocurrency in the near future.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The German government committed already substantial resources to mitigate the fallout from the global economic slowdown on the economy and on society. Thus, unless the economic situation sharply deteriorates, it is unlikely the government will be open to additional broad tax reductions.
- In a common effort with the EU Member States, the German government committed itself to tax windfall profit from (fossil) energy producing companies (see also 2.4). The money earned shall be used to finance the price brake mechanisms for gas and electricity prices, shielding consumers and industry from supply shocks.

2.6 Political landscape in your jurisdiction

- At the beginning of the year, the newly elected government was still laying out its priorities for the current legislative period, but quickly got interrupted by the global challenges (war in Ukraine, inflation, and skyrocketing energy costs).
- The coalition remains committed to the constitutional debt brake — for now. From 2023, the federal budget should again meet their requirements and borrowing should only be possible within narrow limits. Depending on the trajectory of the crises and the public spending required to cushion its effect on the economy and on society, the debt brake might be temporarily suspended (again). Furthermore, the government finds ways to circumvent debt brake requirements with the increased use of shadow budgets.
- It is important to note that the current government does not hold a majority in the Upper Chamber (Bundesrat) that is, with very few exceptions, crucial to pass tax legislation.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The Federal Ministry of Finance will release a first draft bill on Pillar Two and start a public consultation in early 2023. This will likely be followed by a second draft, including a second consultation. The formal legislative process will be started around Q2/2023 and is expected to be finished not before Q3/2023.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Due to the effects of the various crises (Corona; Ukraine; etc.) as well as rising inflation, the government is trying to relieve the citizens through various measures. The relief is implemented in the form of tax cuts and other assistance.
- **Fourth Corona Tax Relief Law:** The law includes extended loss offset until the 2023 assessment period and permanent extension of the carryback period to two years. Furthermore, movable fixed assets acquired or manufactured before 1 January 2023 can be depreciated on a declining balance basis. Other changes include an increase in the tax-free care bonus to EUR4,500, an extension of the tax-free subsidies for short-time working allowances and an extension of the home office allowance to 2022. In addition, the discounting of non-interest-bearing liabilities with a term of more than 12 months at 5.5% in the tax balance sheet will be discontinued.
- **Energy Tax Reduction Act:** Temporary reduction of energy tax on fuels (but not, for example, on gas for heating) to the European minimum level from June to August 2022.
- **Tax Relief Act 2022:** The act increases the employee tax-free allowance by EUR200 to EUR1,200. The basic tax-free amount was increased by EUR363 from the current EUR9,984 to EUR10,347 for 2022. The increase in the commuting allowance will be brought forward. There will also be special payments in the form of a flat-rate energy allowance for 2022 for persons with unlimited income tax liability and a child bonus in addition to child benefit.
- **Temporary reduction in VAT on gas supplies:** Temporary reduction in VAT on supplies of gas via the natural gas network and district heating to 7% from 1 October 2022 to 31 March 2024.
- **Inflation compensation premium:** Employers can make a special payment of up to EUR3,000 tax — and social security-free as a subsidy or payment in kind to employees to mitigate the rise in consumer prices.

- **Inflation Compensation Act:** Act adjusts of the income tax rate to inflation forecasts by increasing the basic allowance and shifting the rate benchmarks to the right for 2023 and 2024.
- **Implementation of DAC7:** Implementation of the latest extension of the Directive on Administrative Cooperation (2011/16/EU) Includes new record-keeping and reporting requirements for platform operators and automatic exchange of information on relevant activities: (1) rental of immovable property, (2) personal services, (3) sale of goods and (4) rental of any means of transport. Furthermore, it promotes the cooperation of the administration (determination of the requirements for a group request, extension of the automatic exchange in the case of license income, etc.). The regulation additionally creates the possibility of information on the existence of a platform or relevant activity.
- **Modernization of tax audits:** The initiative contains measures to speed up external audits.
- **Annual Tax Act 2022**
  - A key component is the planned extraterritorial IP taxation of transactions between non-German entities relating to IP registered in Germany. For transactions between unrelated parties (generally, a 25% or more shareholding creates related-party status), the rule is abolished in most cases (retroactively). However, for intercompany transactions, the final bill maintains the rule in intercompany transactions where the German taxation right would not be barred by an applicable DTT. In considering whether a DTT applies and denies Germany a taxing right, the German domestic anti-treaty shopping rules would have to be observed. Furthermore, the extraterritorial IP taxation is maintained in some cases with a nexus to jurisdictions listed on the EU list of non-cooperative tax jurisdictions.
  - In line with the coalition agreement, the straight-line depreciation rate for new residential buildings is to be increased to the current level depreciation of new residential buildings to 3%.
  - In the area of VAT, the provisions of the EU Payment Service Providers Directive and the Online Access Act will be implemented.
  - Other measures include an increase in the savers‘ lump-sum allowance and the education allowance, as well as a tax exemption for the basic pension supplement.
  - A new addition is the modernization of the tax treatment of working from home.
  - The bill includes a tax exemption for income from the operation of photovoltaic systems with a maximum output of up to 30 kW (peak). In addition, a 0% VAT rate for supplies of solar modules to the operator of a photovoltaic system is introduced.
  - A of Sec. 27 (8) of the German Corporate Income Tax Act (KStG) on return of capital contributions is extended to include non-EU and EEA corporations.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- The German Ministry of Finance (MoF) has published a draft bill for the national implementation of the amendment to the EU Accounting Directive ((EU) 2021/2101) on the obligation to prepare public country-by-country reports.
- The bill will likely be passed in the first half-year of 2023.
- The new reporting requirements are set to apply for reports on fiscal years beginning on or after 21 June 2024.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- **Financing-the-Future Act:** Measures to modernize the capital market and facilitate access to capital markets for start-ups, growth companies and SMEs. Except for a white paper, no details have emerged yet. A draft bill has not yet been published by the German MoF.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Influenced by the ongoing discussions around BEPS, tax enforcement has become more assertive in Germany in recent years. An increasing focus on transfer pricing but also sector-related specialties can be observed.
- While there are still differences in the way tax authorities in different federal states operate tax enforcement, increased exchange and coordination leads to a more aligned approach.
- State tax authorities are proactively influencing federal tax policy in order to close (alleged) loopholes, backed by an increasing public awareness around recent discussions about BEPS and tax-driven dividend transactions.
- Current developments in electronic transmission of tax relevant data (tax returns, balance sheets, profit and loss statements and other reports) have led to an increasing availability of digital data to the tax authorities. Slowly but steadily tax authorities extend the use of such digitally available data, e.g., to identify potential audit subjects and areas.
- COVID-19 has disrupted many tax audits. In 2021 and 2022 most tax audits have been resumed. Many audits are (partly) conducted remotely, which is a new experience for German tax auditors and taxpayers. However, an increasing number of tax auditors have also returned to performing parts of their audits on site at the taxpayers' premises.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☒ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☐ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

We have a draft legislation on the table that aims on accelerating tax audits:

- Possibility of a binding acceptance to limit testing of the (local) tax authorities for the next tax audit period in coordination with the central tax office, if:
  - In the course of a current tax audit effectiveness of a tax control framework was tested for certain type of taxes or certain fact patterns
  - No or only immaterial risk exists
  - Taxpayer applies for such relief
  - No change of the facts and circumstances occur
- Tax Control Framework (TFCW) according to the definition of Sec 38 para. 2 GGTIC encompasses all in-house measures that make sure:
  - Tax relevant facts are properly recorded and regarded
  - Any taxes triggered are in due time and fully paid

  The TCFW must display the tax risks on an ongoing basis.

Further:

- Due to the energy crisis: Renewable energy investments and ESG reporting become more and more important

Germany

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☒	☐
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☒	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☒	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing: IP allocation, unilateral adjustments	‣ Risk of unilateral adjustments can be countered with multilateral instruments such as advance pricing agreements, joint audits or mutual agreement procedures. ‣ Tax authorities strongly challenge intercompany financing. Lenders' entitlement to risk premiums is challenged on the basis of group support and DEMPE functions. ‣ DEMPE function argument is also used to question the location of intellectual property. ‣ Viable global transfer pricing model and respective documentation is required.
2	Tax policies and controls	‣ Missing or ineffective tax compliance policies and controls can lead to a lack in oversight of tax positions and inaccuracies or omissions in tax returns. ‣ Initiating the right steps after discovering such inaccuracies is crucial to protect the company and its employees against potential tax criminal investigations based on the accusation of gross negligence. ‣ Tax compliance management systems (Tax CMS) help managing tax compliance risks and are an instrument acknowledged by the tax authorities that mitigates criminal accusations in cases of potential negligence.
3	Digitalization	‣ The tax auditors make more and more use of the digital data available to them opening new ways of auditing, e.g., identifying potential areas of investigation.
4	VAT: missing or incomplete documentation	‣ German VAT law imposes many formal requirements when it comes to documentation of input VAT as well as of tax-exempt supplies such as exports or intra-community supplies. In many cases, failure in meeting these requirements led to significant additional tax charges. ‣ Issues exist around the existence/nonexistence of a fiscal unity for VAT purposes.
5	Direct taxes: accruals and capitalization of expenses	‣ The disallowance of accruals and capitalization of expenses are prevailing areas of adjustments in German tax audits often triggered by sector-specific knowledge of the tax auditors.

Santorini sunset at dawn village of Oia, Greece

Greece

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

This information is current as of 31 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	44% Over EUR40,001 Solidarity tax top rate 10%> EUR220,000 (FY 2022 the income earned by employees of the private sector is exempt from solidarity tax) WHT on dividends 5%	44% Over EUR40,001 Solidarity tax is abolished for all types of income from FY 2023 and onward. WHT on dividends 5%	– Suspension of the 15% capital gains tax on real estate transfers extended until 31 December 2024.
VAT, GST or sales tax – standard rate	24% Reduced VAT rates of 13% and 6% are provided for specific goods and services.	24% Reduced VAT rates of 13% and 6% are provided for specific goods and services.	– Suspension of 24% VAT for new buildings extended until 31 December 2024. Reduced VAT rate of 13% on transport of passengers, catering and non-alcoholic beverages is extended until 30 June 2023. Reduced VAT rate of 6% on cinema tickets and public health goods (i.e., in protective masks and gloves, antiseptic liquids, etc.) until 30 June 2023.

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Enhancing the tax compliance of taxpayers
- Increasing the tax base by reducing tax evasion and tax avoidance
- Promoting a targeted approach for the selection of audit cases through the use of specialized risk management methods and indirect tax audit methods
- Enhancing the audit mechanism and investment in human resources of the tax administration
- Accelerating the tax refund process for taxpayers
- Combating smuggling
- Enhancing e-transactions and utilization of the data transmitted through e-books (myData), intention to include delivery notes to the scope of myData
- Reform of the framework of operation of the Greek capital market

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Greece

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- New incentives for expenses deduction: Expenses relating to green economy, energy and digitalization are deducted from the gross income of SMEs, at the time they incur, increased by 100%. SMEs engaged in the primary agricultural production, fishing and aquaculture sectors are excluded (art. 22E of L. 4172/2013 as added by virtue of art. 86 of L. 4941/2022). Such provision is implemented only on specific expenses related to products or services invoiced electronically by the aforementioned businesses. The increase of 100% is performed according to state aid rules, as they are further specified in No. 139818 ΕΞ 2022 Ministerial Decision. If losses occur after the deduction of the 100% percentage, they may be transferred to be offset with business profits during the subsequent five years according to the provisions of art. 27 of L. 4172/2013.
- Tax Incentives regarding mergers by virtue of L.4935/2022. More specifically, Law 4935/2022 provides, among others, for certain tax incentives for mergers and collaborations, such as 30% income tax exemption with regard to profits of the newly formed company following a business reorganization, exemption from tax on capital gains, exemption from stamp duty, etc., to the extent that the conditions set forth in said law are met.
- Extension of the 30% super-deduction on advertising expenditure to tax year 2023, namely qualifying advertising expenditure incurred in 2023, will be deductible from gross business income, increased by 30%, subject to certain conditions set out in the law (art. 39 L. 5005/2022). This deduction was also available for tax year 2022.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No changes are expected.

VAT/GST or sales taxes

- Suspension of 24% VAT for new buildings until the end of 2024
- Reduced VAT rate of 13% on transport of passengers, catering and non-alcoholic beverages extended until 30 June 2023
- Reduced VAT rate of 6% on cinema tickets and public health goods (i.e., in protective masks and gloves, antiseptic liquids, etc.) until 30 June 2023

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Instructions were issued regarding the taxation of parental donations and donations after the enactment of nontaxable threshold of EUR800,000 under the circumstances stipulated in art. 56 of L. 4839/2021 (E. 2077/2022). In addition, cash withdrawals from donor's or parent's individual or joint bank account and subsequent deposits of the same amount within three working days in an individual account of the donee or child or in a joint account of the donee or child with the same donor or parent or third party are considered exempt from donation tax up to the amount of EUR800,000 (donations from 1 October 2021-8 September 2022) (E. 2077/2022 and art. 175 of L. 4972/2022).
- The solidarity tax was abolished on all sources of income.

Windfall taxes *(please specify broad or sector specific)*

- Imposition of an extraordinary duty at a rate of 90% per month on the increase of the gross profit margin of power plants from their participation in the electricity market for the period from 1 October 2021 to 30 June 2022 (art. 37 of L. 4936/2022)
- Enactment of Temporary Mechanism for the return of part of the retail market revenue, by virtue of which electricity suppliers will be subject to a special contribution in accordance with the excess revenues they obtain from their activity in the domestic retail electricity market for the period from 1 August 2022 to 1 July 2023 (art. 40 of L. 4994/2022)
- Enactment of a temporary solidarity contribution intended to address surplus profits of Greek companies and permanent establishments in Greece whose revenues in tax year 2022 derive by at least 75% from activities of coal and lignite mining, crude petroleum and natural gas extraction and coal and petroleum refining; imposed on surplus revenues of tax year 2022, as defined by law, at the rate of 33% (art. 114 of L. 5007/2022 and in accordance with EU Council Regulation 2022/1854)

Taxes related to climate change or sustainability

- Incentives for expenses deduction: Expenses relating to green economy, energy and digitization are deducted from the gross income of SMEs, at the time they incur, increased by 100%. SMEs engaged in the primary agricultural production, fishing and aquaculture sectors are excluded (art. 22E of L. 4172/2013 as added by virtue of art. 86 of L. 4941/2022).
- Tax depreciation is increased by 100% for investments qualifying as significantly contributing to the mitigation of climate change according to art. 10 of the EU Regulation 2020/852 (para. 10a of art. 24 of L. 4172/2013).
- The imposition of an environmental duty is extended to private cars subject to certain construction requirements of European standards exhaust emissions (Euro 5b) (art. 13 of L. 4890/2022).

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- The solidarity tax is abolished for all types of income from FY 2023 and onward.
- Amendments on L. 4223/2013 regarding the Unified Real Estate Property Tax by virtue of art. 40-49 of L. 4916/2022, with effect from 1 January 2022 onward:
  - Following the update on the objective values of real estate properties, which took place in 2021, the initial prices used for the calculation of the Unified Real Estate Property Tax were adjusted accordingly.
  - Imposition of a supplementary tax solely to entities (as opposed to the previous regime whereby the supplementary tax was imposed both to entities and individuals). For completeness purposes, it is noted that the Unified Real Estate Property Tax consists of the sum of the main and the supplementary tax.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- According to the announcement made by the Prime Minister during the Thessaloniki International Fair, several permanent and temporary measures are promoted to support citizens' income and to maintain development dynamics of the Greek economy (e.g., abolition of solidarity tax).

2.6 Political landscape in your jurisdiction

- Elections are upcoming during 2023, as the four-year term will be completed in the summer of 2023.
- Pursuant to declarations announced by the Prime Minister in Thessaloniki International Fair, government goals, inter alia, are:
  - Tax and contributions reduction as well as salaries and pensions increase
  - Address of energy crisis (provision of state grants related to electricity and natural gas, economic support to vulnerable households, etc.)

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No plans have been announced.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Imposition of stamp duty on interest-bearing loans and other financing as well as on the resulting contractual interest, regardless of whether the transactions in question also fall within the scope of VAT. The provision has retroactive effect from 1 January 2021, whereas for loans, other financing acts and the resulting interest covered by the new provisions, stamp duty is timely paid until 31 December 2022 (art. 172 of L. 4972/2022).
- Transfer pricing: If, following a tax audit, profits from intragroup transactions that have been subject to tax in Greece are included in the profits of a legal entity, the related party that is subject to tax may request a corresponding adjustment to its taxable profit (art. 171 of L. 4972/2022).
- The New Public Revenues Collection Code (L. 4978/2022) was enacted.
- The Apodixi app is used for the direct transmission of the receipts by the citizens to Independent Authority for Public Revenues (AADE). In this way, the citizens themselves check the receipts they receive, scanning their relevant QR code and AADE gets informed on their validity and on whether the enterprise that issued the receipt complies with the tax legislation (VAT, etc).
- Insertion of art. 54H in Greek Tax Procedures Code: Penalties for non-transmission of data pertaining to retail sales documents, issued via tax electronic machines, to the "myDATA" digital platform are in effect from 31 October 2022 onward (art. 173 of L. 4972/2022).
- Amendments on art.54E & 54ST penalties for non-maintenance or non-submission of accounting data. (In effect from 2 December 2021 onwards-art.90-91 L.4864/2021).
- New development law 4887/2022 to support business and investments on specific sectors of the economy. More specifically, the new law provides for 13 new aid schemes allowing the business community to plan, develop and implement their initiatives, through significant and modern forms of investments, covering a wide range of sectors of the Greek economy. According to the new law, the beneficiaries of the eligible investment plans will benefit from various types of aid, including, among others, a tax exemption, namely an exemption from the payment of income tax on the pre-tax profits realized from the total activities of the company.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The Prime Minister announced the following tax measures (not yet included in a draft bill):
  - Reduction of the capital concentration tax from 0.5% to 0.2%
  - Reduction of the financial transaction tax on the sale of shares from 0.2% to 0.1%
  - Abolition of the interest withholding tax on corporate and government bonds

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- There are efforts by the Greek tax authorities to increase voluntary compliance and tackle tax evasion as well as to manage the risks faced by the tax administration to increase taxpayers' compliance.
- The Greek tax authorities aim to increase audit systems sophistication and overall promote the digitalization of the Tax Administration. They intend to strengthen the audit mechanism, carrying out cross-checks with the best exploitation of information and the continuous training of the audit personnel in new audit methods and tools.
- The Greek tax authorities aim to enhance the transmission of transactions and books data in real time (myData) in an effort to conduct immediate cross-checks and tackle the non-reporting or inaccurate reporting at its source.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Increase electronic compliance
- Efforts to increase audit systems sophistication
- Overall promotion of the digitalization of the Tax Administration
- On 18 February 2020, the European Council adopted a legislative package to collect payment data in order to fight against e-commerce VAT fraud, which is composed of the following:
  - Council Regulation (EU) 2020/283 of 18 February 2020 amending Regulation (EU) No. 904/2010 as regarding measures to strengthen administrative cooperation to combat VAT fraud (we have attached the PDF for your quick reference)
  - Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112/EC (the VAT Directive) as regarding introducing specific requirements for payment service providers
- The new rules will enter into force on 1 January 2024, and their main features can be summarized as follows:
  - The new rules will require payment service providers in the EU to report cross-border payments on a quarterly basis.
  - Information will be shared automatically within the EU to target VAT compliance on cross-border payments.
  - The information will have to be reported to the local tax authorities via an xml file.
- Until the end of 2023, Greece has and is expected to implement these directives into local VAT Law.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Stamp duty	Stamp duty imputed in cases of credits or loans, cash pooling arrangements, cash facility arrangements (cash withdrawals or deposits made between the company and its direct or indirect shareholders), etc.
2	TP	Intercompany transactions may spur TP audits and appear to be under increased scrutiny by the tax authorities.
3	Corporate transformation	Tax neutral corporate transformations performed pursuant to various tax incentive laws or in a tax-neutral manner may spur tax audits, also by virtue of the application of the GAAR and Targeted Anti-Abuse rules (TAAR) provisions.
4	Permanent establishment	Tax audits may be on the basis of the dependent agent notion, the negotiation or conclusion of offshore contracts and the possibility of a place to constitute a fixed place of business. Also, permanent establishment issues may arise in the context of remote-working during the COVID-19 period.
5	Tax issues related to an entity's funding	Issues related to an entity's funding such as interest deductibility or limitations are topics of tax audits.
6	Disallowance of deductions	Challenges to the deductibility of expenses is a common issue.
7	GAAR	The GAAR is expected to be invoked by the tax administration in several instances (e.g., stamp duty on loans concluded and executed abroad, capital concentration tax on share capital increases above par).

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This information is current as of 5 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	Income tax: 7% over gross income or 25% – deductible expenses	Income tax: 7% over gross income or 25% – deductible expenses	–
Personal income tax – top rate	7%	7%	–
VAT, GST or sales tax – standard rate	12%	12%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Stronger tax audits and tax enforcement
- Digitalization of accounting records and tax documents
- Interinstitutional (local and foreign) agreements for exchange of information
- Transparency and voluntary disclosure of information

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The Tax Administration is reverting to a policy of criminal prosecution of cases considered tax evasion through the application of the conciliatory meeting figure with taxpayers. In this meeting, the case that is going to be considered "tax fraud" is explained to the taxpayer. If the taxpayer accepts the amount of the claim, the Tax Administration closes the case and does not initiate the criminal procedure. This policy is being implemented especially regarding transfer pricing matters.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- The Tax Administration has announced that it is working on the review of the taxation rules applicable to digital business activities in Guatemala — a country that follows the territorial source taxation principle — and will conclude if a tax reform is needed.

VAT/GST or sales taxes

- Digitalization of accounting records plus the obligation to use electronic invoices is the major policy implemented by the Tax Administration in 2022, which is fully in force in 2023.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- N/A

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- N/A

2.6 Political landscape in your jurisdiction

- Guatemala will elect a new President and Congress in 2023; depending on the candidate and the party that comes to power, it may have a major impact in Guatemala's current tax policies.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- N/A

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Changes in many of the tax return formats were made to obtain greater financial information from taxpayers.
- Interinstitutional agreements between the Tax Administration and other public institutions were executed in 2022, to grant the Tax Administration immediate access to taxpayers' data and information.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Tax Administration has shown a strong approach to taxpayers after concluding tax audits, in order to invite them to negotiate and voluntarily pay omitted taxes, rather than to discuss the matter before judicial courts through a tax fraud process.
- Requiring information regarding specific transactions or inconsistencies reported in tax return by taxpayers is becoming more common.
- Audits have become more specific.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Taxation of digital transactions
- Development of institutional criteria on specific tax treatment matters
- Investment on electronic and digital tools to cross-check information

Guatemala

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☒	☒	☐
New or expanded criminal tax law(s)	☒	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☒	☒	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Losses	Challenge of reported losses because of the lack of documentation of the reported expenses, which prove the need of the expense, are common; losses reported in consecutive years are strongly scrutinized.
2	Tax refunds	Tax refunds are commonly denied due to the fact that, when requesting a refund, the Tax Administration carries out an audit, and if they find incorrect documentation of expenses or determination of the tax obligations, such audits conclude and determine that the unpaid taxes are higher than the requested refund.
3	Transfer pricing	Transfer pricing audits are the most common audits for multinational taxpayers; audits frequently include an assessment challenging the method used by the taxpayer.
4	Free trade agreements use, origin, valuation	Formalism in Certificates of Origin is common, which leads to the rejection of the preferential treatment.
5	Service taxes	VAT in services that are reported as a tax credit are commonly challenged due to the fact that the description of the service in the corresponding invoice is poor and does not allow the Tax Administration to understand the necessity of such service for the economic activity of the taxpayer who is reporting it as a VAT credit.

Honduras

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

This information is current as of 22 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	25%	25%	–
VAT, GST or sales tax – standard rate	15%	15%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Adoption of a territorial tax system in Honduras as of 2017, even though income tax law has not been amended to reflect this change.
- The tax authority has a strong approach to tax collection, especially in election years.
- A special customs and tax regime is being reviewed to attract foreign investment.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Honduras

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Uncertainty is expected in relation to the territorial tax system for corporate income taxes.
- Stronger audits are to be expected due to the decrease in audits because of post-pandemic effects.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- VAT is expected to be applied to digital services, as announced on a couple of occasions by the Tax Authorities.

VAT/GST or sales taxes

- No changes are foreseen in relation to VAT.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are foreseen, even though at a municipal level these rates can be modified on a yearly basis as they are enacted through municipality tax plans.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- N/A

2.6 Political landscape in your jurisdiction

- The current government has not made statements regarding a possible tax reform. However, the government has indicated its intention to control and review tax benefits in a better way than previous governments.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- No major tax policy was changed, except regarding certain income tax rates.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Subject to change along with political priorities

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Electronic Invoicing Platform to be implemented by the Tax Authority
- Possible application of the VAT to digital services
- Electronic filling expected to be available for more tax administration procedures

Honduras

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Deductibility**	Incorrect deductibility of expenses
2	**Depreciation**	Incorrect use of depreciation rules
3	**Withholding**	Incorrect or no withholdings applied to payments abroad
4	**Invoicing**	Incorrect use of invoice and receipts, and other tax documents
5	**Transfer pricing**	Incorrect use of transfer pricing rules (i.e., arm's-length principle, intercompany loans, permanent establishment)


Aerial scene of Hong Kong

Hong Kong

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This information is current as of 9 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	16.5% Under the two-tiered regime, the rate of tax for the first HKD2 million of profits of corporations will be reduced by half to 8.25% (7.5% for unincorporated business). The remainder of the profits will continue to be taxed at the normal applicable rate of 16.5%. However, each group of "connected entities" can only elect one entity in the group to benefit from the two-tiered regime for a given year of assessment.	16.5% Under the two-tiered regime, the rate of tax for the first HKD2 million of profits of corporations will be reduced by half to 8.25% (7.5% for unincorporated business). The remainder of the profits will continue to be taxed at the normal applicable rate of 16.5%. However, each group of "connected entities" can only elect one entity in the group to benefit from the two-tiered regime for a given year of assessment.	–

Personal income tax — top rate	15% Note: The PIT charge is the lower of: (a) the standard rate of 15% applying to net chargeable income before personal allowances and (b) the progressive rates from of 2%, 6%, 10%, 14% and 17% applying to net chargeable income.	15% Note: The PIT charge is the lower of: (a) the standard rate of 15% applying to net chargeable income before personal allowances and (b) the progressive rates from of 2%, 6%, 10%, 14% and 17% applying to net chargeable income.	–
VAT, GST or sales tax — standard rate	NIL	NIL	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- It has always been the Hong Kong Special Administrative Region (HKSAR) government's objective to maintain a simple, certain and low-tax regime, which will be upheld with a view to maintaining the competitiveness of Hong Kong's business environment.
- As such, in its recent agreement to refine Hong Kong's foreign source income exemption (FSIE) regime in order to address the concerns of the EU over double non-taxation, the HKSAR government stated those foresaid key principles, such that the territorial source principle of taxation, will continue to apply in general.
- Furthermore, as an international financial and business center, Hong Kong will actively implement the BEPS 2.0 initiatives according to international consensus.
- Regarding the delay of the implementation of the GloBE Rules in other jurisdictions, such as the EU and the United Kingdom, and Hong Kong's MNEs concerns that implementing the GloBE Rules under Pillar Two would put Hong Kong's businesses at a competitive disadvantage, the HKSAR government announced in mid-August 2022 that Hong Kong will also delay the implementation of the IIR to 2024 at the earliest. The HKSAR government further indicated that they will continue to monitor the implementation targets of other jurisdictions.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime

Tax types	Likelihood of changes in 2023	Direction of change
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023 ☒ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Hong Kong

Tax types	Likelihood of changes in 2023	Direction of change
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Not applicable.

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 – detail

Corporate income taxes

- Under the recently introduced amendment bill to refine Hong Kong's FSIE regime, an MNE entity carrying on a trade, profession or business in Hong Kong, unless the MNE entity qualifies as an excluded entity.
- Effective from 1 January 2023, specified foreign-sourced income will be deemed to be sourced from Hong Kong and chargeable to profits tax if the relevant income is received in Hong Kong by an MNE entity carrying on a trade, profession or business in Hong Kong.
- Specified foreign-sourced income is defined to include (i) dividends, (ii) gains from the disposal of shares or equity interest (disposal gains), (iii) interest and (iv) income from intellectual properties (IP income).
- Nonetheless, the above deeming provision would not apply if the MNE entity satisfies the relevant requirements under the relevant exception provisions, namely the economic substance requirement (for non-IP income), the nexus requirement (IP income) or the participation requirement (for dividend and disposal gains).
- The proposed refined FSIE regime is expected to have a profound effect on the taxation of such income in Hong Kong.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No changes are currently expected.

VAT/GST or sales taxes

- No changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are currently expected.

Windfall taxes *(please specify broad or sector specific)*

- No changes are currently expected.

Taxes related to climate change or sustainability

- No changes are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No changes are currently expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The Financial Secretary of Hong Kong has recently indicated that Hong Kong may record its second largest deficit in history for the current financial year at more than HKD100 billion (USD12.7 billion), almost double than what was predicted, amid the ongoing COVID-19 pandemic and a weak external economic environment.
- The Financial Secretary has not indicated any plan to introduce tax hike measures in the near term.

2.6 Political landscape in your jurisdiction

- While John Lee is the newly appointed Chief Executive of Hong Kong, Paul Chan remains as the Financial Secretary of Hong Kong.
- In his recent Policy Address 2022, John Lee noted no significant changes to tax policy. He further noted in his policy address that the tax measures and proposals announced by the former administration are being implemented as scheduled.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The HKSAR government announced in mid-August 2022 that Hong Kong will implement the IIR under Pillar Two in 2024 at the earliest.
- It intends to launch a further consultation exercise in late 2022 concerning Pillar Two implementation issues in Hong Kong and the forthcoming domestic minimum tax.
- The HKSAR government plans to submit a legislative proposal to the Legislative Council in 2023.
- The HKSAR government will monitor how other jurisdictions will be addressing these issues and will consider international developments when deciding on the implementation schedule and details.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- A new law was enacted in July 2022, which introduces a dedicated tax concession regime offering tax incentives to qualifying shipping commercial principals, i.e., ship agents, ship managers and ship brokers in Hong Kong.
- Subject to satisfying the relevant conditions, the profits derived by a qualifying shipping commercial principal from carrying out a qualifying activity for an associated shipping enterprise, which is entitled to a concessionary tax rate or income exemption under the Inland Revenue Ordinance, will be subject to the same concessionary tax rate or income exemption as those applicable to the associated shipping enterprise.
- The above tax concessions apply retrospectively to sums received by or accrued to shipping commercial principals on or after 1 April 2022.
- In October, the HKSAR government started the legislative process to give effect to MLI. Hong Kong has designated 39 of its existing comprehensive avoidance of double taxation agreements (CDTAs) as covered tax agreements (CTAs) to be amended through the MLI. The remaining six signed CDTAs are not listed because they have already incorporated BEPS-compliant provisions.
- To avoid any unintended impact on taxpayers, Hong Kong adopts a minimalist approach and save for one minor option, only implements the mandatory provisions of the MLI, all other optional provisions being left to future bilateral discussions with the parties concerned where necessary. That means Hong Kong has opted out of all the remaining substantive optional articles of the MLI.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No changes are currently expected.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The Secretary for Financial Services and the Treasury indicated on 1 June 2022 that the HKSAR government has completed an industry consultation about its proposal to introduce a tax exemption of profits tax for qualifying family-owned investment holding vehicle(s) managed by single family offices in Hong Kong.
- The HKSAR government plans to introduce an amendment bill into the Legislative Council in the last quarter of 2022 to implement the above proposal. Subject to the passage of the amendment bill by the Legislative Council, the tax concession treatment will apply retrospectively for any years of assessment commencing on or after 1 April 2022.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Hong Kong adopted the assess-first-audit-later (AFAL) approach where most tax assessments are processed automatically.
- The Hong Kong Inland Revenue Department (HKIRD) has been developing advanced analytical tools to screen taxpayers' data for potential tax audits.
- With the AFAL system in place, HKIRD puts strong emphasis on selecting appropriate cases for tax audits and investigations.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Change in Hong Kong's FSIE regime on passive income
- Strengthening of TP documentation requirement
- Payments to no- or low-tax jurisdictions

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	Headquarter and management services transactions; IP-related issues
2	**Disallowance of deductions**	Lack of supporting documentation; payments to no- or low-tax jurisdictions
3	**Interest deductions**	Intercompany financing arrangements
4	**Capital gains**	Disposal of properties
5	**Losses**	Revisit back years tax losses claim

Hungary

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EY key contacts

Tax policy and controversy

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

This information is current as of 20 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	9%	9%	–
Personal income tax – top rate	15%	15%	–
VAT, GST or sales tax – standard rate	27%	27%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Mitigating the adverse effects the COVID-19 pandemic and inflation on the economy
- Putting emphasis on sectoral levies, extra profit levies
- Prioritizing taxes on consumption over taxes on labor
- Supporting small- and medium-sized enterprises
- Implementing a circular economy action plan by improving waste management partly through tax regulations

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Provisions will implement the Amending Directive to the Accounting Directive (2013/34) requiring multinational enterprises to publicly disclose certain income tax information.
- As such, enterprises with consolidated revenues exceeding EUR750 million in each of two consecutive years will be required to prepare a report containing specific corporate tax information. The parent company will be responsible for the preparation of the report, which must include information on the amount of income, profit before tax, corporate tax payable and withholding tax on a per-country basis. The report must be publicly disclosed and deposited each year. The rules will apply in respect of financial years starting after 22 June 2024.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- Hungarian regulations generally follow the general EU principles (e.g., VAT Directive).

VAT/GST or sales taxes

- Excise duties on tobacco products, spirits and the public health tax known as the "chips tax" and tax on company cars will be increased.
- The application of the reduced VAT rate of 5% for the sale of new residential properties will be extended by two years, i.e., until the end of 2024.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- Self-employed individuals liable to the flat-rate tax will be required to file quarterly social contribution returns instead of the currently required monthly returns.

Windfall taxes ***(please specify broad or sector specific)***

- Surtax on financial institutions: The surtax rate of 8% in 2023 applicable to the taxable base was determined on the basis of the annual net revenue of the year preceding the tax year.
- The government will impose an extra profit tax on power plants providing balancing services, with a tax rate of 10% in 2023.
- Special tax on energy producers: For primary purchasers of electricity, a special tax of 65% was introduced in mid-2022. The taxable base is the amount established by the Hungarian Energy and Utilities Regulatory Office decreased by a mandatory acquisition price or a subsidized price applicable for the current year.
- Fee payable by airlines: Airlines must pay an extra fee depending on their CO2 emission per seat.
- Surtax on pharmaceutic distributors: The tax on distributors of medicinal products is based on the difference between the consumer price and the producer price or import price. To the taxable base so established, a rate of 20% applies for medicines with a producer price lower than HUF10,000, and 28% for medicines produced at a price exceeding HUF10,000.
- Surtax on telecommunication companies: For telecommunication companies, the surcharge is based on the net turnover in the tax year. The tax is set at progressive rates.
- Surtax on retail sector: In 2023, retail companies will have to pay a progressive tax based on net sales that varies from 0% to 4.1% for revenue in excess of HUF100 billion.
- Insurers will pay a progressive insurance surcharge based on insurance premiums. In 2023, the rate will range from 1% to 7%.

Taxes related to climate change or sustainability

- No changes are currently expected.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- Local business tax: The calculation of local business tax for small businesses will be amended. A company will qualify as a small business if its annual income does not exceed HUF25 million, or HUF120 million for a retailer company. The itemized tax will apply to the taxable base differentiated according to the income brackets (up to HUF25 million or HUF120 million) and the minimum itemized business tax will be HUF50,000. The itemized tax must be paid once a year by the end of May and no tax return is required.
- Capital transfer tax: The favorable treatment of real estate transactions between related companies where less than 50% of the acquirer's net turnover in the preceding year is derived from real estate transactions will be abolished. However, the favorable treatment remains where 50% or more of the net turnover is derived from real estate transactions.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Profits from trading and mining are subject to a uniform personal income tax rate of 15% so that costs related to activities (mining machinery, electricity bills or fees paid to stock exchanges) can be deducted from profits. The first tax return deadline under the new rules is in May 2023.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The government aims to use the tax regime to make sure the necessary revenues for the state budget alongside a fair share of public burdens in this changed macroeconomic environment (energy crisis, soaring inflation, rising loan interest, high HUF exchange rate). The government, therefore, introduces more windfall and extra profit taxes concerning certain sectors (energy, retail, etc). However, the government is still supporting investments and continues to focus on attracting foreign direct investments.

2.6 Political landscape in your jurisdiction

- Hungary's government has not changed in the last 12 years.
- The last elections were held this year and the current government remained in seat.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- There have been no announcements.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The Hungarian government decided to change the taxation rules for self-employed individuals. Under the new law, self-employed taxpayers will only be able to issue invoices to natural persons. Contracting with self-employed people was a better tax position for the companies compared to hiring employees; therefore, these changes can pose a burden to companies and self-employed individuals as well.
- The government introduced several types of windfall and extra profit taxes concerning certain sectors (energy, retail, etc.) aiming to make sure revenues for the state budget to mitigate the effects of the crisis.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No significant changes occurred.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The government submitted the aforementioned tax proposals for 2023 on 18 October 2022, and they are still under discussion in the Parliament.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Taxpayers are subject to stricter reporting requirements and the tax authorities investigate closely whether the taxpayers comply with the requirements.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Windfall and extra surplus taxes are expected in certain sectors.
- Changing the taxation of self-employed individuals can cause heavier tax burden on companies as they now have to hire employees instead of contracting them project by project.
- Local business tax calculation will become simpler for smaller businesses.

Hungary

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing –** loss-making position	The Hungarian Tax Authority (HTA) is more likely to scrutinize taxpayers that realized loss in the respective year or have been in a loss-making position for several years. The HTA's declared position is that limited risk entities should not bear losses. The taxpayers are obliged to comply with strict reporting rules.
2	**VAT refunds**	VAT refund requests will likely still continue to be one of the main focuses of tax audits.
3	**VAT issues –** mismatch in data reported in intra-community transaction	Mismatches in the data regarding intra-community transactions often spur tax audits as they impose VAT risks from the national tax authorities' point of view.
4	**Local business tax (LBT) –** deductions (e.g., intermediated services and subcontractors costs)	Since it is their capacity, municipalities actively audit LBT deductions. It is not uncommon for market consultants to be hired as auditors because the employees of the municipalities may not have the necessary qualifications. Therefore, taxpayers should prepare for increased attention.
5	**COVID-19 incentives and energy efficiency tax credits**	An increased number of tax audits can be expected concerning energy efficiency tax credits and COVID-19 pandemic-related tax incentives.

India

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Tax policy

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

This information is current as of 28 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	‣ The following rates are now applicable to companies for the financial year 2022-23: ‣ (A) Domestic company that opts for lower tax rate without claiming any incentives – **25.17%**[1] ‣ (B) For new manufacturing companies set up/registered on or after 1 October 2019 and that commence manufacturing up to 31 March 2024 – **17.16%**[2] ‣ (C) Domestic company that does not opt for lower tax rate and chooses to avail current incentives and deductions: ‣ Companies having total turnover or gross receipts in FY 2017-18 ≤ 4,000 million ‣ Income < 10 million – **26%**[3] ‣ Income > 10 million, but <100 million – **27.82%**[4] ‣ Income > 100 million – **29.12%**[5] ‣ Other companies claiming incentives and having total turnover or gross receipts in FY 2017-18 more than 4,000 million ‣ Income < 10 million – **31.20%**[6] ‣ Income > 10 million, but <100 million – **33.38%**[7] ‣ Income > 100 million – **34.94%**[8]	The budget is expected to be presented on 1 February 2023. The new tax rates for financial year 2023-24 shall be known on budget presentation.	–

Personal income tax – top rate	The following rates are now applicable on individuals for the financial year 2022-23: ▸ (A) Individuals do not avail of any tax incentives or deductions: ▸ Up to INR250000 – **Nil** ▸ INR250,001-INR500,000 – **5%** ▸ INR500,001-INR750,000 – **10%** ▸ INR750,000-INR1,000,000 – **15%** ▸ INR1,000,000-INR1,250,000 – **20%** ▸ INR1,250,000-INR1,500,000 – **25%** ▸ Above INR1,500,000 – **30%** ▸ (B) In other cases: ▸ Up to INR250,000 – **Nil** ▸ INR250,001-INR500,000 – **5%** ▸ INR500,001-INR1,000,000 – **20%** ▸ Above INR1,000,000 – **30%** ▸ Please refer **Annexure 1** for details	The budget is expected to be presented on 1 February 2023. The new tax rates for financial year 2023-24 shall be known on budget presentation.	–
VAT, GST or sales tax – standard rate	GST rates of 5%, 12%, 18% and 28% are applicable to the bulk of goods and services. Exports are zero rated. A special rate of 3% applies to gold, gold jewelry, precious stones and precious metals.	The GST rates for specific goods and services may undergo revision from time to time based on the decisions taken by the GST Council.	–

[1] Inclusive of applicable surcharges and cesses. Base rate is 22%
[2] Inclusive of applicable surcharges and cesses. Base rate is 15%.
[3] Inclusive of applicable cess. Base rate is 25%.
[4] Inclusive of applicable surcharge @7% and cess. Base rates is 25%.
[5] Inclusive of applicable surcharge @12% and cess. Base rate is 25%.
[6] Inclusive of applicable cess. Base rate is 30%.
[7] Inclusive of applicable surcharge @7% and cess. Base rate is 30%.
[8] Inclusive of applicable surcharge @12% and cess. Base rate is 30%.

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Enhancing economic growth, stimulating demand and investments
- Incentivizing manufacturing in India
- Expanding the tax base, while maintaining stability in tax rates and checking tax evasion
- Making tax administration simpler, more transparent, accountable and tech-driven
- Improving ease of paying taxes for taxpayers
- Incentivizing micro, small and medium-sized entrepreneurs and providing relief to the middle- and low-income taxpayers

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax

India

Tax types	Likelihood of changes in 2023	Direction of change
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The government announced a significant reduction in the corporate tax rates in September 2019. In Budget 2020, the tax on dividends was also shifted from the corporate level to the shareholder level.
- The government's focus is now expected to be on bringing simplicity and certainty in law, expanding the tax base and minimizing disputes.
  - To rationalize complexity of the existing capital gains structure, the government may bring in a simplified capital gains tax regime.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- India is actively involved in discussions on BEPS Pillar One and Pillar Two.
- In line with the BEPS Inclusive Framework consensus, India may need to do away with unilateral digital tax measures like the equalization levy (EL) and provisions for significant economic presence (SEP). However, at this juncture, there is no official statement from the government to this effect.
- On 24 November 2021, the Indian government issued a press release stating that India and the United States (US) had agreed on a transitional approach to the treatment of the current Indian e-commerce EL during the interim period before the OECD BEPS new Pillar One rules come into effect. The transitional treatment includes the continuation of the 2% EL charge by India, subject to a partial future credit to the MNE against that MNE's future "Pillar One Amount A" tax liability.

VAT/GST or sales taxes

- The government's focus is on improving compliance and increasing revenue. Several amendments were made recently to check any evasion. The coming months may see greater focus on:
  - GST rate rationalization
  - Appellate Body for GST disputes
  - Legislative reform for GST laws to create more certainty and simplification in doing business
- A Group of Ministers (set up by the GST Council) is actively discussing rate rationalization. Depending on the decisions taken, some rates may see an upward revision while some may be reduced.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- The government has been following a policy of imposing a higher tax burden of HNWIs while providing a respite to middle and lower income-tax payers. For instance, in the Union Budget 2019, a super-rich tax in the form of enhanced surcharge was levied on HNWIs.
- In Budget 2020, the government introduced a simplified concessional tax regime (CTR). It offered lower tax rates to taxpayers in lieu of all the incentives/deductions.
  - However, not many taxpayers have opted for CTR as, after foregoing incentives, the tax saving in the hands of taxpayers were nil or miniscule even though a lower tax rate was applied.
  - To make CTR more attractive to taxpayers, the government may grant some tax incentives under this regime.

Windfall taxes ***(please specify broad or sector specific)***

- The government introduced windfall profit tax on 1 July 2022. It was levied on domestic crude oil production.
- The windfall tax was levied as a special additional excise duty. It is aimed at absorbing the super profits earned by domestic crude oil producers (who choose to export fuel to reap benefits of skyrocketing global prices while affecting domestic supplies).
- This tax is revised on a fortnightly basis.

Taxes related to climate change or sustainability

- India does not have an explicit carbon tax. However, taxes on fuels (e.g., coal, petrol and diesel) are considerably high. These act as an implicit carbon tax.
- At the sub-national level, some states impose a vehicle tax or green tax.

Other taxes ***(such financial transaction taxes, solidarity surcharges, etc.)***

- No changes are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Finance Act, 2022 introduced provisions regarding taxation of virtual digital assets (VDA) at 30% (plus applicable surcharge and cess). Only the cost of acquisition is allowed as a deductible expense.
- Losses on the transfer of VDA cannot be set off against any other income. Moreover, such losses cannot be carried forward to subsequent tax years.
- The government is of the view that cryptocurrencies pose a serious concern from a macroeconomic and financial stability standpoint.
- In Budget 2022, the government proposed to introduce the Digital Rupee, using blockchain and other technologies, to be issued by the Reserve Bank of India (Central Bank) starting 2022–23.
  - The Central Bank commenced the pilot project of India's central bank digital currency (CBDC) for the wholesale segment from 1 November 2022, for settlement of secondary market transactions in government securities.

- The retail CBDC pilot commenced from 1 December 2022.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The current global economic slowdown may have an impact on India's exports and also fresh investment inflows. Further, the inflationary pressures are particularly affecting the vulnerable sections of taxpayers — both individuals and the micro and small business organizations.
- Considering that the government plans to maintain competitive and stable tax rates, there may be greater focus on:
  - Tax enforcement
  - Broadening the base
  - Checking tax avoidance and leakages
  - Temporary tax benefits for small taxpayers
  - Rationalization of GST rates
  - Customs duty rates rationalization to encourage domestic manufacturing

2.6 Political landscape in your jurisdiction

- India will have its next general elections to constitute the Parliament in May 2024.
- Some of the key States have recently had (e.g., Himachal Pradesh) or will have (e.g., Gujarat) Legislative Assembly elections.
- This is the last full budget of the current government before the general elections in 2024.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- India has not yet announced the implementation roadmap for Pillar Two. However, issues relating to Pillar Two are under active consideration and consultations with the stakeholders are underway.
- The budget is likely to be presented on 1 February 2023. By that time, if there is any progress at the OECD front, India may make a policy (intent) announcement.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

Some of the key tax policy announcements in Budget 2022 include:

Direct Tax

- Taxation of VDA
  - Income from the transfer of VDA is taxable at 30%. A tax deducted at source (TDS) at 1% for payment to residents introduced for the transfer of VDA.
- Scope of withholding taxes widened
  - 10% TDS required on benefit or perquisite (> Rs20,000 per FY) provided to a resident carrying on business or profession.
- Rationalization of procedures
  - Opportunity to taxpayers to file an updated return up to two years from the original due date with additional tax of 25%/50%.
  - Modified returns can be filed by the successor in case of business reorganization, for the period between the appointed date and date of the final order of the competent authority.
- Reducing litigation
  - Tax authorities can now defer filing an appeal before the High Court and Tribunal if an identical question of law is pending before the jurisdictional High Court/Supreme Court, including in case of another taxpayer.
- Capital gains tax
  - The surcharge on long-term capital gains arising from the transfer of any type of assets was capped at 15%.
- Extension of time for lower tax rate benefit for new manufacturing
  - Extension of the last date for commencement of manufacturing or production to avail concessional tax rate of 15% is from 31 March 2023 to 31 March 2024.

Indirect Tax

- Customs Tariff rationalization
  - Basic customs duty rates increased to incentivize "Make-in-India" and also aligned with "Atmanirbhar Bharat" policy.
- Measures to improve compliance:
  - Input tax credit (ITC) availment framework tightened with effect from 1 January 2022, the credit is available only where tax and transactions are reported on the GST portal by vendors.
  - Powers granted to revenue authorities enable restriction of credit in relation to vendor status and their compliance conduct.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Public disclosure of tax information is not mandated in India.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The Union Budget is to be presented on 1 February 2023.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The government is focused on enhancing its tax to GDP ratio and widening the tax base.
- The last two budgets introduced many new withholding tax provisions (TDS/tax collected at source) that have cast new obligations and compliance requirements on taxpayers.
- The government has increased the use of technology and data intelligence through information tracking, taxpayer profiling and bringing more taxpayers in the tax net.
- Like in many other jurisdictions, the fiscal pressure has led to stronger tax enforcement — both on the direct and indirect taxes front. Taxpayers are seeing increased penalties for noncompliance or delayed compliance, high-pitched audits and the reopening of past cases.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☒ Become somewhat more challenging for taxpayers
- ☐ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Controversy revolving around interpretation of the Most Favored Nation Clause, while claiming benefit of the Double Taxation Avoidance Agreement entered into with other countries
- Introduction of provisions of Section 194R (withholding tax on perquisites/benefit) and introduction of Explanation 3 to Section 37(1) (determination of allowability of expenses incurred in contravention of law which is an office under any law in India/abroad)
- Disputes on PE in relation to taxpayers rendering services through IT network in India (viz. Mastercard, Visa)

India

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☒	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Business restructuring transactions (TP)	Focus on global business restructuring transactions involving the sale of Indian business; tax officers have questioned the assumptions for arriving at valuation from a TP perspective
2	Treaty benefits	Denial of treaty benefit based on interpretations of treaty provisions due to differences in language between domestic tax provisions and treaty provisions
3	Tax residency	Challenging the tax residency of a taxpayer, based on the availability of a Tax Residency Certificate and also looking at Place of Effective management as well as sources of income
4	Interest deductions/limitation	With introduction of thin capitalization provisions with effect from 1 April 2018, the applicability of same is being looked into by the tax officers, while determining ALP of interest payments made by the Indian taxpayers to foreign affiliates
5	Royalties and IP-related issues	Challenging the ALP, based on the benefit test as well as comparability with uncontrolled transactions/bundled approach of benchmarking

Jakarta by Night, Indonesia

Indonesia

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EY key contacts

Tax policy and controversy

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

This information is current as of 9 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	35%	35%[2]	–
VAT, GST or sales tax – standard rate	10% up to March 2022 11% starting April 2022	11%[3] Will be increased to 12% by 1 January 2025 at the latest	10%

[1] Article 17 (1b) of Indonesian Income Tax Law Number 7 Year 1983 as last amended by Law Number 7 Year 2021
[2] Article 17 (1a) of Indonesian Income Tax Law Number 7 Year 1983 as last amended by Law Number 7 Year 2021
[3] Article 7 of Indonesian Value Added Taxes Law Number 8 Year 1983 as last amended by Law Number 7 Year 2021

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

The 2023 Macroeconomic Framework and Principles of Fiscal Policy (KEM-PPKF) document compiled by the Ministry of Finance (Finance) sets out three main points of focus for tax revenue policy in 2023:

(1) Expanding the base and increasing the tax ratio through extensification and exploring potential, optimizing tax revenue from the digital economy, as well as following up the implementation of the Voluntary Disclosure Program (PPS)

(2) Strengthening administration, increasing compliance and improving regulations

(3) Providing targeted and measurable tax incentives, while maintaining effectiveness, directed at strategic economic activities that produce a large multiplier effect

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules

Indonesia

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The corporate income tax rate is set to remain at 22%, which applies to the fiscal year 2022 and beyond.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Indonesia has passed laws for both an electronic transactions tax (ETT, similar to a digital services tax), virtual PE and offshore VAT — each applying to cross-border digital sales made into Indonesia. The offshore VAT system (PMSE VAT) has been implemented, and some minor amendments were made in 2022 via Ministry of Finance Regulation Number 60/ PMK.03/2022. The VAT rate is in accordance with new general VAT rate, i.e., 11% starting 1 April 2022 and will be increased to 12% at the latest by 1 January 2025.
- Implementing regulations on the direct tax side have not yet been implemented, and accordingly, these are not yet in force. The law essentially provides that the ETT, or deemed PE, approach could be taken, depending on relevant tax treaty terms. Public announcements suggest the government's preference is a multilateral approach under Pillar One. It remains to be seen whether the unilateral ETT/deemed PE approach would be implemented if there are delays or obstacles to agreement on Pillar One.

VAT/GST or sales taxes

- The following tax objects were previously excluded from VAT-able objects but now are included as VAT-able objects but are currently exempted from VAT by regulation instead, e.g., basic necessities needed by many people, medical health services, education services, social services, are excluded from non-VAT objects.
- Given considerations on purchasing power and economic recovery, tariff increases have been implemented gradually:
  - 11% applies 1 April 2022
  - 12% applies at the latest 1 January 2025

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are currently expected in in rates or brackets.
- Based on the Law on Harmonization of Tax Regulation that is valid starting 1 January 2022, benefits in kind provided to employees can be treated as deductible expense by the employer and are part of income for employees. However, certain benefits in are not income for the recipient as follows:
  - Provision of food/drink for all employees
  - Benefit in kind in certain areas (such as remote area)
  - Benefit in kind due to work requirements, for example: work safety equipment or uniforms
  - Benefit in kind sourced from the National/Domestic Budget and Expenditures
  - Benefit in kind with certain types and limitations
- The implementing regulation for benefits in kind subject to employee withholding tax is not yet available.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- The implementation of the Carbon Tax is postponed to 2025.
- The Law on Harmonization of Tax Regulation provides for the Carbon Tax initially to be applied to state-owned enterprises in the coal steam power plant business, to be effective from 1 April 2022. The Carbon Tax is set to be higher than or equal to the carbon price in the carbon market by minimum tariff of IDR30 (around 0.21 cent USD) per kg carbon dioxide equivalent (CO_2e) or other equivalent units that will be charged only if a plant emits CO_2 exceeding the cap set by the government.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Ministry of Finance has issued Regulation Number 69/ PMK.03/2022 regarding Income Tax and VAT on Fintech Transactions that is effective since 1 May 2022, including these clarifications:
  - Electronic Money in a medium are nontaxable goods.
  - Services for lending or placing funds by creditors to debtors through peer-to-peer lending (P2P) platforms are taxable services that are exempt from VAT.
  - Insurance services through the platform are taxable services that are exempt from VAT.
  - Services for providing P2P platforms, payment facilities/ systems are taxable services.
- The VAT tariff is 11%.
- The WHT on Fintech Transactions is as follows:

Type of income	Income recipient	Type of platform P2P lending	Type of WHT	WHT withholder
Interest loan	Lender	a. registered/ OJK license	‣ Income Tax Art 23 = **15%** (not final)	a. Platform
		b. not registered/ not have OJK license	‣ Income Tax Art 26 = **20%** or in accordance with tax treaty (final)	b. Borrower (WHT withholder
Service fee	Platform	a. registered/ OJK license	Not WHT object	–
		b. not registered/ not have OJK license	Income Tax Art. 21/23/26	Payor

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

Ministry of Finance has issued Ministry of Finance Regulation Number 68/PMK.03/2022 regarding VAT and income tax on trading transaction on crypto asset, effective from 1 May 2022.

- Crypto is not a currency but goods in the form of rights and other interests in digital form. Therefore, from an Indonesian VAT perspective, it is an intangible taxable good.
  - Vat object of crypto asset:
    - Delivery of intangible taxable goods in the form of crypto assets by crypto asset sellers.
    - Delivery of taxable services in the form of:
      - Services for providing electronic facilities used for crypto asset trading transactions, by intermediary trading through electronic system (PPMSE) (exchangers and e-wallets)
      - Crypto asset transaction verification services (mining) and/or crypto asset mining group management services (mining pool)
- VAT and income tax tariff:
  - On trading crypto assets:
    - VAT (0.11% for PPMSE registered with CoFTRA or 0.22% for PPMSE not registered with CoFTRA)
    - Income Tax Article 22 (final):
      - 0.1% of the value of crypto assets (registered at Bappebti and only providing electronic wallet/e-wallet services); or
      - 0.2% of the value of crypto assets (not registered with Bappepti and only provide electronic wallet/e-wallet services)
  - For PPMSE services: general rates
  - For mining services:
    - VAT: a certain amount of 9A of 1.1% x the conversion value of crypto assets
    - Income Tax Article 22 (final): 0.1% of income in connection with crypto assets

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Until now, we haven't heard any development on this subject for 2023.

2.6 Political landscape in your jurisdiction

- Preparation and campaigning for the presidential election will start in 2023 even though the election will take place around Q1 of 2024.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None at this stage, even though we understand that the Indonesian Tax Authority (ITA) is very active in monitoring progress and development of the BEPS 2.0 Pillar Two.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Please refer to the above.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Implementing regulations on the Law on Harmonization of Tax Regulations
- Implementation of Family ID Number (NIK — Nomor Induk Keluarga) as Tax ID Number
- Income tax on digital goods and/or services

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Tax audits are automatic by regulation in various circumstances, including where the taxpayer is in a refund position.
- Outside the tax audit approach, the Director General of Tax (DGT) will generally take a strong approach to counsel taxpayers through the issuance of Request Letter for Explanation on Data and/or Information *(SP2DK – Surat Permintaan Penjelasan atas Data dan/atau Keterangan)* on potential additional tax collection. This process could lead to a tax audit, if the response from taxpayer is considered unsatisfactory.
- Follow-up on Voluntary Disclosure will be carried out by the ITA in the form of supervision of taxpayers.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Implementing regulations of the Law on Harmonization of Tax Regulations (HPP)
- Digital service tax/Pillar One implementation
- Government regulations, with approval from Parliament, to govern types of goods subjected to excise
- Further guidance or progress on the implementation of Pillar Two in Indonesia

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☒	☐	☒
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Related-party transactions	Having transactions with related parties, especially with affiliated parties domiciled in countries that have an effective tax rate that is lower than the effective tax rate in Indonesia
2	Intra-group transaction	Having an internal affiliate transaction (intra-group transaction) with a transaction value of more than 50% of the total transaction value
3	Affiliate transaction within groups that have carry-forward losses	Having domestic affiliate transactions with members of business groups that have losses from prior years that can be compensated to the current and subsequent fiscal years
4	Disallowance of deductions	Lack of clearance on nature of supporting document that will have to be made available to lead to subjective approach done by the ITA in pushing significant burden to taxpayer to prove substance on provision of the service, especially for related-party transactions
5	SP2DK	Authorities performing initial analysis on tax filings and seeking to identify potential additional tax collection, suggesting the taxpayer makes additional payments; taxpayer to be given chance to respond — based on that response, the ITA to decide whether tax audit will proceed


Holy place, Iraq

Iraq

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This information is current as of 14 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	15% and 35% (only oil and gas)	15% and 35% (only oil and gas)	–
Personal income tax – top rate	3%-15%	3%-15%	–
VAT, GST or sales tax – standard rate	No VAT/GST	No VAT/GST	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- No major tax policy changes are foreseen in Iraq for FY23.
- The current tax law is from 1982 and has only been marginally updated since that date.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Iraq

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- N/A

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- N/A

VAT/GST or sales taxes

- N/A

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- N/A

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None.

2.6 Political landscape in your jurisdiction

- Organizationally, the tax authority falls under the Ministry of Finance
- No permanent Finance Minister or General Director of Tax Authority due to regular elections, affecting the tax administration and political landscape

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- None.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Collect as much tax as possible, given Iraq budget deficit.
- Financial results are often rejected, and a deemed profits/tax assessment method is followed to collect higher taxes.
- Focus on the oil and gas industry, arguing that companies operating in this space generate the highest profits; and therefore, tax enforcement and collection should also be high.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Mandatory tax assessments or audits every year for every tax filing
- Deemed profits/taxation method
- High scrutiny on subcontractors cost to enforce and collect more taxes, if withholding tax is not already applied

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Capital gains**	Inconsistent application of capital gains tax in general and the appropriate rate of tax in particular
2	**Disallowance of deductions**	Inconsistent application of accepting deductible expenses for CIT purposes
3	**Tax refunds**	No tax refunds currently being processed by the Iraqi tax authority
4	**Tax assessment method**	Deemed profit margin/tax method followed for CIT and PIT purposes, resulting in higher tax liabilities along with penalties and interest
5	**Withholding tax**	Higher scrutiny on WHT application with respect to payments made to subcontractors and service providers

Ha'penny Bridge in Dublin

Ireland

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

This information is current as of 18 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25% for passive income 12.5% for trading income	25% for passive income 12.5% for trading income	–
Personal income tax – top rate	40% marginal tax rate 20% standard tax rate Universal Social Charge rates from 0.5% to 11% depending on wage band and whether self-employed. 4% Employee Pay-Related Social Insurance%	40% marginal tax rate 20% standard tax rate Universal Social Charge rates from 0.5% to 11% depending on wage band and whether self-employed. 4% Employee Pay-Related Social Insurance	–
VAT, GST or sales tax – standard rate	23% VAT standard rate 13.5% VAT reduced rate	23% VAT standard rate 13.5% VAT reduced rate	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Increase in income tax bands and tax credits for individuals in an effort to offset the cost-of-living crisis
- Introduction of several measures to offset the cost of housing, including a rent credit, increase in deductible pre-letting expenses and a vacant homes tax
- Increase in carbon tax and to apply to all fuels from 1 May 2023 to disincentivize the use of fossil fuels and help Ireland meet C02 emissions targets
- Continuation of a number of reliefs to support the SME sector, such as Foreign Earnings Deduction, Key Employee Engagement Programme and Special Assignee Relief Programme
- Implementation of two-pillar solution to address digitalization as part of international tax reform and consideration of options toward a territorial system of taxation
  - Pillar Two implementation expected for 2024 and the territorial system after that

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Ireland

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No big changes in the corporate income tax regime are expected in Ireland.
- The trading rate is to remain at 12.5% and the passive rate at 25%.
- The Minister for Finance reiterated that Ireland is committed to the Two Pillar Agreement to address the tax challenges arising from digitalization. Work will be ongoing in 2023 to develop the framework that will give effect to the Pillar Two minimum effective tax rate.
- The consideration of Ireland moving to a territorial system of taxation will also continue in 2023.
- Ireland's R&D tax credit scheme was amended commencing 1 January 2023 to align with international tax developments. The scheme has been changed to a new fixed three-year payment system. A company will have the option to call for a payment of their eligible R&D tax credit or to request for it to be offset against other tax liabilities and the previous cap on the payable element is being removed.
- Ireland's Knowledge Development Box (KDB) scheme was extended to allow the relief to be available for accounting periods commencing before 1 January 2027. The KDB will be impacted by international tax reform and specifically the Subject to Tax Rate, which is part of the Pillar Two agreement. The effective rate will increase from 6.25% to 10% and will commence by Ministerial Order expected in 2023.
- Ireland's Film Relief has been extended to 31 December 2028, and the Minister for Finance signaled relief may have to change to be competitive.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Ireland does not have specific taxes for digital activity and the taxation of same would fall within the general taxation scheme in Ireland.

VAT/GST or sales taxes

- Expected to be largely consistent with prior years with the exception of some targeted measures
- Application of zero rate (from 9%) on newspapers and news periodicals from 1 January 2023
- Application of zero rate (from 23%) on automatic external defibrillators from 1 January 2023
- Extension of 9% VAT rate (from 23%) for gas and electricity until 28 February 2023
- Application of zero rate on non-oral hormone replacement and nicotine replacement therapies due to a change in the VAT Directive from 1 January 2023

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- An increase of EUR3,200 in the standard 20% rate cut off point for all earners
- Single, widowed or surviving civil partner from EUR36,800 to EUR40,000
- Married couples or civil partners (one income) from EUR45,800 to EUR49,000
- Married couples or civil partners (two incomes) from EUR73,600 to EUR80,000 (with a max increase of EUR31,000)
- A EUR75 increase in the personal tax credit from EUR1,770 to EUR1,775
- A EUR75 increase in the employee tax credit from EUR1,770 to EUR1,775
- A EUR75 increase in the earned income credit from EUR1,700 to EUR1,775
- A EUR100 increase in the home carer tax credit from EUR1,600 to EUR1,700
- Universal Social Charge (USC) 2% rate band extended by EUR1,625 from EUR21,295 to EUR22,920 (in acknowledgement of the announced 80 cent increase in the minimum wage to EUR11.30 per hour)
- Rental tax credit (principal private residence) of EUR500 to apply from 1 January 2023 for those who do not get any other housing supports
- Special Assignee Relief Programme (SARP) extended to 31 December 2025; minimum income threshold to qualify increased from EUR75k to EUR100k from 1 January 2023 for new scheme entrants
- Key Employee Engagement Programme (KEEP) extended to 31 December 2025 with an increase in the lifetime limit for KEEP shares increased from EUR3m to EUR6m from 1 January 2023
- Foreign Earnings Deduction (FED) extended to 31 December 2025
- Small Benefit Exemption increased from EUR500 to EUR1,000 with a max of two vouchers in a single year applies from 28 September 2022
- Further analysis to be carried out in 2023 on whether to introduce a third rate of income tax, possibly to be introduced in 2024

Windfall taxes *(please specify broad or sector specific)*

- No windfall taxes are expected in 2023.
- Ireland aims to be part of the EU response to high energy prices. If this is not possible, the Minister for Finance states commitment to bringing forward measures.

Taxes related to climate change or sustainability

- Ireland's carbon tax rate will increase from the current rate of EUR41 to EUR48.50 per ton of CO_2.
- This will apply to all fuels from 1 May 2023 (previously just auto fuel).
- The revenue raised will be ringfenced for expenditure on the Just Transition, fuel poverty prevention and funding to encourage greener and more sustainable farming.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Ireland's bank levy was extended to the end of 2023 with the long-term future of the levy to be assessed following the publication of the Retail Banking Review report.
- A review of Ireland's securitization legislation will commence with a working group established to consider the taxation of funds, life assurance policies and other investment products.
- A new vacant home's tax will be introduced and apply to residential properties.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There are no updates in this area.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The global slowdown is being felt in Ireland primarily in the technology sector and is expected to have an impact of receipts of corporation tax and employment taxes.
- The slowdown should not have any impact on the adoption of the OECD Pillar Two approach at the Irish level, who will most likely implement in 2024.
- The COVID-19 pandemic had a relatively limited impact on tax receipts taken in by the Irish Exchequer, with receipts coming in over budget over the last number of years. However, as bumper corporation tax receipts were collected from a limited number of multinationals operating in Ireland it is feared those receipts may be transitory.

2.6 Political landscape in your jurisdiction

- Three political parties (Fianna Fail, Fianna Gael and the Green Party) formed a coalition government after the general election held on 8 February 2020.
- There is no indication at this point that the coalition government will not serve for the full five-year term. As such, there should be no election in 2023.
- The government has stated that it is committed to implementing the OECD BEPS Pillar Two plan and this is expected to happen in 2024.
- The government has also stated that it is examining the introduction of a territorial system of taxation.
- Ireland's 12.5% rate is to remain in place for Irish trading corporates that are not impacted by the proposed minimum 15% tax rate due to having turnover under the EUR750m group cap.
- Ireland is expected to apply a top-up tax to bring the Irish effective rate to 15% for corporates impacted by the Pillar Two rules.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Ireland signed up to the OECD/G20 Inclusive Framework agreement to reform the international tax framework as it applies to large corporates in October 2022.
- Ireland launched a public consultation seeking stakeholders' views on the implementation of the new rules in the period from 26 May 2022 to 22 July 2022, and the responses were published on the 9 December 2022.
- Ireland states commitment to implementing the new rules and proposes a top-up tax in Ireland to bring the effective rate to 15% for the jurisdiction.
- The new rules are expected to be included in Budget 2023 or Finance Bill for implementation in 2024.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Interest limitation rules for accounting periods starting on or after 1 December 2022 were introduced.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Tax transparency rules for digital platforms (DAC7). The new rules introduce a reporting obligation for digital platforms located both inside and outside the EU and an automatic exchange of information between Member States' tax administrations on revenues generated by sellers on these platforms. The commencement order was signed on 20 December 2022, enabling these new rules to come into effect on 1 January 2023.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Irish Revenue issued a New Code of Practice for Compliance Interventions (New Code) that became effective from 1 May 2022.
- The New Code adopts a risk-based approach to compliance interventions and has three intervention levels.
- Level 1 interventions have the stated aim of supporting tax compliance, and activity under this intervention level includes request for self-reviews, profile interviews, bulk issue non-filer reminders and cooperative compliance framework engagements.
- Level 2 interventions have the stated aim of challenging noncompliance and involve risk reviews and the familiar revenue audit.
- Level 3 interventions have the stated aim of tackling high-risk cases and involve a formal investigation.
- As one would expect, there are increasing tax-geared penalties that can apply at each intervention level, and the level of disruption for the business is higher at each intervention level.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Irish Revenue's Annual Reports provide statistics on the level of compliance interventions conducted by the tax authority. Irish Revenue's most recent published annual report notes that 2021 was "the biggest annual compliance yield recorded to date."
- As part of 2022's annual budget it was announced that Irish Revenue would conduct a range of targeted projects in 2023 that will include pay-as-you-earn (PAYE) compliance interventions involving a focus on share schemes.
- The accompanying documents to the budget speech explained that these interventions were expected to yield EUR80 million in additional exchequer receipts.
- Irish Revenue have been increasing resources and capabilities in recent years, and as a result, an increase in Level 1 and Level 2 interventions is expected in 2023. These interventions can cause significant disruption for businesses.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Employment taxes	Irish Revenue have stated that they will increase the number of employment tax interventions in 2023 with a specific focus on share schemes.
2	Corporation tax	Irish Revenue have focused on areas such as group relief claims, interest relief and general review of the corporation tax filing position taken by companies. Irish Revenue appear to have focused on groups that had undertaken a restructuring as a reason to issue the intervention letters. We would expect to see similar activity in 2023.
3	Transfer pricing	Irish Revenue have been building out their transfer pricing capabilities over a number of years and it is expected to be a continued area of focus for 2023.
4	R&D tax credits	Irish Revenue are expected to continue their focus on this area as there are increased entitlements to payments from Irish Revenue in 2023.
5	VAT refunds	There has been a significant increase in the number of Irish Revenue queries, which issue following submission of VAT returns that reflect a VAT repayable position, and this is expected to continue in 2023.
6	COVID-19 supports	Increased investigation to confirm whether companies (and unincorporated employers) who claimed COVID-19 payroll supports, such as the Temporary Wage Subsidy Scheme (TWSS) and the Employment Wage Subsidy Scheme (EWSS), were actually eligible to claim support.

Jerusalem Old City at Night, Israel

Israel

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This information is current as of 17 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	23%	23%	–
Personal income tax – top rate	Up to 50% (including 3% surplus tax)	Up to 50% (including 3% surplus tax)	–
VAT, GST or sales tax – standard rate	17%	17%	–

- The current Israeli government is anticipated to attempt to attract multinational corporations to centralize their operation in Israel. In 2017, Israel enacted a preferred tax regime for technological enterprises, which centralize their IP and R&D in Israel. This tax regime is a BEPS-compatible tax regime.
- The Israeli government is in the process of adapting OECD BEPS recommendations in the various fields. For example, Israel has signed the MLI.
- The Israeli government is expected to address the "brain drain problem" to attract former Israelis who left the jurisdiction to come back to Israel.
- The Israeli government is aiming to circumvent the use of "black money," including the prevention of money laundering and tax evasion.

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- On 1 November 2022, elections were held in Israel and on 13 November 2022, former Israeli Prime Minister Benjamin Netanyahu received an official mandate to form a new government. To date, we cannot predict what will be the future government tax policy.
- Israeli governments usually tend to legislate laws that attract multinational corporations to centralize their R&D operations in Israel. For example, in 2017, Israel enacted a preferred tax regime for technological enterprises, which centralize their IP and R&D in Israel. To date, this tax regime is BEPS-compatible.
- Israeli governments usually tend to adapt BEPS recommendations in the various fields. For example, Israel has signed the MLI, as well as enacted legislation to align its transfer pricing rules with BEPS Action 13 requirements (local file, master file, and country-by-country reporting).
- Israeli governments usually address the "brain drain problem" to attract former Israelis who left the jurisdiction to come back to Israel.
- Israeli governments usually aim to circumvent the use of "black money," including the prevention of money laundering and tax evasion.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 **The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below** ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Israel

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 **The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below** ☐ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 **The scope and timeline of the suggested changes are yet to be clear at this stage. See section 2.4 below** ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The Israeli Tax Authority (ITA) has finalized an international tax reform package. There is no clarity on the timeline for the legislation of the proposals made within this package.

  The main proposals refer to the following international tax aspects:

  - Foreign tax credit rules
  - CFC rules
  - Anti-hybrid rules
  - "Exit" tax
  - Tax residency of individuals
  - MDR
  - Other reporting requirements
- We are also aware of suggested legislation that seeks to increase the attractiveness of the Israeli tech industry. There is a possibility that such will enter into force in the course of 2023, but, at this stage, there is no clarity as to the timeline of such a proposal.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- We are aware of the fact that the ITA is willing to tax multinational corporations' digital activities in Israel. In 2016, the ITA published a tax circular that addressed the Israeli taxation of nonresident companies selling goods or providing services through the Internet to Israeli customers. The circular covered the corporate income tax liability as well as the VAT liability of these digital companies. The circular represented the ITA's interpretation of the law and has no legal binding effect for the courts.

VAT/GST or sales taxes

- No significant developments are expected.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- No significant developments are expected.

Windfall taxes ***(please specify broad or sector specific)***

- No significant developments are expected.

Taxes related to climate change or sustainability

- No significant developments are expected.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- No significant developments are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The ITA may notify cryptocurrency owners to disclose their holdings for taxation purposes.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No significant developments are expected.

2.6 Political landscape in your jurisdiction

- As previously mentioned, on 1 November 2022, elections were held in Israel and on 13 November 2022, former Israeli Prime Minister Benjamin Netanyahu received an official mandate to form a new government. To date, we cannot predict what will be the future government tax policy.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- No major changes occurred.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Israel has enacted legislation to align its transfer pricing rules with BEPS Action 13 requirements (local file, master file, and country-by-country reporting).

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- In each tax year, the ITA publishes a list of additional reportable transactions, on which every taxpayer is required to declare. To date, the list for 2022 has yet to be published.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax assessors usually conduct professional discussions during tax audits. In certain cases, they can use their authority to levy a deficit fine on taxpayers and, in some other extreme cases, even imply potential sanctions.
- In 2021, the first unified tax office was established in Ra'anana city; it allows their tax officers to conduct tax audits that combine between CIT and VAT aspects.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- In order to collect more taxes from corporate taxpayers, it appears that the tax officers will make efforts to involve more representatives from the ITA professional departments during the tax audits (such as Transfer Pricing specialists, etc.).
- In light of the establishment of the Ra'anana tax office, we expect that in the upcoming year more tax audits will combine CIT and VAT aspects.
- We are observing an increase in the number of cases in which the ITA imposes a deficit fine on companies.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Incentives – tax benefits	Tax officers usually focus on examining the preferred tax status of corporate taxpayers, where relevant.
2	Employee-related expenses	The ITA claims that a portion of certain items (such as company's events, travel expenses, meals, gifts, etc.) is spent for the benefit of the employees themselves and, therefore, should have been included as in-kind benefits as part of the employees' salary.
3	Transfer pricing: IP-related issues	The ITA often challenges taxpayers with respect to their chosen transfer pricing methodology, and subsequently, Israeli companies performing important development functions under a cost-plus arrangement are at risk of being assessed a greater return based on the value of their contributions.
4	Intellectual property	Exposures from post-acquisition IP migrations – almost any post-acquisition restructuring that involves a change to the existing IP or business model is reviewed by the ITA with specific focus on capital gains and IP valuation.
5	Employee equity compensation	Tax officers tend to challenge the applicability of tax benefits available under section 102 of the Israeli Tax Ordinance.

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

This information is current as of 30 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	24% (except for banks and other financial entities subject to higher 3,5% tax rates)	24% (except for banks and other financial entities subject to higher 3,5% tax rates)	–
Personal income tax – top rate	43%, depending on the amount of income declared At local level, a surcharge is levied; the rate ranges between 0.7%-4.23%, depending on (i) the municipality and region where the taxpayer is resident and (ii) the amount of income.	43%, depending on the amount of income declared At local level, a surcharge is levied; the rate ranges between 0.7%-4.23%, depending on (i) the municipality and region where the taxpayer is resident and (ii) the amount of income.	–
VAT, GST or sales tax – standard rate	22% (standard VAT rate)	22% (standard VAT rate)	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Confirmation of the windfall tax on energy companies
- Extension of tax measures (mainly tax credits) aimed at supporting families and enterprises (especially energy-intensive enterprises) hit by increasing energy costs
- Introduction of stimulus measures aimed at increasing the country's economic growth, also through the funds of the National Recovery and Resilience Plan (NRRP)
- Reduction of tax measures aimed at supporting the requalification of real estate assets owned by individuals through allowance of tax credits on certain energy requalification expenses, so-called "Super Bonus"; starting from FY 2023, the tax credit will decrease from 110% to 90%
- Lower intensity of tax measures aimed at promoting and supporting the competitiveness of enterprises through tax credits for companies investing in R&D, digitalization, design and high-tech assets
- Reduction of tax pressure on self-employed income, through extension of the 15% flat tax on professional income

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Italy

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base Note: deferral of Sugar Tax and Plastic Tax	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Reduction of tax measures aimed at supporting the requalification of real estate assets owned by individuals through allowance of tax credits on certain energy requalification expenses, so-called "Super Bonus"; starting from FY 2023, the tax credit will decrease from 110% to 90%
- Lower intensity of tax measures aimed at promoting and supporting the competitiveness of enterprises through tax credits for companies investing in R&D, digitalization, design and high-tech assets. The R&D tax credit will decrease from 15% in 2022 to 10% in 2023, while tax credit for the purchase of high-tech assets will decrease from 40% in 2022 (maximum rate) to 20% in 2023 (maximum rate).
- Introduction of limitations in deductions of costs incurred with persons resident in prohibited-list jurisdictions
- Possibility to apply a transition tax on undistributed profits from low-tax subsidiaries; a new rule provides for a 9% transition tax (30% for individual entrepreneurs) computed on qualifying undistributed earnings, payment of which would make the relevant earnings be treated as if they had been repatriated (i.e., they will not be taxed upon actual collection)
- Nonresident's capital gains on indirect transfers of Italian real estate; under current rules, Italy taxes foreign entities only on capital gains derived from a direct sale of Italian immovable property or from a direct sale of stock in Italian companies (irrespective of being land-rich or not). Starting from FY 2023 a new rule is enacted, which reflects paragraph 4 of Article 13 of the OECD Commentary, introducing capital gain taxation also in the case of indirect transfers of Italian property. Therefore, taxation would apply to gains derived from the sale of a foreign company owning (directly or indirectly) Italian real estate or from the sale of a foreign entity owning (directly or indirectly) a participation in an Italian company with local immovable assets. In both circumstances, Italian capital gain tax (26%) would be triggered if: (i) the foreign entity is transferred in exchange for consideration; and (ii) its value is represented (directly or indirectly) by more than 50% by Italian real estate; (iii) at any time during the 365 days preceding the sale. Such treatment will also apply to gains derived from minority shareholdings. However, a general exclusion from the new rule applies for gains derived from the sale of participations listed in regulated markets
- A further provision contained in the 2023 Budget Law concerning the possibility for taxpayers to settle tax controversies pending before tax courts at any stage of proceedings. As a general rule, the new provision allows the taxpayer to settle pending disputes by paying the amount of disputed tax without penalty; furthermore, in case the taxpayer has obtained a favorable decision before first-tier tax court, the amount to be paid will be further reduced to 40% of the value of the dispute; if the taxpayer has been successful before the second-tier tax court, the amount due will equal to 15% of the value of the dispute. Finally, if the taxpayer obtained favorable decision by both first-tier and second-tier tax courts, the amount to settle the dispute will be reduced to 5% of the value of the dispute.
- Step-up of Italian participations held by nonresident entities
- Exemption for investment management activities included

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

The 2020 Budget Law introduced a tax applicable to the provision of digital services (Italian Digital Services Tax) effective as of 1 January 2020. No changes are proposed in the context of The 2023 Budget Law.

The Italian DST is a 3% charge to be applied to the revenues resulting from the provision of the following services:

- Placement on a digital interface of advertising targeted at users of that interface
- Making available to users of a multi-sided digital interface that allows the users to find other users and to interact with them, and which may also facilitate the provision of underlying supplies of goods or services directly between users
- Transmission of data collected about users and generated from users' activities on digital interfaces

Taxable persons would be entities — either Italian or foreign, and either stand-alone or at group level — meeting both of the following conditions:

- The total amount of worldwide revenues for the relevant financial year is at least EUR750 million.
- The total amount of taxable revenues (i.e., those derived from the above digital services) obtained within the Italian territory during the relevant financial year is at least EUR5.5 million.

- A set of specific exclusions are set forth.

VAT/GST or sales taxes

- No significant changes in VAT or sales taxes expected in 2023; 2023 Budget Law to introduce a reduced 5% rate on certain children's products and sanitary pads

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- 2023 Budget Law extends the existing 15% flat tax on professional income to individuals with revenues up to EUR85,000. The inheritance tax rates and taxable base will remain unchanged.

Windfall taxes ***(please specify broad or sector specific)***

- 2023 Budget Law contains an extraordinary new levy, intended as a "solidarity surcharge," only for the year 2023 applying to entities that produce, import, sell electricity, natural gas, and oil products (in the case of oil products, distributors are also subject to such tax).
- The levy applies at a rate of 50% on the portion of the corporate income computed for FY 2022 that exceeds by at least 10% the average income for the four years prior to FY 2022 (if such average is negative, the basis is assumed to be zero). The special contribution cannot in any case exceed 25% of the value of the shareholders' equity on 31 December 2021 (in the case of calendar-year entities).
- The new 50% windfall tax should be paid by 30 June 2023 for companies with a calendar year and is not deductible from the corporate income tax and local tax bases.

- The contribution should not be due by businesses organizing and managing platforms for the exchange of electricity, gas, environmental certificates, and fuel.
- This levy should replace the previous extraordinary tax applied in 2022 and equal to 25% of any positive difference of the VAT balance of active and passive transactions related to the period 1 October 2021 to 30 April 2022 compared to period 1 October 2020 to 30 April 2021.

Taxes related to climate change or sustainability

- The 2020 Budget Law had introduced a plastic tax as a new "green" measure, originally applicable starting from 1 July 2020. The application of the new tax had been postponed to 1 July 2021, then to 1 January 2022 and finally to 1 January 2023. The 2024 Budget Law postponed the entry in force of the plastic tax to 1 January 2024.
- The 2020 Budget Law introduced a "sugar tax" on the consumption of sweetened soft drinks prepared with the natural or synthetic addition of sweeteners exceeding specific quantities per liter depending on the type of product. The sugar tax was originally expected to enter in force starting from 1 October 2020, but the application has been postponed to 1 January 2022 and then to 1 January 2023. The 2023 Budget Law postponed the entry in force of sugar tax to 1 January 2024.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No change enacted.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- 2023 Budget Law imposes a 26% tax on profits larger than EUR2,000 made on cryptocurrency trading by individuals; taxpayers will have the option to step up the value of their digital asset holdings as of 1 January 2022 and pay a 14% substitute tax.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Italian government is employing several resources on tax measures aimed at supporting families and enterprises hit by increasing energy costs. It can be forecasted that this tax policy approach will continue through 2023.

2.6 Political landscape in your jurisdiction

- In October 2022, the government led by Giorgia Meloni and supported by a right-wing coalition was elected.
- The current government is expected to remain in place for five years.
- One of the priorities of the current government is a reduction of tax burden for individuals and small enterprises.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Italian government and tax authorities are following the European Union on the implementation of Pillar Two of BEPS 2.0.
- So far, no deviation or autonomous plan has been announced in Italy.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Introduction of stimulus measures aimed at increasing the country's economic growth, also through the funds of NRRP
- Reform of Italian tax controversy system and tax courts organization
- Multiple revisions of tax measures aimed at supporting the requalification of real estate (so-called "Super Bonus")
- Extension of tax measures aimed at promoting and supporting the competitiveness of enterprises through tax credits for companies investing in R&D, digitalization, design and high-tech assets
- Reduction of tax pressure on personal income

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Under the previous government, a comprehensive tax reform aimed at simplifying the complexity of the tax system and reducing income taxes was under discussion. The first module of the tax reform — concerning the modification of personal income tax brackets — was approved in the 2022 Budget Law, while a module concerning corporate taxation was not discussed. A tax reform is among the key elements of NRRP; thus it can be expected it will be proposed by the current government.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The approach to tax enforcement may vary depending on the tax office in charge for the taxpayer relationship.
- The approach in tax audit can become stronger, especially when the investigation is conducted by the Italian tax police.
- To improve the relationship between corporations and tax authorities, wider implementation of cooperative compliance regime, currently available only for taxpayers with a turnover over EUR1 billion or under specific circumstances, is being considered.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Implementation of stimulus measures through NRRP funds
- New audit aimed at challenging frauds in the tax credits (R&D, requalification works on real estate, etc.)
- Increase of tax audit activities especially on multinationals

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☒	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☒	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☒	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Incentives – tax credit on real estate requalification	Italian tax authorities are expected to focus on challenging frauds and tax evasion in tax credit on real estate requalification works.
2	Incentives – R&D and capital assets	Italian tax authorities frequently check the existence of the subjective and objective conditions for benefitting by R&D tax credit and other allowances on capital assets.
3	Transfer pricing	Tax audits frequently focus on intercompany transactions, especially in the following areas: ‣ Headquarter and management services transactions ‣ Intercompany financing transactions ‣ Royalties/licensing fees ‣ Limited-risk entity structure
4	COVID-19-related impacts and outcomes	Italian tax authorities frequently check the existence of the conditions for benefitting by stimulus measures introduced during the COVID-19 emergency.
5	Permanent establishment	The tax authorities frequently focus on determining the existence of a PE for multinationals.

Japan

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EY key contacts

Tax policy and controversy

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

This information is current as of 29 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	23.2% national corporate tax 10.3% local corporate tax 10.4% inhabitant tax 1.18% local business tax 2.6% local special corporate business tax	23.2% national corporate tax 10.3% local corporate tax 10.4% inhabitant tax 1.18% local business tax 2.6% local special corporate business tax	–
Personal income tax – top rate	45.945%	45.945%	–
VAT, GST or sales tax – standard rate	10%	10%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The expansion of the Nippon Individual Savings Account system for the investment of household money into securities market
- Capital gain exemption for reinvestment to startup companies
- 22.5% special income tax on individual income exceeding JPY330 million, to the extent this special income tax amount exceeds an ordinary income tax amount
- Global minimum national corporate tax and local corporate tax in line with the global Income Inclusion Rule
- Secure financial resources for strengthening defense capacity

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Japan

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- R&D tax incentives expanded, covering personnel expenses on hiring PhD holders.
- Open Innovation Enhancement tax incentives expanded.
- The global Income Inclusion Rule will be introduced.
- Exemption threshold for a special controlled foreign company subject to CFC rules will be lowered from 30% to 27%.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- No changes are currently expected.

VAT/GST or sales taxes

- When a business exempted from consumption tax becomes a business issuing qualified invoices, the consumption tax amount will be reduced to 20% of output consumption tax for three years.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- Expand the Nippon Individual Savings Account scheme where dividends and capital gains are tax-exempt.
- Capital gain tax exempted for reinvestment for startup companies when an investor founds a startup company or an angel investor makes a reinvestment to a startup company based on the capital gains of the first investment.
- If the amount of 22.5% income tax rate on individual income exceeding JPY 330 million exceeds an ordinary income tax amount, an exceeding amount is imposed as a special income tax.
- Gifts given seven years prior to inheritance will be subject to inheritance tax (currently three years).

Windfall taxes ***(please specify broad or sector specific)***

- No changes are currently expected.

Taxes related to climate change or sustainability

- National vehicle weight tax reductions for "eco cars" and the fuel efficiency portion of local vehicle tax will be kept up to the end of 2023. After 2023, the thresholds based on fuel efficient will be raised.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- No changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- When a company issues and keeps cryptocurrencies, the cryptocurrencies are no longer required to be reevaluated at the end of a business year.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- In order to secure defense budget, raise in corporate tax, individual income and tobacco taxes are proposed, but their implementation is proposed to be after 2024.

2.6 Political landscape in your jurisdiction

- Strengthening defense capacity and increasing the defense budget are proposed, but there are debates within the ruling party on how to finance the defense budget.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Global minimum corporate tax and local corporate tax in line with the Income Inclusion Rule will be introduced for a business year starting on 1 April 2024 or after.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The extension of housing mortgage tax credits (individual income tax)
- Corporate tax credits for a company increasing the salary of employees

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Increase in corporate tax, individual income tax and tobacco tax in order to secure the defense budget have been postponed until after 2024.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Volume of tax audits fully recovered after the COVID-19 pandemic
- Tax auditors to have prepared information analysis before visiting taxpayer
- Focus on international taxation issues
- Focus on consumption tax (including refund)
- Focus on non-filing cases

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- International taxation issues
- Consumption tax, including the introduction of the qualified invoice system
- Withholding tax to payments to nonresidents

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**CFC issues**	Missing entities subject to CFC rules
2	**Transfer pricing**	Royalties from overseas
3	**Withholding tax**	Payment to overseas entities
4	**Consumption tax**	Fictitious refund
5	**No filing**	Failed to file tax returns

Ancient Jerash ruins, Jordan

Jordan

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EY key contacts

Tax policy and controversy

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This information is current as of 14 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	35% on the banking sector 24% on financial, insurance and intermediary services sector Industrial sector: 18% 20% on all other sectors Additional national contribution tax is applicable (1%-7%)	35% on the banking sector 24% on financial, insurance and intermediary services sector Industrial sector: 18% 20% on all other sectors Additional national contribution tax is applicable (1%-7%)	–
Personal income tax – top rate	30% on amounts exceeding JOD1 million	30% on amounts exceeding JOD1 million	–
VAT, GST or sales tax – standard rate	16%	16%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Attracting foreign investments
- Government budget deficit
- Tax evasion
- Modernizing local laws
- Influence by international regulations

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Jordan

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
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11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- N/A

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- N/A

VAT/GST or sales taxes

- Proposed law currently being discussed and may be enforced in FY22/FY23

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Propositions on introduction of tax-exempt remuneration of employees for costs related to home offices

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None.

2.6 Political landscape in your jurisdiction

- The 2023 Jordan budget accelerates IMF-backed reforms to restore fiscal prudence.
- Challenging economic conditions in Jordan were exacerbated by the COVID-19 pandemic.
- Jordan's e-commerce sector continues to grow despite struggles in traditional sectors of the economy.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- None.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Efficient implementation and application of digital technology to support taxpayers with annual corporate and income tax filings and other relevant requests
- Introduction of new benefits to companies to encourage voluntary early tax filing and settlement

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Implementation of new TP rules

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Disallowance of deductions**	The Jordanian tax authority frequently disregards a portion of expenses during the tax audit.
2	**Treaty benefits**	The Jordanian tax authority may interpret the language of the DTTs differently and may refer to the domestic tax law instead.
3	**Tax refunds**	Tax refunds can only be processed after going through a tax audit, which may delay the payment of the refund.
4	**Carryforward of losses**	The carryforward of losses is governed by certain limits and an area of debate for certain industries, such as, renewable energy.


Astana, Kazakhstan

Kazakhstan

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This information is current as of January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	(a) 10% – for tax residents and nonresidents withheld from (i) employment income received under a local employment agreement; (ii) income received by the foreign personnel seconded to Kazakhstan; (iii) income received by the foreign individuals for work performed in Kazakhstan under a service agreement with nonresident company If monthly employment income does not exceed 25 times the monthly calculation index* (MCI) (approximately USD186 for 2023) then effectively PIT will be 1% of taxable income – applicable to the tax residents only. (b) 20% for tax nonresidents (nonemployees) on Kazakh source income	(a) 10% – for tax residents and nonresidents withheld from (i) employment income received under a local employment agreement; (ii) income received by the foreign personnel seconded to Kazakhstan; (iii) income received by the foreign individuals for work performed in Kazakhstan under a service agreement with nonresident company If monthly employment income does not exceed 25 times the monthly calculation index* (MCI) (approximately USD186 for 2023) then effectively PIT will be 1% of taxable income – applicable to the tax residents only. (b) 20% for tax nonresidents (nonemployees) on Kazakh source income	–

	2022	2023	% change
VAT, GST or sales tax – standard rate	12%	12%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Increase revenues and attract foreign investments to Kazakhstan
- Modification of current tax legislation
- Digitalization of tax administration in Kazakhstan
- Stimulating the development of important sectors of the economy
- Export and import regulation

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules

Kazakhstan

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Generally, corporate income tax rate is unchanged. Income recognition and deductions also remain the same, except for limitation of deductions for certain types of services (intangible) provided by nonresident affiliate of the taxpayer in Kazakhstan.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Digital mining tax rates increased.

VAT/GST or sales taxes

- VAT refund rules changed and became more intricate.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

The taxable amount of a tax resident individual may be reduced by 14 MCI, which is equal to KZT48,300 (approximately USD105) for 2023. If an employee's taxable income for a particular month is below 14 MCI, the unused part of the deduction may be carried over to later months in the year. This does not apply where an individual changes workplaces during a tax period, i.e., the individual may not offset an excess arising at the previous workplace against income earned at the new workplace.

Other deductions include the following:

- Compulsory pension fund contributions
- Compulsory employee social medical insurance contributions
- Voluntary pension fund contributions made by the individual for his or her own benefit or by a tax agent under Kazakh pension law
- Documented medical expenses within set limits
- Payments on mortgages with specific banks

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- For digital mining, tax rates are set depending on the price for 1 kilowatt-hour of consumed electrical energy.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The government stated intentions of attracting investments and stimulating local production. At the same time, the government plans to terminate ineffective tax incentives to increase tax payments to the budget.

2.6 Political landscape in your jurisdiction

- There are no significant changes in the political landscape.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- There were no major changes.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no major changes.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There are currently no known major proposals.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

Key components of tax enforcement include:

- The selection of taxpayers for tax audits is done with a risk-based approach.
- Certain categories of taxpayers are able to use simplified VAT refund procedures.
- Horizontal monitoring has been introduced.
- E-audits are expected to be introduced in 2023.
- Some tax rules include:
  - An administrative fine and late payment interest should not be assessed upon consideration of an appeal against tax assessment as a result of tax audit, where tax obligation was fulfilled by a taxpayer based on the tax authorities' written clarifications, which have subsequently been recalled, admitted as erroneous or re-issued.
  - Any ambiguities and outstanding issues in tax legislation should be interpreted in favor of the taxpayer in case of appeal.
  - The tax authorities should substantiate the arguments and disclose the circumstances that prove the fact of a tax violation.
- An Appellate Committee under the Ministry of Finance consisting of the representatives of several state bodies votes on tax cases in the pre-judicial stage of tax appeals, striving for a fair appeal consideration process with the participation of the representatives of the national business association and allowing minimization of a conflict of interest.
- Tax audits tend to use the full documentary coverage method and can be lengthy and burdensome, especially for large taxpayers.
- Significant administrative fines on tax assessments as a result of tax audits are possible.
- Significant late payment interest on additional tax assessments is possible.
- Criminal liability for a person responsible for tax filings (e.g., general director, chief accountant) for tax avoidance when certain criteria are met is possible.
- Court appeals can incur significant cost.
- Freezing bank accounts can be used as a measure to force tax collection.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The new Tax Code to appear in Kazakhstan from 2024
- New rules on VAT refund
- Application of withholding tax on dividends from Kazakhstan (previously available as a domestic tax exemption)

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☒	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	VAT refunds	Generally, VAT refund audits are conducted prior to refund upon the taxpayer filing the application for refund in the quarterly VAT return.
2	Transfer pricing	Kazakhstan transfer pricing legislation can differ from OECD Guidelines, with heavy reliance on certain specified price sources and documentary support. Tax assessments as a result of TP adjustments have been observed.
3	Invalid transactions qualifications	Tax authorities have made tax assessments as a result of certain transactions being qualified as invalid.
4	Ambiguities in tax law	Generally, Kazakhstan tax legislation contains ambiguities, which can contribute to the tax audit assessments.
5	Disallowance of deduction	Deductions for purchase of goods, works, services from suppliers absent at the place of registration, recognized as false enterprises or bankrupt or with registration recognized as invalid, can be challenged.


Eurasian Bank

Kuwait

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

This information is current as of 29 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	‣ Corporate income tax on foreign companies – 15% ‣ Zakat – 1% ‣ National labor support tax – 2.5% Kuwait Foundation for the Advancement of Science – 1%	‣ Corporate income tax on foreign companies – 15% ‣ Zakat – 1% ‣ National labor support tax – 2.5% Kuwait Foundation for the Advancement of Science – 1%	–
Personal income tax – top rate	Not applicable (no personal income tax in Kuwait)	Not applicable (no personal income tax in Kuwait)	–
VAT, GST or sales tax – standard rate	Not applicable (no VAT, GST, sales tax currently applicable in Kuwait)	Not applicable (no VAT, GST, sales tax currently applicable in Kuwait)	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

The key tax policy driver is the government's aim to increase tax revenue to fund increased expenditures.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules

Kuwait

Tax types	Likelihood of changes in 2023	Direction of change
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023 ☒ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The Kuwait tax authority (KTA) issued clarification on the application of Executive Rule No. 28 (ER 28) on the deductibility of subcontractor costs.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- The KTA adopts the concept of virtual PE if the contract lasts for a period of six months.
- There is no WHT in Kuwait; however, all transactions are subject to a 5% retention.

VAT/GST or sales taxes

- Not applicable as there is no VAT, GST or sales tax.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No significant developments are currently expected.

Windfall taxes *(please specify broad or sector specific)*

- No significant developments are currently expected.

Taxes related to climate change or sustainability

- No significant developments are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No significant developments are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant developments are currently expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No significant developments are currently expected.

2.6 Political landscape in your jurisdiction

- Kuwait is a constitutional monarchy (emirate) with a semi-democratic political system wherein the Council of Ministers are appointed by the Prime Minister and approved by the Emir of Kuwait.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No plans have been announced yet.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- None.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Tax inspection/scrutiny is at 100%.
- Tax inspection/scrutiny is documents-based.
- The KTA adjusts the revenue and expenses if it is not satisfied with the documents presented.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☒ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☐ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- No significant developments are currently expected.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☒	☐	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Treaty benefits**	Denial of tax treaty exemption on offshore scope of work based on interpretation of tax treaty is not always aligned with internationally accepted tax principles, e.g., virtual PE concept, tax exemption of offshore portion out of the share of results of joint venture.
2	**Carryforward of taxable results**	The KTA restricts the carryforward of taxable results in case of mismatch of revenue and costs only on the first year of operations in Kuwait.
3	**Disallowance of subcontract costs in excess of related revenue**	ER 28 restricts the deductibility of subcontract costs to the related revenue. If the subcontract cost is more than the related revenue, the KTA seeks to disallow the excess cost.
4	**Disallowance of costs**	The KTA disallows costs incurred outside Kuwait as well as expenses paid through cash, on a subjective basis.
5	**Noncompliance with 5% retention requirements**	In case of noncompliance with the 5% retention requirements, expenses are disallowed.

Lithuania

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Tax policy and controversy

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

This information is current as of 10 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	15%	15%	–
Personal income tax – top rate	32%	32%	–
VAT, GST or sales tax – standard rate	VAT – 21%	VAT – 21%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Global energy crisis
- Combating "shadow economy;" focus on VAT gap reduction
- Policy of social justice and implementation of the welfare state policy
- Simplification of Lithuanian tax system
- European Green Deal

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
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5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Lithuania

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
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Tax types	Likelihood of changes in 2023	Direction of change
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14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
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17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No significant developments are expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No significant developments are expected.

VAT/GST or sales taxes

- Application of the reduced 9% VAT rate on hotel and accommodation services and attendance at all types of artistic and cultural institutions, artistic and cultural events is extended indefinitely.
- Application of the reduced 9% VAT rate on catering services and take-away meals provided by restaurants, cafes and similar catering establishments, with the exception for alcoholic beverages, is extended until 31 December 2023.
- Application of the reduced 9% VAT rate on performance services provided by performers and attendance at sports events, sports clubs and visiting other persons providing services similar to those provided by sports clubs is extended until 30 July 2023.
- Additional VAT benefit and rate of 9% applies to electronic books and periodicals, but the provisions of this point do not apply to publications in which advertising accounts for more than 4/5 of the total publication or in which all or most of the music or video content is composed.
- Additional VAT benefit of 5% to food products for special medical purposes applies, when the costs of purchasing these goods are fully or partially reimbursed in accordance with the procedure established by the Law on Health Insurance of the Republic of Lithuania.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- From 1 January 2023, tax-free income is set at EUR625 for persons (except persons with limited working capacity) whose monthly income related to the employment relationship does not exceed EUR840 (annual tax-free amount — EUR7,500). In 2022, it was EUR540 and EUR6,480 respectively.
- For persons (except persons with limited working capacity) whose monthly income related to the employment relationship exceeds EUR840 but does not exceed EUR1,926 (2022 — EUR1,704), the tax-free income amount will be calculated according to this formula: monthly tax-free income = 625 — 0.42 × (monthly income related to employment relationships — EUR840).
- The approved size of average monthly salary (AMS) for 2023 is EUR1,684.90 (2022 — EUR1504.1). AMS in Lithuania is used to calculate social security contribution base and PIT tax brackets. For 2023, 20% PIT rate applies for total annual employment income amount, not exceeding the threshold of 60 AMS, i.e., EUR101,094 (2022 — EUR90,246). A 32% PIT rate applies on employment related income exceeding the threshold of 60 AMS.

Windfall taxes *(please specify broad or sector specific)*

- Taxable profits of banks and other credit institutions exceeding EUR2,000,000 are subject to an additional 5% profit tax on credit institutions (aggregate 20% tax rate) from 1 January 2020 onward. For credit institution profits less than EUR2,000,000 the usual 15% CIT is applied.
- The temporary solidarity contribution applies to union companies and permanent establishments with activities in the crude petroleum, natural gas, coal and refinery sectors with the goal to mitigate exceptional price developments in the energy markets for Member States, consumers and companies.
- Temporary solidarity contribution will be calculated on taxable profits in the fiscal year 2023 and for their full duration, which are above a 20% increase of the average of the taxable profits in the four fiscal years. For the purpose of calculating the temporary solidarity contribution rate of 33% of the solidarity contribution base referred to in Article 15 of Regulation (EU) 2022/1854 shall be used from 1 January 2023.

Taxes related to climate change or sustainability

- From 1 July 2023, sellers and distributors of packaging are prohibited from distributing light and very light plastic shopping bags free of charge at the points of sale of goods or products, with the exception for very light plastic shopping bags for fresh meat and fresh fish products.
- From 1 January 2023, legal and natural VAT payers carrying out economic activities subject to VAT are allowed to deduct input or import VAT on the acquisition of M1 class electric vehicles, provided that the value of the M1 electric vehicle including VAT does not exceed EUR50,000.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Real estate tax law amendments are planned to be introduced in spring 2023 and start applying from 2026. The proposed universal tax would vary from 0.03% to 0.1% and would depend on the municipal real estate median value, tax rates set by the municipalities. The goal is to implement social justice and strengthen municipality budgets. Current real estate tax rate varies from 0.5% to 3% and is set by municipalities.
- From 1 January 2023, excise duty rates are increasing for alcohol and tobacco products including E-cigarette liquid.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Lithuanian tax authorities released guidance on how an individual must declare income received in cryptocurrencies. Tax liabilities arise when converting cryptocurrency into a common currency; exchanging one cryptocurrency for another; buying or paying for goods and services; receiving payment for work; providing cryptocurrency mining services, renting hardware for cloud mining services and selling cryptocurrency.
- Virtual currency operators are obliged to report to Lithuanian Financial Crime Investigation Service. As of 1 November 2022, amendments to the AML/CFT Law increased the authorized capital of service providers to EUR125,000, introduced

- operational links to Lithuania and increased the requirements for senior managers, who have to be permanent residents of Lithuania and represent only one company or group of companies.
- As of 1 February 2023, a list of persons operating as a virtual currency exchange operator and a depository virtual currency wallet operator will be published, thus bringing more transparency to the market for cryptocurrency service providers.
- The threshold for identification of customers in financial transactions is tightened, and customers are identified, when the amount of a single transaction equals or exceeds EUR700.
- Increased reporting requirements for crypto and digital assets service providers across the EU are expected in the future with DAC8 and Markets in Crypto-assets (MiCA).

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- In a potential global economic slowdown the money supply is likely to be reduced in order to manage inflation, and thus, exceptional tax revenues from previous periods would not be achieved in 2023. Therefore, the government would be more inclined to review the application of various tax reliefs, which are currently financed from post-COVID-19 surplus budget revenues.

2.6 Political landscape in your jurisdiction

- The last elections were in 2020, when the conservative-led majority formed the government that continues to operate steadily. The next parliamentary and presidential elections are in 2024.
- Lithuanian municipal elections will be held in 2023.
- Inflation control remains among the top priorities of the government.
- There are not any major changes expected in tax policy in 2023.
- It is likely that during 2023 the government will begin laying legal foundations for a major tax reform in 2024, which is highly anticipated by Lithuanian businesses.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No plans have been announced so far.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- From 1 November 2022, restrictions on legal and natural persons' cash payments exceeding EUR5,000 (or the amounts in foreign currency corresponding to this amount) are in place.
- No major tax policy changes.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Businesses in Lithuania are anticipating a major tax reform.
- From 1 October 2022, a reduction of interest rates on tax loans for business from 3.65% to 0.05% per annum was implemented in order to provide help to offset energy prices in highly affected sectors during the next quarter.
- If legal persons, affected by energy crisis, whose energy costs accounted for 10% or more of its total operating costs incurred in 2021, and in 2022 this share did not decrease, and if these legal persons are not conducting activities in sectors of electricity, gas, steam supply and air conditioning; finance and insurance; real estate operations; water supply and water waste management; public governance and defense or compulsory social security, they are eligible for tax aid measures.
- In short, tax aid measures are targeting the most energy intensive period of time for businesses from October 2022 to 30 April 2023 and consists of suspension or non-initiation of tax arrears, exemption from interest on tax arrears and legal persons are not considered to be indebted to the state and municipal budgets and funds if the tax gap occurred between 7 October 2022 and 30 April 2023.
- Lithuania is further digitalizing its tax system to reduce businesses' administrative burden, increase efficiency of the State Tax Inspectorate and to reduce the scale of shadow economy.
- From 1 January 2023, implementation of smart e-cash register subsystem (i.EKA) for taxpayers with revenues higher than EUR300,000 in 2021 starts, which is part of Lithuanian smart tax administration system (i.MAS) and is going to allow tax authorities to oversee taxpayers and fulfill tax obligations in real time.
- Taxpayer's tax data control using SAF-T, a subsystem of i.MAS, standardizes and automates the inconvenient way of submitting paper accounting data to the tax authority, reduces the administrative burden on taxpayers, reduces the scale of shadow economy and increases collection of taxes to the state budget.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Based on IMF and OECD recommendations, a department has been setup by State Tax Inspectorate to oversee the fulfillment of tax obligations of high net value individuals (HNVI). HNVI are current and former permanent residents of Lithuania who have more than EUR40,000,000 in assets and socioeconomic interests in Lithuania.
- Tax aid measures, which are targeting the most energy intensive time period for businesses from October 2022 to 30 April 2023.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	Various transactions are frequently audited: service fees, transfers of goods and financial transactions.
2	Reorganizations	Tax Authorities frequently challenge the tax neutrality of reorganizations performed. In addition, they challenge goodwill recognition and related amortization expense deductibility arising from the mergers performed.
3	Payment of dividends to foreign holding company	Tax Authorities frequently challenge payments of dividends to foreign holding companies and application of local exemption from WHT on the grounds of insufficient business substance in the foreign holding company.
4	Incentives (investment, R&D)	Tax Authorities frequently review and confirm eligibility of CIT incentives applied by businesses, mainly investment project incentives that result in a double deduction of acquisition cost of eligible assets acquired and R&D expenses which are straightforward triple deduction of R&D expenses.
5	CFC	Tax Authorities frequently challenge passive income received by Lithuanian tax residents from indirectly owned investments in financing companies established in Latvia and Estonia (no CIT until profits are distributed) or trading income received in companies with low business substance established in Latvia and Estonia.
6	Transactions of HNVI	Tax Authorities monitor transactions of HNVI in equity and debt securities, transactions with their owned companies, initiate tax investigations or audits, ask for support from foreign tax authorities, challenge tax exemptions applied using substance over principle and tax avoidance concept.

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

This information is current as of 28 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	24.94%[1]	24.94%	–
Personal income tax – top rate	The maximum income tax rate is 44.94% or 45.78%,[2] including the contribution of 7% or 9% to the employment fund.[3]	The maximum income tax rate is 44.94% or 45.78%, including the contribution of 7% or 9% to the employment fund.	–
VAT, GST or sales tax – standard rate	17%	16%[4]	-6%

[1] Article 174 of the law of 4 December 1967 on income tax, as amended. The rate consists of 17% of CIT with additional 7% of employment fund surcharge and 6.75% of municipal business tax (MBT) for companies located in Luxembourg City. Furthermore, CIT is levied at a reduced rate for taxable profits up to EUR200,000. The MBT rates range between 6.75% and 10.5% depending on the municipality.

[2] Article 118 of the law of 4 December 1967 on income tax.

[3] Article 6 of the law of 30 June 1976 on creation of an employment fund, as amended.

[4] As per the Law of 26 October 2022 on the implementation of a temporary VAT rate reduction, the standard rate of 17% as foreseen by Article 39 of the amended law of 12 February 1979 on VAT is reduced to 16% for the period from 1 January 2023 to 31 December 2023.

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The focus is on a responsible tax policy, while keeping high the sustainable investment policy in the field of energy transition and digitalization of the country.
- While the current economic situation does not allow major tax reforms, targeted tax measures and incentives are foreseen.
- In order to combat the increasing housing shortage in Luxembourg, a draft law reforming the land tax and introducing a tax on the mobilization of land and a tax on the non-occupation of housing has been transmitted to Parliament.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The government announced a modernization of the Investment Tax Credit to favor investments in the digital, energetic and ecological transition. The draft law is expected to be published in 2023 with effect as from tax year 2024.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Luxembourg states full support for the OECD's Two-Pillar Solution to address the tax challenges arising from the digitalization of the economy and has stated no intention to take any unilateral domestic measures.
- A draft law aimed at transposing DAC7 is currently pending before Parliament. DAC7 introduces a reporting obligation for digital platforms whether located inside or outside the EU and an automatic exchange of information between EU Member States' tax administrations on revenues generated by sellers on these platforms as of 1 January 2023.

VAT/GST or sales taxes

- Temporary reduction of all VAT rates by 1% (except for the super-reduced rate of 3%) for the period from 1 January 2023 to 31 December 2023
- Further VAT reductions:
  - From 17% to 8% (7% from 1 January 2023 to 31 December 2023) for the repair of household appliances
  - From 17% to 8% (7% from 1 January 2023 to 31 December 2023) for the sale, renting and repair of bikes and e-bikes
  - From 17% to 3% for photovoltaic installations

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Extension of the profit-sharing scheme under which employers are allowed to allocate profit-sharing bonuses, which, if certain conditions are met, benefit from a 50% tax exemption, to selected employees
- Adaptation of the expatriate tax regime (reduction of the level of salary to qualify)
- Increase of the deductible amount of expenses for children not living in the household and of the tax credit for single-parent families
- Restriction of the special real estate deduction
- Restriction of the accelerated depreciation of 4% for buildings or part of buildings used for rental housing

Windfall taxes *(please specify broad or sector specific)*

- Luxembourg states full support for the idea of a European price cap on gas imports and a tax on excess profits that energy producers would not have made without the current crisis. There has been no announcement as regards unilateral implementation of windfall taxes in Luxembourg.

Taxes related to climate change or sustainability

- In accordance with the provisions of Regulation (EU) 2018/1999 of 11 December 2018 on the Governance of the Energy Union and Climate Action, the Integrated National Energy and Climate Plan will be updated in 2023.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- The land tax will be reformed in order to remove inequalities in land tax matters and to create a new, more transparent and fairer model of land valuation.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- As stated by the Prime Minister in his speech on the State of the Nation in October 2022, the aim is to modernize the tax system and to make it fairer, especially through targeted tax reliefs that reach the middle class. However, as economic and, therefore, budgetary developments are currently very unpredictable, the government will wait for the next few months before deciding on the timing of further tax relief.

2.6 Political landscape in your jurisdiction

- The Luxembourg government is composed of three parties, being the DP (Liberal Democrats), LSAP (Labor Party) and Déi Gréng (Green Party).
- The next legislative elections are scheduled for October 2023.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No plans for action have been announced.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- N/A

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Increased tax enforcement measures and activities observed
- Growing number of tax audits
- Use of information received from foreign tax jurisdictions
- Additional resources at tax administration level to achieve tax enforcement

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- More frequent tax audits
- Developments at the international and European levels (taxation of digital economy, Anti-Tax Avoidance Directive 3 addressing abusive use of shell companies, etc.)

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3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	The focus of the tax authorities in 2023 will most likely continue to be on transfer pricing aspects.
2	VAT deduction methods	It is expected that tax authorities will continue to focus on VAT deduction methods (direct allocation vs. prorate method).
3	Deduction of expenses	It is anticipated that the tax authorities will have a closer look at the provisions disallowing deduction of payments or expenses (under interest limitation rules, anti-hybrid mismatch rules and legislation on transactions with countries on the EU list of noncooperative jurisdictions).
4	Permanent establishments	As it was already the case in the past, one can expect tax authorities to continue reinforcing controls on the existence or not of foreign permanent establishments of resident taxpayers.
5	Transparency/disclosure/MDR issues	It is expected that tax authorities will increasingly verify the compliance with general disclosure rules.

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

This information is current as of 8 February 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	33%	24%	-27% (For the year of assessment 2022, a one-off higher income tax rate of 33% will be imposed on chargeable income above RM100 million (approx. USD23 million), for non-micro, small and medium enterprise companies. Chargeable income of up to RM100 million will continue to be taxed at the prevailing corporate income tax rate of 24%.)
Personal income tax – top rate	30%	30%	–
VAT, GST or sales tax – standard rate	Sales tax – 5%, 10% or a specific rate for petroleum products, unless otherwise exempted Service tax – 6%, except for credit card services, which are subject to service tax of RM25 annually	Sales tax – 5%, 10% or a specific rate for petroleum products, unless otherwise exempted Service tax – 6%, except for credit card services, which are subject to service tax of RM25 annually	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

Generally, tax policy in Malaysia is driven by the current economic conditions of the country and its planned fiscal policies. We expect the policies to focus on strengthening recovery, building resilience and driving reforms.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Potential introduction of BEPS 2.0 Pillar Two proposals ahead of 2024

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- N/A

VAT/GST or sales taxes

- N/A

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- N/A

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Introduction of new incentives and/or extension or enhancement of existing incentives to support local small- and medium-enterprises and improving the country's economy

2.6 Political landscape in your jurisdiction

- The current government led by Datuk Seri Anwar Ibrahim was formed in 4Q 2022. Following the change in government, the 2023 Budget, which was initially announced on 7 October 2022, will be re-tabled on 24 February 2023. Changes to tax rules and policies are typically announced during the budget and laid out in the Finance Bill issued following the budget.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Malaysia is committed to supporting the BEPS 2.0 initiative. In the previous Budget 2023 announcement on 7 October 2022, it was indicated that Malaysia would adopt Pillar Two, including the qualified domestic minimum top-up tax (QDMTT) component of Pillar Two. The budget speech further indicated that a detailed study is being undertaken on the implementation of Pillar Two in Malaysia, with implementation targeted for 2024. No further details were given in the budget speech on whether both IIR and UTPR would be immediately adopted, and no draft legislation was released. The re-tabled budget on 24 February 2023 may include additional details.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The income tax exemption on foreign-sourced income (FSI) received in Malaysia by any person (other than a resident company carrying on the business of banking, insurance or sea or air transport) was removed for all Malaysian-resident taxpayers from 1 January 2022. Certain types of FSI of resident taxpayers will continue to be exempt from tax from 1 January 2022 to 31 December 2026, subject to conditions. For corporations, the conditional exemption only applies on dividend income.
- The use of a tax identification number was implemented from 1 January 2022. It will also be used for real property gains tax and stamp duty transaction purposes.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no developments in relation to public disclosure of tax information.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- In line with the 2022 Budget announcement, it was anticipated that sales tax on low-value goods (LVG) will be imposed on all goods with a sales value of RM500 or less, brought from outside Malaysia via land, sea or air into Malaysia. The imposition of sales tax on LVG was anticipated to be initially effective on 1 January 2023. However, this has been postponed to 1 April 2023.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax authorities continue to embark on various measures and task forces to enhance tax recovery and collections.
- There is a gradual shift in focus to tax transparency and good tax governance via the introduction of the tax corporate governance (TCG) framework. Taxpayers that participate in the TCG program may enjoy the following:
  - Reduced scrutiny (e.g., no or lesser tax audits will be conducted)
  - Expedited tax refunds
  - Appointment of a dedicated tax officer to expedite discussions on technical matters

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Removal of FSI exemption is expected.
- Malaysia is committed to supporting the OECD's BEPS 2.0 initiative. As there have been various global developments recently, further details may be included in the upcoming budget.

Malaysia

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☒	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Significant related-party transactions	Business taxpayers with significant related-party transactions as well as irregular profitability trend are likely to be selected for tax audit by the Internal Revenue Board (IRB).
2	Incentives	Adherence to conditions stipulated for the taxpayer to be eligible for the tax incentives granted by the Malaysian government. The IRB have been known to interpret the incentive conditions differently from taxpayers. Failure to meet incentive conditions can lead to tax incentives being revoked, potentially on a retrospective basis.
3	Taxability of income and deductibility of expenses, withholding tax compliance	Review of transactions (receipt/expense) are to assess the taxability of receipts (including the timing of taxability and capital vs. revenue assessments – the latter taxable, the former only taxable if related to real property or real property company shares) and deductibility of expenses. There is also a significant focus on withholding tax compliance, including on characterization of transactions.
4	Post-importation audit	The Royal Malaysian Customs Department (RMCD) has been stringent in conducting post importation audits. The areas of review involve: ▸ Underpayment of duty/tax for imported goods ▸ Incorrect Tariff Code (HS Code) applied upon declaration ▸ Noncompliance with the valuation method for imported goods ▸ Incorrect or incomplete documentations when applying an exemption facility ▸ Upward adjustment arising from a transfer pricing adjustment
5	Service tax audit on professional services providers	The RMCD is committed to conducting service tax audits on professional services service providers, i.e., persons registered under Group G, First Schedule of the Service Tax Regulations 2018.

Mexico

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Tax policy and controversy

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

This information is current as of 20 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	30%	30%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	16%	16%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- There is currently no intention to create new taxes or increase the rates of existing taxes.
- The tax incentives contained in the Federal Income Law remain unchanged.
- The withholding tax rate for interest paid by the financial system increased (0.08 % for 2022 and 0.15% for 2023).
- The federal government plans to continue with the strategy of strengthening tax revenues, which is why tax collection is expected to grow, as in the case of indirect taxes.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Mexico

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
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Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No changes are currently expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No changes are currently expected.

VAT/GST or sales taxes

- No changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are currently expected.

Windfall taxes *(please specify broad or sector specific)*

- No changes are currently expected.

Taxes related to climate change or sustainability

- No changes are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No changes are currently expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No changes are currently expected.

2.6 Political landscape in your jurisdiction

- Elections for executive and legislative branches will be held in 2024.
- Gubernatorial elections will be held in two states: Estado de Mexico and Coahuila.
- It will be the penultimate year of the President of the Mexican Republic.
- A decision is pending on whether the opposition coalition will be maintained.
- Change is expected in the budget and management of the electoral agency.
- Electoral reform is being discussed.
- Determination of the hegemonic party's presidential candidate could lead to possible fragmentation.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- At the end of 2021, the Mexican government approved the design and implementation of the Pillar One and Pillar Two projects to reform the international tax treatment of the digitalized economy and the creation of a global minimum tax, respectively. On 6 October 2022, the Mexican Senate ratified the Multilateral Instrument for the implementation of BEPS base erosion measures in tax treaties. This implies that its clauses would enter into force on 1 January 2023, which will have a significant impact on the application of the benefits of tax treaties as of this date.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

The guiding principles of the tax reform proposed by the Federal Executive:

- Administrative simplification
- Tax management and its strengthening through tools for proper tax compliance
- Collection efficiency to support public and social health programs (much derived from the COVID-19 pandemic)
- Facilitate voluntary compliance with tax obligations through regimes based on citizen trust
- Combat tax evasion and avoidance

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- As of 1 January 2022, the tax reform came into effect, which, among other amendments, added to the Federal Tax Code (CFF, for its acronym in Spanish) several provisions through which it imposed on legal entities, trustees, settlors or trustees, among others, the obligation to implement internal control procedures to obtain and keep information that allows identifying and verifying their controlling beneficiaries, such as their identity data, the percentage of participation in the capital of the legal entity, the relationship or chain of control of their controlling beneficiaries, as well as to keep such information available in case the tax authority requires it.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Tax Administration Service (SAT, for its acronym in Spanish) announced that its Fiscalization Program for 2023 is ready, although it has not been publicly disclosed.
- The tendency to audit strongly continues.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- It is the start of the new head administration for the SAT at the end of 2022.
- Extension in the imposition of fines and penalties, in certain matters such as transfer pricing, to the end of 2023.

Mexico

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Materiality (substance)**	The SAT checks that transactions have substance (seeking to avoid erosion of the tax base).
2	**Deduction's requirements**	The SAT reviews compliance with requirements for purposes of taking deductions.
3	**Transfer pricing**	There is a tendency to review not only margins, but also other aspects such as comparables.
4	**Withholding taxes**	The authority reviews that the withholding rate and formal requirements for the application of the treaty have been applied correctly.
5	**Transaction prohibited list taxpayer**	There is a tendency to check whether the audited taxpayer has transactions with taxpayers on the list established by article 69-B of Mexican Tax Code (prohibited list taxpayer).


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This information is current as of 1 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25.8%[1]	25.8%[1]	–
Personal income tax – top rate	49.5%[2]	49.5%[2]	–
VAT, GST or sales tax – standard rate	21%[3]	21%[3]	–

[1] Article 22 Dutch CIT Act. Taxable amount up to €395,000 is taxed against 15% in 2022; taxable amount up to €200,000 is taxed against 19% in 2023.

[2] Article 2.10 Dutch PIT Act. Applicable at a taxable income from €69,398 and up in 2022 and €73,031 and up in 2023.

[3] Article 9 Dutch VAT Act. Reduced VAT rate is 9% in 2022 and 2023.

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The fourth Rutte government presented the 2023 Tax Plan package to the House of Representatives on 20 September 2022. The Tax Package is mainly focused on restoring purchasing power (totaling over EUR17 billion) and restoring the taxability of income from savings and investments (Box 3). The government aims for more balance between tax burden on labor and tax on wealth, for simplification of the tax system and further greening. It is expected that companies, substantial interest-holders and high-net-worth individuals will pay more taxes in 2023 and further years.
- On 24 October 2022, an online consultation has been launched on a draft bill for the proposed Minimum Tax Rate Act 2024 (BEPS 2.0 Pillar Two agreement). The Netherlands is launching this technical consultation so that the Tax Rate Act can be introduced quickly once agreement has been reached at the European level.
- On 1 November 2022, the government presented a temporary solidarity levy for excess profits of the energy sector. With this levy, the government is implementing the European Union's Emergency Intervention Regulation on high energy prices. The solidarity contribution will be introduced with retrospective effect over the year 2022. For the years 2023 and 2024, the government will temporarily increase the cess in the Mining Act for gas producers with extraction in the Netherlands.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules

The Netherlands

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
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10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
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Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
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16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The low CIT rate will be increased to 19% (in 2022 15%). The headline CIT rate stays 25.8% and will be applicable to taxable profits in excess of EUR200,000 (in 2022, EUR395,000).
- The Dutch regime for fiscal investment institutions (FII; in Dutch: fiscale beleggingsinstelling) provides for a 0% CIT rate for operational profits and a full CIT exemption for capital gains, provided that certain requirements are met. On Budget Day 2022, the Dutch government announced that the Dutch FII regime will be revised per 1 January 2024. Based on the announced revision, Dutch FIIs may no longer directly invest in real estate as per 1 January 2024. This announced measure will apply to both Dutch real estate and real estate abroad. The announced measure intends to safeguard Dutch taxation on income from Dutch real estate (especially in the case of foreign investment funds). The abovementioned measure means that real estate FIIs will become subject to the regular Dutch CIT regime as per 1 January 2024.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- The Netherlands does not have any specific direct or indirect taxes or rules on digital activity.
- The Netherlands is in favor of international measures with regard to taxation of the digital economy and is expected to follow the OECD/EU policy in this respect.
- Proposal to implement EU directive on data exchange for digital platform economies (DAC7): In March 2022, a legislative proposal to implement the EU directive on data exchange for digital platform economies *(Wet implementatie EU-richtlijn gegevensuitwisseling digitale platformeconomie)* was sent to the Lower House of Parliament. The bill includes an obligation for digital platforms to provide information about their users (sellers) to the Dutch Revenue. The obligation applies to owners of websites that enable others to offer services and products through these websites. The Tax and Customs Administration may exchange the information provided with the tax authorities of other EU Member States. The legislation must be implemented by 31 December 2022 and applies from 1 January 2023.

VAT/GST or sales taxes

- For the supply and installation of solar panels on or near homes, the VAT rate goes to 0%.
- The supply of nitrous oxide-filled cartridges will be brought under the general VAT rate.
- The consumption tax on nonalcoholic beverages will be increased.
- The tobacco excise duty will be increased.
- The temporary reduction in petrol excise duty introduced on 1 April 2022 will be extended until 30 June 2023.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- The 2023 Tax Plan packages includes measures to reduce income tax and make work more financially rewarding. In 2023, the rate in the "new" first tax bracket (up to EUR73,031) will be reduced from 37.07% to 36.93%. The top rate will remain at 49.5%.
- The employment tax credit and the general tax credit will be increased.
- As of 1 January 2023, a large number of tax allowances will be scaled back.
- The self-employed person's allowance will be lowered in stages in order to reduce the tax differences between the self-employed and employees.
- As of 1 January 2023, the fiscal old-age reserve (FOR) can no longer be applied by self-employed persons. The amount of the FOR as of 31 December 2022 can be settled on the basis of the current rules.
- The personal income tax rate on substantial shareholding (box 2) stays 26.9% in 2023. In 2024, two rate brackets will be introduced: 24.5% for the first EUR67,000 income per taxpayer (EUR134,000 for tax partners) and 31% for the excess.
- The legislative proposal excessive borrowing from an own company (*Wet excessief lenen bij eigen vennootschap*) will be applicable as of 1 January 2023. The proposal regards the taxation of the debts of an individual business owner owed to the own company that are higher than EUR700,000 (excluding qualifying owner-occupied home debt).
- The tax allowance for savings and investments (box 3) will be raised from EUR50,650 to EUR57,000 per person. The tax rate will be 32% in 2023. A discussion to modify box 3 (as from 2026) is still ongoing.
- The government announced that rented real estate will be regarded as investment capital by default for the purposes of the business succession schemes, which means that these facilities do not apply to them. It is not known from which date this will be applicable.
- The periodic gift deduction is capped at EUR250,000 per household per year.
- The averaging scheme (*middelingsregeling*) is abolished. The last period that can be averaged is 2022 to 2024.
- A taxpayer with a substantial shareholding must take into account a customary salary for his or her work. The efficiency margin will be abolished as of 2023. This means that, on balance, a higher salary must be taken into account.
- The gift exemption for a private home (*jubelton*) of a maximum of EUR106,671 is reduced to EUR28,947 This effectively abolishes the gift exemption for a private home.
- As of January 1, 2023, the free space of the work-related costs scheme will be increased from 1.7% to 3% of the first EUR400,000 of the fiscal wage bill and 1.18% of the excess.

- Special tax benefits exist whereby qualifying expatriates can receive a reimbursement of costs of 30% of their salary (irrespective of actual costs incurred). It is proposed to cap the salary basis to which the 30% is applied to the so-called "WNT-norm" (EUR216,000 in 2022, adjusted annually) as from 2024. It is furthermore proposed to explicitly include in legislation that employers/employees can opt for either reimbursement of actual costs or the 30% facility on a year-by-year basis. Certain transition rules can apply for a period of two years.
- The maximum untaxed travel allowance as of 1 January 2023 is EUR0.21 (in 2022, EUR0.19) per kilometer.

Windfall taxes *(please specify broad or sector specific)*

- On 1 November 2022, the government presented a temporary solidarity levy for excess profits of the energy sector. With this levy, the government is implementing the European Union's Emergency Intervention Regulation on high energy prices. Part of this regulation is the mandatory introduction of a temporary solidarity contribution over the year 2022. This temporary solidarity contribution will apply to excess profits of companies with activities in crude oil, natural gas, coal and petroleum refining (fossil sector). The solidarity contribution will be introduced with retrospective effect over the year 2022. For the years 2023 and 2024, the government will temporarily increase the cess in the Mining Act for gas producers with extraction in the Netherlands.

Taxes related to climate change or sustainability

- For the supply and installation of solar panels on or near homes, the VAT rate goes to 0%.
- The air ticket tax for airport operators is going up. The current fare of EUR7.94 goes to EUR26.43 per departing passenger.
- The exempt emission space in the form of dispensation rights will be phased out at an accelerated pace in order to increase the additional CO2-reduction target of 4 Mton — above the target of 14.3 Mton — to be achieved by 2030.
- There will be additional taxation in the existing CO2-levy industry. It is a minimum price that will be levied on the part of the greenhouse gas, carbon dioxide and nitrous oxide emissions that currently for the CO2-levy is exempt.
- With the Coalition Agreement came the decoupling of the ODE and the Stimulation of Sustainable Energy Production (SDE++). Now that the proceeds are no longer used to finance this subsidy scheme, the government is starting to integrate the sustainable energy surcharge (Opslag Duurzame Energie (ODE)) into the energy tax.
- In anticipation of a possible entry into force of the EU Regulation introducing the Carbon Border Adjustment Mechanism (CBAM) as of 1 January 2023, the Environmental Management Act will be amended.
- The WBSO (the R&D remittance reduction) has been an effective tool to stimulate investment in R&D for more than 25 years. There are no changes to the WBSO for the coming year. The WBSO parameters in 2023 are the same as 2022.
- The budgets for the energy investment deduction (EIA) and the environmental investment deduction (MIA) will be structurally increased, respectively by EUR100 million and EUR50 million per year.
- There is a lot of subsidy available for entrepreneurs who continue to invest in sustainable energy. Think of the Stimulation of Sustainable Energy Production and Climate Transition (SDE++), the Demonstration Energy and Climate Innovation (DEI+), the Accelerated Climate Investments Industry (VEKI), the Top Sector Energy (TSE), and energy and environmental investment deduction (EIA, MIA). These will remain as relevant as ever in 2023.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- The landlord levy (*verhuurderheffing*) will be abolished with effect from 1 January 2023.
- For real estate other than homes for own use (main residence), a general rate applies at the time of acquisition. The general transfer tax rate will be increased from 8% to 10.4%.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Not applicable/no relevant developments

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Economic and tax measures in light of the COVID-19 and/or energy crises will be introduced or continued.
- The government introduced for example in March 2022 new supplementary measures to cushion the impact of rising energy prices and persistent inflation on low- and middle-income earners. The government raised the one-off energy allowance (*energietoeslag*) for people on incomes around the level of social assistance benefit to EUR800. It was also lowering the rate of VAT on energy from 21% to 9%, and the excise duty on petrol and diesel was cut by 21%.
- On budget day (September 2022), the government announced the introduction of a tariff ceiling with a maximum tariff for electricity and/or gas that applies up to a certain consumption.
- An Energy Cost Contribution Scheme (TEK) will be introduced for SMEs. SMEs whose energy costs correspond to at least 12.5% of turnover will receive compensation of up to EUR160,000 through the scheme. These energy-intensive SMEs will receive compensation of 50% of the energy cost increase above a set threshold price. The TEK will apply for the period 1 November 2022 to 31 December 2023.
- In September 2022, the State Secretary for Finance sent the House of Representatives the design of the relaxation of the payment scheme for COVID-19 tax debts. The State Secretary informed that the government recognizes that the distress is high among some SMEs with tax debts due to the COVID-19 crisis. Therefore, the COVID-19 tax debt payment scheme will be extended from five to seven years, subject to conditions and (only) for certain companies.
- The government tries to tax unforeseen excess profits by, for example, the energy sector with the introduction of a solidarity contribution in 2022 and increase of the mining tax.

2.6 Political landscape in your jurisdiction

- After the election in March 2021, the formation of a new Dutch government (cabinet) was finished in November 2021.
- On 15 December 2021, the new coalition (VVD, D66, CDA and ChristenUnie) presented the coalition agreement. It sums up what the government wants to do and achieve in the 2021-2025 government period. The title of the coalition agreement is: "Looking after each other, looking ahead to the future." An English version of the coalition agreement can be found here (source Dutch government). The tax plans of the new government show a significant climate-related focus with increases in the carbon tax and the energy tax. There are no plans for a general reform of the personal income tax, capital tax, or corporate income tax.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- On 24 October 2022, an online consultation was launched on a draft bill for the proposed Minimum Tax Rate Act 2024 (BEPS 2.0 Pillar Two agreement). The draft legislative proposal is based on the compromise text of the draft EU Directive dated 16 June 2022 and includes the proposed introduction of a Qualified Domestic Minimum Top-up Tax. The draft was open for consultation until 5 December 2022. The Netherlands launched this technical consultation so that the act can be introduced quickly once agreement has been reached at European level. See also our EY Global Tax Alert.
- In September 2022, the Finance Minister and State Secretary issued a joint statement (with France, Germany, Italy and Spain) on the directive negotiation and implementation of Pillar Two. The Finance Minister and State Secretary stated that the cabinet has put maximum effort into making the negotiations on (Pillar One and) Pillar Two successful.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Tax changes introduced in the tax reform 2022
- Introduction or continuing of the economic and tax measures in light of COVID-19 and/or energy crisis
- Announcement of the 2023 tax plan package and proposals outlining expected legislative measures for 2023 and further years (see 2.1 and 2.4)
- Ongoing discussions about different tax subjects, such as the tax avoidance by multinationals, fair taxation in the digital economy, restoring the taxability of income from savings and investments (box 3) and simplification of the tax system
- Announcement that tax avoidance via the Netherlands significantly was reduced thanks to the various measures introduced in recent years to combat tax avoidance, along with a reduction of the flow of money from the Netherlands to countries with a low tax; basedon provisional figures, the total flow of income to such countries has fallen by almost 85% from EUR38.5 billion in 2019 to almost EUR6 billion in 2021, due to the outgoing interest and royalty payments to low-tax countries falling from EUR36.4 billion in 2019 to a provisionally estimated EUR1.5 billion in 2021

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Bill implementing public country-by-country reporting Directive: The government submitted a bill to the Lower House of Parliament concerning the disclosure of income tax information. The bill was prompted by an EU Directive. This Directive is intended to increase the transparency of profit tax payments made by multinationals worldwide. The ultimate parent company of a multinational group with consolidated revenues in excess of EUR750 million is required to prepare and publish a separate annual profit tax report. Stand-alone companies (not part of a group) with revenues exceeding EUR750 million are also required to prepare and publish such a report. The EU Directive must be implemented in Dutch law by 22 June 2023. The provisions of the directive will apply to financial years commencing on or after 22 June 2024 at the latest. The bill mentions 1 January 2024 as the starting date.
- Tax Governance Code: More than 40 major Dutch multinationals are embracing the new Tax Governance Code, which the Confederation of Netherlands Industry and Employers (VNO-NCW) was presenting in May 2022. This concerns a large group of listed companies, including 20 of the 25 companies listed on the Amsterdam Exchange index. A few high-profile unlisted cooperatives and family businesses are also embracing the new code. The Tax Governance Code was announced as part of the new course that the employers organization has set (doing business to create broad welfare). More companies are expected to join the code in the future.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The draft proposal legal entity and partnership classification rules has been postponed until the third quarter of 2023. In connection with the reprioritization of other already pending and upcoming bills, it was decided to postpone the submission of this bill by one year. On 29 March 2021, the Dutch government released for public consultation a draft proposal to revise the Dutch classification rules for entities incorporated under foreign law and partnerships formed under Dutch as well as foreign law. The proposed new entity classification rules are intended to be better aligned with international tax standards. It is expected that this will result in less potential hybrid situations due to mismatches in entity classifications between the Netherlands and foreign jurisdictions.
- Proposal to implement EU directive on data exchange for digital platform economies (DAC7). For an explanation see 2.4.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Dutch tax authorities have a well-developed and sophisticated electronic tax compliance and audit system. The Dutch tax administration is generally known for its high quality, reliability, approachability and mostly provide a high degree of customer service.
- In September 2022, the State Secretary of Finance sent a parliamentary letter to the House of Representatives discussing the state of affairs in the Tax and Customs Authorities. In the letter, the State Secretary indicated, among other things, that the Tax and Customs Administration faces a number of structural challenges, such as the recruitment task (new staff) for the coming years and the modernization and improvement of the provision of information.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- It is not expected that the tax authorities will shift their audit focus onto new or different issues in 2023.
- It is not known whether the tax authorities will launch any new audit programs and/or new pre-or post-filing dispute resolution mechanisms.
- It is likely that the Dutch tax authorities will (ongoing) focus on tax fraud and prevention of tax avoidance and tax evasion.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Competitive tax investment climate, tax avoidance and tax evasion	The Netherlands aims to continue to offer a competitive tax investment climate for companies, but at the same time, it addresses the developments on tax avoidance in line with the OECD and EU recommendations. The Dutch tax authorities are expected to focus on tax fraud and prevention of tax avoidance and tax evasion. The Netherlands is in favor of international measures with regard to (for example) Pillar One, Pillar Two, ATAD 3 (unshell) and taxation of the digital economy, and it is expected to follow the OECD/EU policy in this respect.
2	Transfer pricing	The tax administration, among others, has shown interest in performing head-office audits (which include intragroup services and other activities performed by the head office) and in analyzing the economic substance of transactions, in terms of alignment of functions and risks. Next to head-office activities, intangible transactions are often evaluated, as well as business reorganizations, centralized purchasing companies, captive insurance companies and financial services transactions (including loans and guarantees). During these transfer pricing audits, the tax administration appears to have a particular interest in potential internal comparable uncontrolled profits and the economic substance of a transaction. The tax administration has also focused, as a natural result of the risk analysis, on transactions with entities in countries with low effective tax rates.
3	Tax residency private persons	The Dutch tax authorities have shown interest in performing audits regarding the tax residency of private persons that emigrated from the Netherlands but still have ties with the Netherlands.
4	Withholding tax	The Netherlands has implemented the PPT in the Dutch dividend withholding tax act effective 1 January 2018 and in the Dutch interest and royalty withholding tax that entered into force effective 1 January 2021. The Dutch tax authorities may scrutinize the economic substance of existing structures more actively going forward, especially in relation to jurisdictions that are listed on the Dutch or EU tax haven list.

Cardboard cathedral in Christchurch, New Zealand

New Zealand

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

This information is current as of 20 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	28%	28%	–
Personal income tax – top rate	39%	39%	–
VAT, GST or sales tax – standard rate	15%	15%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Fairness and integrity of the tax system, including measures to shift certain capital gains into the income tax net in the absence of a comprehensive capital gains tax, and prescriptive rules to address perceived weaknesses in the system
- International tax developments and integration, for example, OECD Pillar One and Pillar Two and platform economy reporting
- Embedding and updating recent changes designed to drive behavioral change, for example, levies and rebates to incentivize electric vehicle ownership, and removing certain large-scale housing developments from rules restricting residential property interest deductions
- Significant policy changes unlikely to be introduced in 2023 due to the scheduled general election

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- There will likely be further consultation on the implementation of the OECD Pillar Two rules. New Zealand intends to adopt these rules in 2024.
- There are changes to the taxation of dual-resident companies, which will allow dual-resident companies to access certain beneficial regimes (e.g., loss offsets within a group) but recognize a corporate migration on "tie-breaking" to another jurisdiction in certain circumstances.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- There are efforts to widen GST reporting obligations to include the digital platform economy. The proposed legislative amendments will see the implementation of an OECD information and reporting exchange framework.
- The proposed legislative amendments will also see the extension of the GST rules (that currently apply to imported digital services) to electronic marketplaces/platforms.

VAT/GST or sales taxes

- The OECD platform economy changes are likely to be implemented.
- The already-enacted changes to reduce the compliance burden associated with invoices to come into effect.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- In the event of a change in government, the top tax rate may be reduced to 33% and the thresholds adjusted to result in lower effective tax rates.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- Quasi-taxes e.g., clean car rebates, clean car standard, agricultural emissions levy

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Tax relief or new taxes are unlikely.

2.6 Political landscape in your jurisdiction

- A general election will be held in 2023 (expected around November). The current Labour majority government has not signaled significant tax changes if re-elected.
- New Zealand's main opposition party, National, has committed to a complete reversal of many tax rules introduced by the current Labour government if National is elected to form a majority or coalition government. The rules National has committed to reversing include:
  - The restriction on deductibility of interest incurred on residential rental properties
  - The 39% top marginal income tax rate for individuals earning more than $180,000
  - The 10-year brightline test that subjects realized gains on residential property (not used as the owner's primary place of residence) to income tax

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Pillar Two consultation opened 5 May 2022 and closed 1 July 2022. The consultation is currently under consideration by Inland Revenue.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- 2022 was reasonably uneventful after significant tax policy changes in 2021. Most notably, draft legislation introduced in August 2022 was immediately withdrawn after public backlash to proposed changes to the taxation of managed funds. These changes would have affected KiwiSaver (NZ's statutory retirement savings regime), and public perception was that the changes would adversely affect individuals' retirement savings.
- The draft legislation was reintroduced in September and key matters included:
  - Changes affecting dual-resident companies, allowing them to participate in beneficial tax regimes, including loss offsetting but penalizing those that tie-break to another jurisdiction by recognizing a corporate migration event
  - Changes to simplify the taxation of cross-border workers, with a particular focus on reducing the compliance burden associated with employment and withholding taxes for inbound workers
  - The introduction of mandatory reporting by platform economy providers, based on the OECD's information reporting and exchange framework, and extension of remote services GST rules to include electronic marketplaces
  - Exclusion of certain large-scale property developments from rules disallowing interest deductions for residential rental properties
- The draft legislation is expected to be enacted in March 2023 after substantial changes arising from public submissions.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Public disclosures are not generally required as part of the New Zealand tax system.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Inland Revenue has a good relationship with tax agents and advisors and is generally cooperative in resolving disputes.
- There has been a consistent focus in recent years on implementing technology solutions to facilitate both compliance and enforcement.
- Audit activity is generally targeted, with selection based on industry type, specific tax risks and the collection of bulk data. Inland Revenue typically engages with taxpayers about perceived tax risks prior to commencing formal audits.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- If there is a change in government following the 2023 general election, significant reversal of key legislative changes in recent years is expected.
- Continued focus by Inland Revenue on data collection through bulk data, taxpayer reporting and analytics may lead to new targeted enforcement strategies and additional reporting requirements for taxpayers.

New Zealand

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	IP-related issues and high-value transactions, plus headquarter and management services transactions
2	**Interest deductions/limitations**	Including hybrid instruments and thin capitalization adjustments
3	**Tax corporate governance**	A focus on the processes and controls driving tax calculations and accurate compliance as a means to evaluate risk and direct future tax audit activity
4	**COVID-19-related impacts and outcomes**	Treatment of government subsidies and incentives aimed at mitigating COVID-19 impacts
5	**Disallowance of deductions**	In the absence of a capital gains tax, ensuring losses are revenue (and not capital) and costs are New Zealand business-related

Nicaragua

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

This information is current as of 30 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	The higher amount that result to compare: ‣ Annual income tax: 30% of net taxable income; or ‣ Advance income tax payment: 1%, 2% or 3% of gross taxable income The 1%, 2% or 3% applies in dependence of the taxpayer classification regimen.	The higher amount that result to compare: ‣ Annual income tax: 30% of net taxable income; or ‣ Advance income tax payment: 1%, 2% or 3% of gross taxable income The 1%, 2% or 3% applies in dependence of the taxpayer classification regimen.	–
Personal income tax – top rate	The Law No. 822, Nicaragua Taxation Law (NTL), establishes a progressive rate to liquidate personal (work) income tax in accordance with strata of annual net income of the taxpayer. The maximum personal tax is 30% in accordance with Article 23 of the Tax Legislation.	The Law No. 822, NTL, establishes a progressive rate to liquidate personal (work) income tax in accordance with strata of annual net income of the taxpayer. The maximum personal tax is 30% in accordance with Article 23 of the Tax Legislation.	–

	2022	2023	% change
VAT, GST or sales tax — standard rate	‣ General rate: 15% ‣ Special rate: 0% export of goods of national production and export of services	‣ General rate: 15% ‣ Special rate: 0% export of goods of national production and export of services	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Creation of a tax intelligence area to detect tax risks between related companies and prevent tax evasion
- Modernization of the tax administration and simplifying the payment of taxes by improving the virtual platform to carry out procedures and payments
- Creation of the mechanisms and controls to reduce tax evasion and expand the tax base

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules

Nicaragua

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- In accordance with section 6. IV of the Law No. 987, the Tax Administration has the faculty to review the tax reform implementation to apply modifications and adjust what is considered necessary.
- It is not expected that in 2023 the Tax Administration will review the tax reforms approved with Law No. 987 and modify its content with the objective to increase the tax collection system.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No change is foreseen.

VAT/GST or sales taxes

- No change is foreseen.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No change is foreseen.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Law No. 1129 Real Estate Brokerage Law of Nicaragua, which regulates the exercise of real estate brokerage, rights, obligations and penalties for those who exercise it

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There is currently no regulation expected for cryptocurrencies.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The global economic impact caused by the pandemic has been somewhat cushioned in Nicaragua thanks to increased tax revenues.

2.6 Political landscape in your jurisdiction

- In 2022 there were municipal elections, 73.70% of Municipal Mayorships were won by the current government.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No known action on the implementation of BEPS 2.0 Pillar Two is currently known.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Interinstitutional Agreement MHCP-MITRAB-SIBOIF No. 01-2022, on the regulation of savings or pension funds, which are exempt from income tax
- Law No. 1113, called "Law of Reforms and Addition to the Law of Notaries and the Commercial Code of the Republic of Nicaragua"

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- The review and possible reform of the Nicaragua Taxation Law

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Tax authorities take a strong approach with taxpayers, including threatening or using criminal sanctions.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- None.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Consecutive losses	The tax administration is examining that the consecutive losses have been declared correctly by the taxpayers.
2	Tax refund process	The tax administration is reviewing the tax refund process and verifying the existence of the balances claimed by the taxpayers.
3	Taxpayer information update	The tax administration is reviewing that taxpayer information is updated (i.e., updated information of shareholders of the company or modifications on the legal or commercial name of the company).
4	Tax information cross-checking	The tax administration is cross-checking taxpayer information with information reported by the taxpayers in other public institutions.
5	Use of information contained in the Electronic Tax System	The tax administration is performing greater validations of the taxpayers' returns with the information that is contained in the tax information system (Electronic Tax System).


View of historical buildings in Bryggen Hanseatic wharf in Bergen, Norway

Norway

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

This information is current as of 1 February 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	22%	22%	–
Personal income tax – top rate	46.4%	46.4%	2.1%
VAT, GST or sales tax – standard rate	25%	25%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The new Labour-lead minority coalition has presented its first full year state budget, with increases in tax rates for salaries, dividends and others to apply from 2023 or earlier.
- On 28 September 2022, the government announced an increased tax on fish farming from 2023, proposing an additional tax of 40% on top of the normal 22% corporate tax. The rules have not yet been finalized, and it is expected that the additional tax will be less than 40%.
- On 28 September 2022, the government also announced increased taxes for large hydropower plants. The proposed increase includes an additional tax of 40% on top of the normal corporate tax rate of 22%, and also a "high price contribution" to apply for parts of the higher prices in 2022 and 2023. These rules have not yet been finalized.
- On 19 December 2022, the Torvik commission presented a comprehensive review of the current tax regime. The commission proposes significant changes, but none of these have yet been enacted.
- Norway is expected to implement such amendments as proposed by the OECD and EU, including BEPS Pillar Two.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules

Norway

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The corporate income tax is expected to remain at 22%, with minor or sector-specific adjustments to the tax base.
- The base taxation for hydropower plants is amended to a cash flow basis from 2021 and likewise for petroleum tax from 2022.
- Sector-specific taxes were announced for large hydro-electric power plants and for sea-based fish farming and are expected to take effect from 1 January 2023. The specific rules have not yet been finalized.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Withholding taxes on interest, royalties and certain leases to entities in low-tax jurisdictions were introduced in 2020 and is likely to be upheld and potentially expanded to include similar payments to normal-tax jurisdictions.
- The interest deduction limitation rules implemented have been refined and clarified.
- Reporting obligations are under close follow-up from the tax authorities' side, seeking for platform providers to give such information as is useful for control purposes.

VAT/GST or sales taxes

- Certain increases in indirect taxes relating to electricity have been proposed, taxing electricity sales at prices above NOK0.7 pr KwH.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- An additional social security tax for salaries exceeding NOK750,000 per annum was introduced as a temporary measure.

Windfall taxes *(please specify broad or sector specific)*

- High price contribution proposed for electricity sales at prices above NOK0.70
- Additional social security charges for salaries exceeding NOK750,000 per annum

Taxes related to climate change or sustainability

- VAT incentives for electric vehicles are reduced.
- CO2 taxes are increased.
- Charges relating to hydro-electric power are increased.
- Certain reductions were made to charges on petrol, mineral oil and liquefied petroleum gas.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- None.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The exemption from electricity charges on power supplies to computer centers that was introduced in 2016 has been discontinued.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The economic slowdown has been limited in Norway, as oil and gas sales as well as sales of hydroelectric power have continued to provide good revenue.
- The Torvik commission's draft tax reform focuses on the need to broaden the tax base and incentivize employment compared to pensions and health benefits.

2.6 Political landscape in your jurisdiction

- The current government consists of a "red/green" minority coalition seeking support on the socialist side for increased taxes.
- The state budget for 2023 specifically aims to increase taxes on dividends, wealth and high income, while protecting lower incomes from additional tax.
- The government aims to introduce targeted taxes on income from land and natural resources and has announced, but not yet finalized, rules regarding additional taxes on fish farming and hydroelectric power.
- The Torvik commission's proposal is to shift tax from salaries to wealth and other types of income to encourage employment in an aging population with a high proportion of the population depending on health benefits.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- In the 2023 State Budget, the government announced their intent to implement Pillar Two as of 2024, provided that the time-schedule for preparing an inclusive framework is kept. The implementation shall also need to be adapted to the implementation in other jurisdictions, including EU Member States.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Introduction of additional taxes applicable to hydro power plants and fish farming
- Abandoning certain exemptions for data processing centers and electric vehicles

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Clarifications and increased information filing requirements relating to imports by the customs representative

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax authorities have a general approach of facilitating compliance and preparing for SAF-T reporting.
- There is a clear focus on transfer pricing and cross-border transactions in general. One priority in 2021 and onward is to make sure that multinationals with their headquarters in Norway allocate a correct share of profits to Norway.
- The tax appeals board is delayed; any reassessed tax is required to be paid irrespective of the likelihood of a successful appeal.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- From 1 January 2022, new tax filings based on SAF-T codes implemented and expected to increase control efficiency
- Increased scrutiny of cross-border transactions and transfer pricing
- Increased collaboration and exchange of information between tax and VAT authorities

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	Cross-border and IP transactions
2	**Transfer pricing**	Profit allocation between permanent establishment and headquarters
3	**International Tax**	Tax residency of companies that are part of a Norwegian group
4	**VAT in cross-border transactions**	Issues raised regarding VAT residency, use of reverse VAT charge, denial of deduction for input VAT
5	**Transfer pricing**	Thin capitalization in Norway/thick capitalization abroad

Oman

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This information is current as of 31 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	15%	15%	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	5%	5%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- In Oman's fiscal budget for FY23, budgeted tax revenue has significantly increased to OMR1.15 billion and accounts for approximately 11% of the total revenue. This comprises corporate income tax revenue budgeted at OMR0.56 billion, and excise and VAT revenue at OMR0.59 billion. This highlights the increasing significance of tax revenue in the state budget.
- The government appears to be actively trying to revitalize and revamp the country's tax regime to make sure of optimum collection of tax revenue.
- VAT was implemented in Oman effective 16 April 2021, and certain provisions of the Executive Regulations to the VAT law were amended on 16 October 2022.
- In addition, a DTT between Qatar and Oman was signed and is effective from 1 January 2023. It is the first DTT agreement to be concluded by Oman with a GCC country.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023

Oman

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023 ☒ N/A, as there is no CFC regime	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- While there is a greater degree of scrutiny at the time of tax audits of taxpayers in recent periods, there is no change or update specifically with respect to corporate income taxes in Oman. The corporate income tax rate is expected to be same as in 2022, i.e., 15%.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- There is no separate digital business activity tax in Oman. However, a withholding tax is applied on the following nature of payments when paid by an Omani taxpayer to a foreign company not having a permanent establishment in Oman:
  - Royalties
  - Consideration for research and development
  - Consideration for the use of or right to use computer software
  - Fees for management or performance of services
  - Interest (applicability of WHT suspended indefinitely)
  - Dividends (applicability of WHT suspended indefinitely)
- Suspension of WHT on dividend and interest, which was introduced as part of the Economic Stimulus Plan in the year 2020, has been extended indefinitely. Announcements/clarifications to clarify the period of such extension are awaited.

VAT/GST or sales taxes

- VAT was introduced effective from 16 April 2021. Oman has adopted a quarterly tax return, and so far, taxpayers have filed six VAT returns from Q2 to Q4 in 2022 and for Q1 to Q3 in 2023.
- On 16 October 2022, amendments to certain provisions of the executive regulations of the VAT law were published in the Official Gazette.
- All large and nonresident taxpayers are expected to submit a taxpayer checklist with the VAT return (earlier this was required for only taxpayers to whom net VAT refund was due) and notices are sent to these taxpayers if such checklist is not attached with the VAT return.
- Assessment orders have been issued for several taxpayers for VAT returns filed in 2022 and the Omani tax authority (OTA) has requested for additional information in many cases.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Personal income tax is currently not applicable in Oman.

Windfall taxes *(please specify broad or sector specific)*

- No taxes of such nature are applied in Oman.

Taxes related to climate change or sustainability

- No taxes of such nature are applied in Oman.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No taxes of such nature are applied in Oman.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No official announcements are related to the above.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Largely the global economic slowdown is not expected to have significant impact on tax policy developments in Oman during 2023. The budget does not indicate any extraordinary changes to the budgeted tax revenues during the year 2023.

2.6 Political landscape in your jurisdiction

- Oman is a sovereign hereditary constitutional monarchy ruled by the Al Said royal family (Article 1 of the Basic Statute of the State). Oman is a unitary state and has a single national law. The Basic Statute of the State provides for Sharia law to be the main source of legislation (Art 2 of the Basic Statute of the State) with Arabic as the official language.
- Oman's legislature is composed of two chambers: the elected Chamber of Deputies and the appointed Shura Council. Oman's government, as represented by the Council of Ministers, is appointed by the Sultan of Oman. The legislature or the government can propose draft laws. It must be approved by the government, the legislature, signed by the Sultan and published in the official gazette.
- Ministers, as empowered by laws or royal decrees, may issue secondary legislation in the form of ministerial decisions, which must be published in the Official Gazette. Ministers may issue internal by-laws (executive regulations), governing the conduct and practices of their individual ministries, which are not published in the Official Gazette.
- Oman's commercial laws are influenced by civil law.
- The above and other such developments signify a dynamic and progressive environment within the political landscape of Oman.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Currently, no actions have been announced in Oman regarding the implementation of Pillar Two of BEPS 2.0.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Suspension of WHT on dividend and interest, which was introduced as part of the Economic Stimulus Plan in the year 2020, has been extended indefinitely. Announcements/clarifications to clarify the period of such extension are awaited.
- Certain provisions of the Executive Regulations to the VAT law were amended.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no such significant developments during 2022.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There are no major pending tax proposals.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- It is expected there will be a significant increase in the extent and depth of investigation of tax returns. Also, as a part of their investigations, the OTA are increasingly requesting extensive documentation from the taxpayer than at any time in the past.
- Disallowances of costs are proposed by the OTA, and the onus is on the taxpayer to prove why such costs should be allowed. This approach is applied to related-party costs and third-party costs alike.
- Related-party costs are especially subject to in-depth scrutiny by the OTA for considerations of reasonableness and arm's length.
- Several taxpayers have received assessment orders on the VAT returns, and the OTA have requested for additional information from many due to inadequacy or incompleteness of information. Currently, we are not aware of any adverse positions taken by the OTA on the returns filed. Considering that the law was implemented only in 2021, we expect more scrutiny and investigation in the future.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Tax authorities continue to issue sector-specific guidelines for VAT purposes. Any such guidelines released will have an impact on taxable persons.
- The State Audit Department, which is an independent and separate body under the Ministry of Finance, has been increasingly conducting audit of the assessments carried out by the OTA on a sample basis that includes verification of documentary evidence, explanations or justifications, etc., brought on record by the OTA during the assessment proceedings of the taxpayer for that year. Where any information or explanation is found to be inadequate, the State Audit Department would request the OTA to provide additional information or explanation or adequate justification for not having such information or explanation on record. The OTA would in turn request the taxpayer to provide the information/explanation. After considering the information already on record as well as additional information received (if any), the State Audit Department may, if deemed necessary, direct the OTA to rectify or revise the assessment or make an additional assessment.

Oman

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	Related-party transactions are scrutinized in detail by the OTA during assessment proceedings. In many cases, the OTA requests for transfer pricing reports for related-party transactions., although there are no defined TP guidelines or requirements set out in the Income Tax Law.
2	Documentation	The OTA is increasingly requesting a higher volume of supporting documentation for a majority of the expenses incurred by the taxpayer.
3	Tax losses	Challenges are increasing from the OTA on companies incurring continuous losses over a period of years, where the OTA considers disallowing expenses to the extent of the tax losses in the absence of appropriate justification being presented for the nature and reasons for incurring losses.
4	Higher instances of state audit	In the past year, there has been an increase in State Audit Department's scrutiny of assessment orders passed by the OTA. Taxpayers are required to be more diligent while filing returns and in providing supporting information.
5	VAT assessments	The OTA has been requesting for the detailed nature of certain expenses during VAT assessment proceedings, such as payments to staff, corporate social responsibility (CSR) expenses, deemed supply to domestic group entities, etc., and questions have been raised regarding the manner of tax invoice numbering and other inadequacies in VAT accounting documentation.


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

This information is current as of 21 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	25%	25%	–
VAT, GST or sales tax – standard rate	7%	7%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- The government is expected to continue to comply with international standards regarding transparency and the exchange of information.
- The government is expected to continue to implement and monitor minimum standards of the BEPS Action Plan.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- There are no changes currently expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- The draft bill that intended to regulate digital platforms taxation has not been approved by the National Assembly of Panama. Therefore, it has not been published as Law in the Official Gazette.

VAT/GST or sales taxes

- There are no changes currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- There are no changes currently expected.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- There are no changes currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- A draft bill was submitted and approved by the National Assembly of Panama to regulate the commercialization and use of crypto assets, the issuance of digital value, the tokenization of precious metals and other assets and payment systems. However, the draft bill was not approved and sanctioned by the Executive Power; therefore the draft bill was not published as Law in the Official Gazette.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- N/A

2.6 Political landscape in your jurisdiction

- Tax components of previously passed economic stimulus measures were implemented (i.e., extension of tax amnesty).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No official actions or plan have been discussed by the Panamanian government regarding the implementation of Pillar Two of BEPS 2.0.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Panama continued the exchange of information with the US in compliance with FATCA.
- Panama exchanged information automatically with 71 jurisdictions in accordance with the CRS MCAA.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no developments regarding the increase of requirements for public disclosure of tax information.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The number of tax audits to taxpayers is likely to remain the same in 2023 as it was in 2022.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The modernization and digitalization of processes administrated by the Panamanian Tax Administration, which have been ongoing since 2021.

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3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Compliance with obligations related to the exchange of information**	The Tax Authorities in 2023 are expected to focus on continued compliance with CRS and FATCA obligations by reporting financial institutions.
2	**Compliance with formalities when applying for the benefits of double tax treaties**	The Tax Authorities in 2023 are expected to continue to approach taxpayers to request additional information to further prove that the entity can be accredited with the benefits of a double tax treaty and duly complies with the formalities and requirements established by law.
3	**Sales tax (VAT – ITBMS (the movable goods and services transfer tax))**	The Tax Authorities are expected to continue to monitor the correct remittance of ITBMS (VAT) by taxpayers and withholding agents.

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This information is current as of 10 January 2023

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	35%	35%	–
VAT, GST or sales tax – standard rate	12%	12%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Increased transparency
- Higher collection through voluntary compliance and tax enforcement and collection
- Digital tax administration
- Computer-assisted tax audits

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

The Philippines

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

● Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No changes are currently expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- A bill imposing 12% VAT on nonresident foreign digital service providers will likely become a law in 2023.

VAT/GST or sales taxes

- No changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No changes are currently expected.

Windfall taxes *(please specify broad or sector specific)*

- No changes are currently expected.

Taxes related to climate change or sustainability

- There is a bill imposing tax on single-use plastic bags and containers.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- A bill proposing unitary rates (generally a reduction) for almost all types of passive income will likely become a law in 2023.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No changes are currently expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The government might reconsider its position to reduce tax incentives to attract FDIs.
- Tax audits may increase to generate revenue.

2.6 Political landscape in your jurisdiction

- The current administration controls both Senate and House of Representatives and, thus, may be able to pass all of its proposed tax measures (e.g., Real Property Valuation Reform, Ease of Paying Taxes Bill; Digital Services Tax; Passive Income and Financial Intermediary Taxation Act).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- None.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The new administration became receptive to less stringent interpretation of tax incentives for companies granted tax incentives.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Tax Authority will continue its capacity building and training to audit related-party transactions.
- The newly appointed Commissioner of the Bureau of Internal Revenue (BIR) has started creating a task force to pursue tax evaders.
- More indirect (VAT) tax audits are expected.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Digital transformation of tax administration
- Increase in data reporting to promote transparency — tax compliance reporting
- Tax on digital services of nonresident suppliers

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☒	☒	☐
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☒	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Entitlement to tax incentives**	Strict monitoring of revenues covered by tax incentives
2	**Withholding taxes**	Compliance with creditable and final withholding tax obligations
3	**Documentation of expenses**	Requirement to submit invoices and official receipts as support for expenses
4	**Documentation of input VAT**	Strict compliance with invoicing requirements to validly recognize input
5	**Reconciliation of discrepancies**	Reconciliation of differences in figures reported per financial accounting (audited financial statements) vs. tax accounting (income tax return, vat returns, etc.)


Krakow, Poland from Wawel Castle

Poland

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

This information is current as of 1 February 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	32%	32%	–
VAT, GST or sales tax – standard rate	23% (No local VAT rates)	23% (No local VAT rates)	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Modifications in corporate income taxes
  - Adjusting certain regulations, including simplification of some provisions
  - Amendments to provisions implemented from 2022 that have been found ineffective or inappropriate in the current economic situation
- Collection of budgetary funds through a planned windfall profits tax
- Simplifications in VAT, i.e., Simple, Local and Modern (SLIM) VAT, VAT groups

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023

Poland

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - No change - - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Repeal of the "hidden dividend" provisions
- Further deferment of the entry into force of the minimum income tax
- Modification of provisions concerning tax on profit shifting
- Modification of regulations in the field of the "pay and refund mechanism" under the WHT regime
- Waiver of certain obligations of payers in the scope of WHT on interest and discounts on treasury securities
- Simplification of provisions on the bad-debt relief
- Modification of regulations on Polish companies qualified as "holding companies"
- Modification of provisions on the distribution tax
- Modification of transfer pricing provisions on documentation requirements for transactions with companies located in low-tax jurisdictions
- Simplified provisions on losses settlement incurred by companies forming a capital tax group

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- N/A

VAT/GST or sales taxes

- Prolonged 0% VAT rate on essential foodstuff (fruits, vegetables, meat and dairy products)
- Introduction of the SLIM VAT 3 package aiming to simplify and accelerate VAT settlements and improve the financial liquidity of companies
- Introduction of voluntary VAT grouping regime allowing for, inter alia, filing single VAT return

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- N/A

Windfall taxes *(please specify broad or sector specific)*

- There are plans to introduce windfall taxes, e.g., for the energy sector, however details are still being discussed.

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No details in this area have so far been announced by Polish officials.
- Due to inflation, the 0% VAT rate for foodstuff may be further prolonged.

2.6 Political landscape in your jurisdiction

- Parliamentary elections in Poland will occur in late 2023.
- No other significant changes in tax regulations announced by the Polish government for 2023 or 2024.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

CIT

- Introduction of "hidden dividend" that excludes certain costs from tax deductibles
- Higher benefits under R&D incentives rules
- New CIT reliefs
- Amendments in the definition of CFC — more entities falling under CFC regime
- Limitation of tax depreciation in real estate companies
- Changes in WHT collection rules: "pay and refund" mechanism for passive receivables such as interests, dividends and royalties paid to related entities
- New sanctions for employers who employ illegally

PIT

- Reduction of tax rate from 17% to 12% for taxable income up to PLN120,000
- Effective tax rate for employees increased as a result of health insurance tax deductions being canceled
- Increase of tax-free amount to PLN30,000

VAT

- Introduction of option for taxation of financial services (that are currently exempted from VAT)

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Windfall taxes (mentioned in point 2.4) are pending.
- Poland will introduce obligatory structured e-invoicing and the KSeF system (National e-Invoicing System) effective from 1 January 2024.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- A general focus on the efficiency of tax audits is visible. Quick, less formal checks to be used on a large scale, while the detailed audits are expected to focus on large taxpayers.
- Priority is given to withholding taxes, transfer pricing and anti-avoidance. VAT compliance is still high on the agenda.
- Specialization of tax authorities is observed (by subject matter).
- Significant increase in number of cases where the General Anti-Abusive Rule is applied

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Sanctions on taxpayers in cases, where TP, GAAR or WHT challenge is made (in case of a dispute, for years 2019 and subsequent additional liability at the rate of 10%-30% is applied; thus incentivizing taxpayers to consider settlements)
- Mandatory e-invoicing to be launched in 2024, which will increase real-time monitoring of VAT compliance and will speed up the reaction to noncompliance (including sanctions)
- Cooperative compliance program promotion and extension — shift into voluntary fulfillment of obligations

Poland

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☒	☐
New or expanded criminal tax law(s)	☒	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☒	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)* *New options of advance rulings for new investments launched in 2022. A taxpayer planning an investment of PLN100m (ca. USD23m) may obtain a series of confirmations of tax treatment (APA, tax law interpretations, VAT/excise duty rate etc.), which should secure the tax treatment for initial stages of the investment*	☒	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)* *Given the general shift into settlements, formal settlement regulations may be developed or mediation introduced.*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	WHT – past periods	As a follow-up to Danish Court of Justice of the European Union cases, there is an increased number of cases involving exemptions/reduced rates on dividends, interest and royalties benefitting from a more favorable treatment.
2	WHT – current periods	Introduction of pay and refund mechanism resulting in an increased demand for protective opinions and refunds is likely to open discussions and conservative interpretations for tax authorities and courts (already observed in 2022).
3	Transfer pricing	Due to increased sanctions both on individuals and businesses, the authorities are likely to continue testing TP positions, including any loss-making businesses or group transfers (e.g., as a response to COVID-19 and increased need for group funding).
4	Mergers/demergers	It is expected that the authorities may focus more on restructurings as a follow-up to 2022 rules, tightening the options for tax neutrality of transactions.
5	Incentives – exemptions, R&D implementations, etc.	Tax authorities are likely to focus on the use of exemptions, such as economic zones and implementations of newly introduced incentives to identify inappropriate approaches or over-simplistic implementations.

Porto, Portugal

Portugal

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This information is current as of 1 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates

	2022	2023	% change
Corporate income tax – top rate	**Resident entities and permanent establishments in Portugal of nonresident entities/ resident entities that do not carry out, primarily, commercial, industrial or agricultural activity** **Mainland Portugal** 21% ***State surcharge*** 3%/5%/9% ***Municipal surcharge*** Up to 1.5% **Madeira/Azores** 14.7% ***State surcharge*** Reduced rates apply in Azores and Madeira ***Municipal surcharge*** Up to 1.5% **Small and medium enterprises (SMEs)** **Mainland Portugal** 17% up to 21% **Madeira/Azores** 11.9% up to 14.7%	**Resident entities and permanent establishments in Portugal of nonresident entities/ resident entities that do not carry out, primarily, commercial, industrial or agricultural activity** **Mainland Portugal** 21% ***State surcharge*** 3%/5%/9% ***Municipal surcharge*** Up to 1.5% **Madeira/Azores** 14.7% ***State surcharge*** Reduced rates apply in Azores and Madeira ***Municipal surcharge*** Up to 1.5% **Small and medium enterprises (SMEs)** **Mainland Portugal** 17% up to 21% (17% to the first EUR50,000 of tax basis vs. EUR25,000 in 2022)	– Reduction of 3.15% rate in Madeira and Azores for SMEs (on the first EUR50,000 of tax basis) Increase of the tax basis for SMEs and mid cap entities (from EUR25,000 to EUR50,000) N/A for the remaining topics

<table>
<tr><td></td><td></td><td>Madeira
8.75% up to 14.7% (8.75% to the first EUR50,000 of tax basis vs. 11.9% to the first EUR25,000 in 2022)
Azores
8.75% up to 14.7% (8.75% to the first EUR50,000 of tax basis vs. 11.9% to the first EUR25,000 in 2022)
Resident companies that meet certain conditions can benefit from a simplified regime of taxation.
Autonomous taxation is also foreseen to taxpayers liable to CIT.</td><td></td></tr>
<tr><td>Personal income tax – top rate</td><td>Personal income tax for work
Resident taxpayers
Mainland Portugal
From 14.5% up to 48%
Madeira
From 10.15% up to 48%
Azores
From 10.15% up to 38%
**
There is an additional solidarity tax rate for high income of 2.5% up to 5%.
**
Withholding taxes
Tax rates depend on the type of income</td><td>Personal income tax for work
Resident taxpayers
Mainland Portugal
From 14.5% up to 48%
Madeira
From 10.15% up to 48%
Azores
From 10.15% up to 38%
**
There is an additional solidarity tax rate for high income of 2.5% up to 5%.
**
Withholding taxes
Tax rates depend on the type of income</td><td></td></tr>
<tr><td>VAT, GST or sales tax – standard rate</td><td colspan="2"><table><tr><th>Rate</th><th>Portugal</th><th>Madeira</th><th>Azores</th></tr><tr><td>Normal</td><td>23%</td><td>22%</td><td>16%</td></tr><tr><td>Intermediate</td><td>13%</td><td>12%</td><td>9%</td></tr><tr><td>Reduced</td><td>6%</td><td>5%</td><td>4%</td></tr></table></td><td></td></tr>
</table>

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

According to the Portuguese government, the main priorities for the 2023 State Budget are:

- Reinforcing and increasing income
- Promoting investment
- Tackle the increase in prices and interest
- Speed up the energetic and climatic transition
- Reinforce R&D
- Strengthen budget credibility

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Portugal

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

CIT rates

- The reduced 17% CIT rate applicable to small and medium-sized companies shall apply to the first EUR50,000 of tax base. For Madeira and Azores, the reduced CIT rate applicable to small and medium-sized companies has been reduced to 8.75%.
- A 10% autonomous taxation for electric vehicles with an acquisition cost above EUR27,500 was introduced.
- The 10% increase in the autonomous taxation rates will not apply in the tax years 2022 and 2023 in the following cases:
  - (i) The taxpayer assessed taxable profit in one of the three previous tax years and the CIT return and the Annual Statement/Companies Simplified Information concerning the two previous tax years were timely filed.
  - (ii) 2022/2023 correspond to the year of beginning of activity or one of the two subsequent tax years.

Tax losses and other tax credits

- The carryforward of tax losses will have no time limit (previously, the carryforward period was either 5 or 12 years).
- The tax losses deduction will be capped at 65% of the taxable income (previously, 70%, with an increase to 80% regarding tax losses generated in FYs 2020 and 2021 — this increase is still maintained).
- Up to 2022, when there was a change in the ownership of more than 50% of the share capital or the majority of voting rights, the possibility of carrying forward previous tax losses and net financing credits is conditional on an application to be filed to the Portuguese tax authorities. The 2023 State Budget eliminates the need for this authorization, maintaining the right to deduct such credits when it is concluded that the operation did not have tax evasion as the, or one of the, main goals, which may be considered to be verified, notably, in cases where the operation has been carried out by valid economic reasons.
- A similar rule will apply in relation to the deduction of tax losses assessed under the tax grouping regime when there is a change in the dominant company and option is made for the continuity of the existing group or if there is an integration between two groups covered by such regime.

Other changes

- Some tax benefits will cease, such as the share capital remuneration regime and the tax credit for the reinvestment of retained profits but a new tax benefits will be introduced, such as a tax regime to promote the capitalization of companies by granting an equity allowance (somehow based on debt-equity bias reduction allowance, or DEBRA).

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- N/A

VAT/GST or sales taxes

- There are no relevant changes in the 2023 State Budget law regarding VAT.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The limits of each PIT progressive taxable basis increased in 5.1%.
- The rate for the second range reduced from 23% to 21% (reducing, therefore, the average rate for the remaining ranges).
- The 2023 State Budget law foresees that, in the course of 2023, the withholding tax system will be reformed in order to make sure that WHT rates for PIT purposes are aligned with the taxpayers' specific situation.
- Income derived from crypto assets will be taxed as business income, capital gains or investment income, depending on the specific facts and circumstances.

Windfall taxes *(please specify broad or sector specific)*

- Two new contributions entered into force on 31 December 2022, applicable to energy companies (operating in the crude oil, natural gas, coal and refinery sectors) and to food retailers.
- In summary, the share of profits of those companies that exceeds 20% of the average profits in the previous four years will be taxed at 33%. The new rate will apply in 2022 and 2023.
- Introduction of a contribution for the conservation of the forestry resources. This will be levied at a rate of 0.2% on the turnover, after deducting eligible expenses.

Taxes related to climate change or sustainability

- A contribution on single-use plastic or multi-material with plastic packaging has been in force since July 2022. This contribution also applies to single-use packaging made of aluminum, or multi-material with aluminum, from 1 January 2023 onward.
- There was a reduction of the rates of autonomous taxation for some hybrid plug-in vehicles.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Gratuitous transfers of crypto assets are subject to Stamp Duty, at a 10% rate.
- Commissions paid to service providers in connection to crypto assets are subject to Stamp Duty, at a 4% rate.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The 2023 State Budget law foresees a new crypto assets taxation regime. In summary:

  Personal income tax:

  - (i) Income arising from crypto assets may be taxed as business income, investment income or capital gains, depending on the situation.

(ii) For income derived from crypto assets that qualifies as "business income," whenever the PIT simplified regime applies, taxable income will be assessed based on the application of a 0.15 coefficient to the aforementioned income (in certain cases, the coefficient is of 0.95).

(iii) Income derived from the disposal of crypto assets are taxed as capital gains, at a 28% flat rate. However, the losses obtained with the sale may be carried forward in the following five years, if the individual opts to tax the capital gain to the progressive income tax rates.

(iv) Capital gains will not be taxed whenever those assets have been held for over a one-year period.

Corporate income tax:

- Similar to the PIT simplified regime, a 0.15 coefficient (or in certain cases, a 0.95 coefficient) applies to income derived from crypto assets.

Real Estate Transfer Tax (RETT):

- Consideration paid through crypto assets in sale and purchase agreements is relevant for purposes of assessing the RETT base.

Stamp Duty (SD):

(i) Gratuitous transfer of crypto assets is taxed at a 10% rate.

(ii) Commissions and services provided related to crypto assets are taxed at a 4% rate.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The current global economic slowdown resulting from the COVID-19 pandemic, as well as the general increase in inflation derived from the ongoing instability in Eastern Europe were issues that concerned the policy makers when drafting the 2023 State Budget law.
- It is expected that such concerns will also impact the economic and financial measures taken throughout 2023.

2.6 Political landscape in your jurisdiction

- The 2023 State Budget law was published on 30 December 2022 and is effective as from 1 January 2023.
- The current government (moderate left) has the majority of the Parliament. Therefore, the government benefits from a political environment that allows it to approve and enact law aligned with its ideology.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- N/A

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Portuguese tax authorities are considered to be more active not only on a perspective of tax inspections (scope of inquiries and type of tax adjustments) but also regarding additional compliance and reporting obligations. They are also more alert to international topics and have been requesting documentation from nonresident shareholders (of Portuguese companies) under tax inspections and also directly to other tax authorities.
- The main strategy is to promote voluntary compliance from taxpayers.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Corporate income tax – Deductibility of costs is a well-known issue and often raised in course of tax audits, permanent establishments inquiries, substance and beneficial ownership are topics that have been more often in the Portuguese tax authorities' radar, and new transfer pricing regulations on controlled transactions support (these matters should be under the radar also due to recent legislation issued in 2021 regarding changes on local transfer pricing guidelines and advance pricing agreements framework).
- Taxation of crypto assets, in light of the aforementioned brand new tax regime.
- DAC6 clarifications — According to our experience, the Portuguese tax authorities began to gather more information from taxpayers.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☐	☒
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☒	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☒	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	CIT — WHT rates/ disallowance of deductions	Reduced WHT rates and exemptions and respective formalities (especially with nonresident entities) are a topic that is frequently assessed by the Portuguese tax authorities. Deductibility of costs is also frequently assessed. In this regard, we note that in FY19, a new CIT regime applicable to credit impairment entered into force. Due to the complexities involved, different interpretations notably of the transitory regime may arise under tax audits to FY19 and subsequent FYs.
2	Transparency/disclosure/ MDR issues	Increase in auditing substance and beneficial ownership. The Portuguese tax authorities have been more alert regarding these topics and have been inquiring taxpayers and foreign tax authorities and denying tax benefits when considering lack of substance or different beneficial owner. There has been an increase of inquiries on hallmarks and MDR issues.
3	Indirect taxes — VAT, GST, sales and use, service taxes	Common issues include local VAT reverse charge rules, supply of staff, bad debts VAT recovery, VAT refunds upon importations of goods by nonresident entities, loyalty regime, warranty extensions and VAT on construction.
4	Interest deductions/limitations	ATAD II — Potential denial of interest expenses (and other deductions) are due to the existence of hybrid instruments or entities.
5	Transfer pricing — intercompany financing transactions Free capital	Potential transfer pricing adjustments due to recent legislation on transfer pricing include business restructurings, intangibles, and interquartile range adjustments. There is also potential increase of inquiries regarding free capital on permanent establishments.

Qatar

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Tax policy and controversy

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

This information is current as of 30 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	10%	10%	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	N/A VAT is expected to be implemented in 2023 or 2024.	If implemented, standard rate is expected to be 5%.	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- BEPS 2.0 — Pillar One and Pillar Two GloBE rules
- Bringing forth tax incentives to drive economic activities and entrepreneurship (such as opening of the Qatar Free Zone Authority with tax holidays of 20 years)
- Protecting Qatari businesses (established and present) from international competition
- Broadening the tax base to support the shift of dependence away from oil and gas industry driven revenue

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Qatar

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Qatar is not expected to have any change in rate or scope of the corporate income tax.
- More focus is expected on tax revenue collection under the new General Tax Authority (GTA) as part of the State 2030 vision

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- Qatar has not introduced specific taxes on digital business activities. It is yet to be seen whether the GTA will apply withholding tax on payments made to nonresidents on digital income.
- The Qatar tax authorities are still considering the exact timing of the impact of the BEPS 2.0 Rules in Qatar. However, for BEPS 2.0 Pillar Two, by the end of 2023 (to be effective 1 January 2024) Qatar is expected to introduce into law a Qualified Domestic Minimum Top-up Tax (QDMTT) at 15% for MNE groups in scope above EUR750 million annual revenue and operating in Qatar. Similarly, Qatar is expected to introduce the BEPS 2.0 Pillar Two Income Inclusion Rule. However, these changes are not unique to Qatar and are expected to be introduced by many jurisdictions.

VAT/GST or sales taxes

- Qatar is party to the GCC VAT Framework Agreement.
- The GTA has indicated VAT is likely to be implemented in Qatar during 2023 or 2024.
- VAT Laws and Regulations are not currently available.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- Qatar is not expected to introduce taxes on wages and employment.

Windfall taxes ***(please specify broad or sector specific)***

- Qatar is not expected to introduce windfall taxes.

Taxes related to climate change or sustainability

- Qatar is not expected to introduce taxes related to climate change or sustainability.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- Qatar is not expected to introduce other taxes, such as financial transaction taxes, solidarity surcharges, etc.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Qatar is not expected to introduce any developments on the governance of cryptocurrency.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No changes are currently expected.

2.6 Political landscape in your jurisdiction

- Currently, there are no changes to the existing government structure and political environment.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No action has been announced in Qatar in 2022 regarding the implementation of Pillar Two of BEPS 2.0. However, Qatar is a member of the OECD/G20 Inclusive Framework on BEPS.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- No major tax policy changes occurred in Qatar in 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There are no developments in Qatar in 2022 with respect to increased requirements for public disclosure of tax information.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The Qatar Financial Centre Tax Department (which is independent of the STA) has always been transparent and very cooperative in their approach to tax enforcement.
- There is less certainty and transparency in the approach to tax enforcement with the STA.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The introduction of VAT for businesses that meet the registration thresholds
- Implementation of e-invoicing
- Increased focus on transfer pricing requirements compliance

Qatar

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☐	☒
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	High-value services transactions Headquarter and management services transactions Intercompany financing transactions Limited-risk entity structures
2	Disallowance of deductions	Interest deduction Management fees/sponsorship fees
3	WHT assessments	Service definition Onshore and offshore services
4	WHT refunds	Treaty benefits PE existence Proof of WHT suffered
5	Tax exemptions	Review of basis and decrees issued by Council of Ministers for approvals obtained for tax exemptions
6	Indirect tax — VAT	At the implementation of VAT in 2023/2024, tax authorities, over time, to begin VAT audits similar to other GCC states

Transfaganskaya highway, Romania

Romania

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This information is current as of 18 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	16%/3% (for microenterprises with no employees)/1% (for microenterprises with one or more employees)	16%/1% (for microenterprises)	100% – > the 3% rate for microenterprises with no employees is eliminated as of 1 January 2023 and only the 1% rate is maintained
Personal income tax – top rate	10%	10%	–
VAT, GST or sales tax – standard rate	19%	19%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Continue to improve legislation by transposing measures adopted at European level into national law:
  - Initiatives proposed by the European Commission under the "Action Plan for fair and simple taxation supporting the recovery" aimed at reducing administrative burdens at the level of states and taxpayers, as well as simplifying legislation and obligations
  - VAT registration and reporting
- Improving and simplifying tax legislation, as a result of dialogue with the business community
- Improving legislation to counteract tax evasion
- Preparing reforms in the fiscal field that will contribute to sustainable economic growth in the medium and long terms

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023

Romania

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The tax rate for dividends is increased from 5% to 8% for all dividend beneficiaries (individuals and legal entities, from Romania and abroad) starting with dividends paid from 1 January 2023.
- As of 1 January 2023, the 3% tax rate for micro-enterprises (MET) is eliminated and a single 1% tax rate is introduced (MET will become optional, at the same time the minimum threshold is decreased for EUR1m to EUR500k and other conditions are included with respect to criteria of being a MET payer).
- As of 1 January 2023, the incentive for reinvested profit is extended to assets used in production and processing activities and assets representing re-technologization.
- As of 1 January 2023, certain clarifications are brought with respect to the norms for applying the R&D super deduction of 150%.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- N/A. No such tax was introduced within the tax legislation, and as per our knowledge, it is not expected to be introduced in 2023.

VAT/GST or sales taxes

- As of 1 January 2023, certain changes regarding the VAT rates will apply, as follows:
  - Some nonalcoholic products (which falls under the NC codes 2202 10 00 and 2202 99) would fall under the standard VAT rate of 19% (up from 9%).
  - For the supply of certain chemical fertilizers and chemical pesticides normally used in agriculture, the applicable VAT rate will be of 9% (down from 19%).
  - Instead of 5% VAT rate, the 9% VAT rate will be applied for accommodation in the hotel sector, restaurant services and catering.
- As of 1 January 2023, the 5% VAT rate will be applied for the purchase of a single house with a price of no more than 600,000 Lei (approx. EUR120,000), exclusive of VAT. However, the 5% rate is maintained for buildings supplied in 2023, but which fall within the conditions applicable in 2022 and for which advances were paid in 2022. Real estate purchased starting in 2023, according to the new rules, will be declared in a new register.
- The applicability of the VAT rate of 5% for firewood, in the form of trunks, stumps, twigs, branches or in similar forms, which falls under NC codes 4401 11 00 and 4401 12 00 supplied to individuals and legal entities is extended until 31 December 2029.
- For the supply of certain categories of goods with fiscal risk (e.g., cereals and technical plants, greenhouse gas emission certificates, green certificates, electricity, natural gas, mobile phones, integrated circuit devices before their integration into final-user products, game consoles, PC tablets, laptops), the period of applicability of the simplification measure (reverse charge mechanism) has been extended until 31 December 2026 inclusive.
- SAF-T reporting is mandatory in Romania, depending on certain criteria, including the size of the taxpayer. Hence, the following reporting dates are applicable (to which a grace period of six months is applicable):
  - 1 January 2023 for middle taxpayers and large taxpayers in financial services
  - 1 January 2022 for large taxpayers listed as such in the previous list of large taxpayers, and 1 July 2022 for large taxpayers listed as such on the list applicable as of January 2022
  - 1 January 2025 for small taxpayers
- Considering that starting with 1 July 2022, e-invoicing is mandatory for companies conducting business-to-government transactions and business-to-business transactions with goods with high fiscal risk (the invoices should be issued through a specific system — RO e-Factura platform, via the virtual private space (SPV)), new rules/updates may appear in 2023 in this respect.
- Considering that starting with 1 July 2022, road transports of goods with high fiscal risk need to be reported in the national RO e-Transport platform, under certain conditions, new rules/ updates may appear in 2023 in this respect.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

Income from salary

- Amendments brought to the tax incentives applicable to employees in construction, agriculture and food sectors:
  - Starting with the salary income for August 2022, the threshold subject to tax incentives has decreased from RON30,000 to RON10,000 per employee.
  - As of income related to January 2023, the tax incentives are applicable to employees with an employment contract only.
- Changes were made to the personal deductions applicable to salary income as of January 2023. In brief, two types of personal deduction are provided:
  - Basic: for a gross monthly income of up to RON2,000 exceeding the minimum national gross salary (as per a deduction grid)
  - Supplementary:
    - 15% of the minimum national gross salary for individuals aged up to 26 with a salary income not exceeding RON2,000 above the level of the minimum national gross salary
    - RON100 per month for each child up to the age of 18, if the child is enrolled in an educational establishment, regardless of the level of the employee's salary
- As of January 2023, the Tax Code provides for a benefits basket, free from salary taxes, which overall cannot exceed a monthly limit representing 33% of the base salary. The employer is allowed to decide on the range of tax-free benefits, while

anything exceeding this limit (above 33% of the base salary) will be subject to salary taxes. The benefits that can be granted by the employer within this tax-free limit are related to (subject also to fulfilment of certain conditions):

- Additional benefits received by employees under the mobility clause
- Cost of food
- Accommodation and rental costs
- Cost of tourist and/or treatment services, including transport, during vacation, for the employees and family members
- Contributions to a facultative pension fund
- Voluntary health insurance premiums, as well as medical subscriptions
- Amounts granted to telework employees to cover their expenses

Certain other specific benefits will continue to be tax free either entirely or within other limits, subject to fulfilment of certain conditions, as provided by the Tax Code.

Income from independent activities

- As of January 2023, certain changes shall apply to income from independent activities:
  - The annual income threshold provided for the switch from taxation based on income norms to real system, is reduced from EUR100,000 to EUR25,000.
  - An additional computation base of 24 minimum national gross salaries is introduced for the annual computation basis of the social security contribution (contribution rate being of 25%), for individuals earning income from independent activities and/or income from intellectual property rights, if the annual earned income exceeds 24 minimum national gross salaries (beside the existing one of 12 salaries).
  - The annual computation base for health contribution:
    - The contribution (contribution rate being of 10%) shall be due based on three thresholds, depending on the level of the annual earned income: 6, 12 or 24 minimum national gross salaries (the current one is set up at 12 salaries)
    - This change applies to any income subject to health contribution (e.g., income from independent activities, but also other income as for instance: investment income, rental income, other income).

Rental income

- As of January 2023, the 40% tax deduction shall no longer apply for taxation of rental income; thus, the effective taxation shall increase from 6% to 10%.

Dividends

- The tax rate for dividends is increased from 5% to 8% for all dividend beneficiaries (including individuals) starting with dividends distributed from 1 January 2023.

Windfall taxes *(please specify broad or sector specific)*

- Energy and natural gas: As of 1 September 2022, contribution to the Energetic Transition Fund is introduced, payable by electricity producers, aggregate electricity production entities, traders, suppliers who carry out trading activities and aggregators who trade quantities of electricity and/or natural gas on the wholesale market.

Taxes related to climate change or sustainability

- Not-reusable primary packaging: A guarantee-return system (GRS) for not-reusable primary packaging should be functional starting 30 November 2023.
- Packaging tax: Starting on 1 January 2023, the authorized economic operators for the implementation of extended producer liability (OIREP) will pay their contribution for the difference between the amounts of waste corresponding to the annual objectives and the amounts effectively recycled/recovered, within the limit of the guarantee provided by the Law no. 249/2015, at this moment in the amount of RON2 million. Economic operators who concluded contracts with OIREP and did not fulfill the objectives provided by the law will pay the difference of the packaging tax of RON2/kg after the execution of the guarantee.
- Tobacco products with filters and filters: until 5 January 2023, producers who introduce such single-use plastic products must implement extended producer responsibility through an organization.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- From a CIT and VAT perspective, cryptocurrencies are not regulated. From a PIT perspective, we note that transactions with virtual currencies performed by individuals, natural persons, are taxed at 10%.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Due to the hikes on the electricity and gas prices, Romania decided to introduce a compensation mechanism for household consumption and a windfall tax as explained above — measures that will be applicable until 31 December 2022.
- Considering that the economic crisis of 2008-2010 led to the increase of the VAT rate from 19% to 24%, there is a risk that this phenomenon will materialize in the following years as well, taking into account the current economic situation. Beyond the legislative changes already announced, it is possible that for the delivery of certain goods the VAT will decrease (e.g., for essential goods), while the VAT rate could be increased for others.

2.6 Political landscape in your jurisdiction

- The Presidential election took place in 2019, the next one will take place in 2024. The President is elected by popular vote for a maximum of two five-year terms.
- The Parliament election took place in 2020, the next election will take place in 2024. The national legislature is a bicameral parliament, i.e., the Chamber of Deputies and the Senate. Members are elected for four-year terms.
- The government continues its policy of improving revenue collection by eliminating distortions and gaps that allow minimizing tax responsibility, simplification of rules and de-bureaucratization to facilitate voluntary compliance and fiscal administration, implementing a fairer, more efficient, simpler and more transparent tax system. A focus point for the medium-long term is the digitalization of the tax authority.
- A new political alliance to form the future government is debating the idea of introducing progressive tax rates for wages.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Romania has not yet implemented any changes related to BEPS 2.0 rules, and no official statements were made in 2022 in this respect by Romanian officials.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

Corporate income taxes

- Consolidation for CIT purposes (under certain conditions) introduced in the tax legislation with applicability starting with the fiscal year 2022
- CIT reduction for capitalized entities (for maintenance/ increase of equity), applicability starting in 2022 for the period 2021-2025
- Increased deduction of adjustments for uncollected receivables (from 30% to 50%), applicability as of 1 January 2022
- CIT reduction for early education expenses — incentive suspended from 1 April 2021 until 31 December 2021 inclusive, which allows a reduction of the CIT due of the expenses with early education units in the amount of 1,500 Lei/month for each child
- Similarly, tax-free treatment provided for such benefits borne by the employer from income tax and social security perspective — no limit on the tax-free taxable base has been provided

SAF-T reporting: Please see above.

E-invoicing: In specific cases, the invoices should be issued through a specific system (RO e-Factura platform), via the SPV.

RO e-transport: road transports of goods with high fiscal risk need to be reported in the national RO e-Transport platform, under certain conditions.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The strategic objectives of the Romanian Tax Authorities are:
  - Improving the services offered
  - Digital transformation
  - Preventing and fighting tax evasion
  - Efficiency and transparency
- In 2022, there was a significant increase in the number of documentary verifications, especially those performed by the Anti-Fraud Division.
- In 2022, natural persons carrying out de facto commercial activities (such as beauty parlors, sellers of goods on social media, used cars sellers, etc) saw more audits and verifications.
- For 2023, the government plans to give nationwide jurisdiction to tax inspectors, meaning that a taxpayer could be audited by any tax body irrespective of who is actually managing the taxpayer.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Considering the approval of the Sectoral Strategy for personal income tax due from individuals at the beginning of November 2022, we are expecting a national campaign to be initiated to increase the voluntary tax compliance from individuals, but also tax audits where the tax authorities' analysis indicates a high noncompliance risk.
- There have been discussions on reforming the personal income tax in Romania, thus introducing the progressive taxation. Still, it is rather unlikely for any changes on taxation rate to be introduced in 2023.
- Digitalization is expected to be a focus, such as RO e-invoice and RO e-transport.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	TP is a common hot topic in the past five years. Frequently, the tax authorities challenge the analyses made by the taxpayer, irrespective of chosen method and selected comparable; their focus is strictly limited at the periods for which additional liabilities might be assessed (i.e., no diminishing of taxes are made even if the arm's-length principle is not met).
2	Permanent or fixed establishments	This is a recent trend not limited to a certain industry. The main conclusions of audits is that there is a fixed, a permanent establishment or both and that all transactions/revenue are attributable to such, meaning additional CIT and VAT (if applicable).
3	VAT	The usual wide range of topics for VAT apply, mainly grounded on "lack of sufficient documentation" to justify VAT deduction.
4	Withholding taxes	This is a new topic mainly focusing on repayment of loans granted by an affiliate but also other types of payment. Whenever such payment was made and the Romanian taxpayer did not have a tax residency certificate of the nonresident entity, WHT will be assessed.


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Saudi Arabia

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EY key contacts

Tax policy and controversy

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

This information is current as of 9 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	The general tax rate is 20%. For taxpayer engaged in oil and hydrocarbons production the tax rates range from 50% to 85% depending on the amount of capital invested.	The general tax rate is 20%. For taxpayer engaged in oil and hydrocarbons production the tax rates range from 50% to 85% depending on the amount of capital invested.	–
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	VAT 15% Real estate transaction tax (RETT) (with effect from 4 October 2020) – 5% on supply of real estate Excise tax – applicable on excisable goods at varying rate from 50% to 100% depending on the specific type of excise goods	VAT 15% – amendments was announced in 2022 RETT (with effect from 4 October 2020) – 5% on supply of real estate – additional exemptions and amendment in the regulations were announced in 2022 Excise tax – applicable on excisable goods at varying rate from 50% to 100% depending on the specific type of excise goods	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Diversifying revenue sources to maintain sustainable government tax revenues as a means against any potential deficit financing arising from oil prices volatility and financing infrastructural and technology projects aimed at diversification of the Saudi economy is a priority.
- Attracting foreign direct investments is one of the government's priorities for economic growth. Therefore, an increase in tax rates on an overall basis is unlikely.
- Saudi tax administration is currently focusing on auditing all the open years within the statute of limitations period and raising tax assessments with respect to all unassessed tax returns.
- Transfer pricing audits are expected to increase significantly, either individually or as part of audits for corporate income tax.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Saudi Arabia

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 Inclusion of Zakat payers in TP regulations
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 Note: no personal income tax
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - - - - - - No change - - - - - - - - Higher

● Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- It is unlikely that current corporate income tax will be increased by, for example, an increase in CIT or WHT rates.
- The main focus of the tax authorities is on conducting tax audits of all unfinalized years within the statute of limitation period, and on raising tax assessments.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- The General Authority for Zakat, Tax, and Customs Authority (ZATCA) is applying the concept of a permanent establishment or virtual PE, where possible, based solely on the duration of the contract and without taking into account the place of performance or physical presence of the nonresident entity in Saudi Arabia.
- This interpretation by the ZATCA is typically applied to arrangements involving technical and consulting services and is usually triggered in the context of claiming the double tax treaty benefits.

VAT/GST or sales taxes

As part of the ZATCA's agenda on tax digitalization, e-invoicing has been implemented in two phases:

- Phase 1 on 4 December 2021 — Generation and storage of e-invoices
- Phase 2 on 1 January 2023 (Wave 1) — Integration of enterprise resource planning (ERP) with the tax authority's system is applicable to entities having a taxable turnover over SAR3 billion in calendar year 2021.
- On 23 December 2022, Wave 2 of Phase 2 was announced. Resident taxpayers in Saudi Araba, who have a taxable turnover of SAR500 million up to SAR3 billion during calendar year 2021, will fall within the scope of the second wave of integration for Phase 2 of e-invoicing. The ZATCA will commence notifying the impacted Wave 2 taxpayers.
- E-invoicing is a key stepping-stone for the digital transformation of tax administration in Saudi Arabia.

RETT

- The RETT landscape has been continuously evolving and further guidance and clarifications are expected from the ZATCA.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- N/A

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None.

2.6 Political landscape in your jurisdiction

Monarchy is the system of rule in Saudi Arabia. The authorities in the Kingdom of Saudi Arabia (KSA) consist of the judiciary, the executive and the regulatory authorities.

Executive authority

The Council of Ministers (Council) has the power to set the internal, foreign, financial, economic, educational and defense policies as well as the general affairs of the state, and shall oversee their implementation. The Council shall also review Shura Council resolutions. It shall have the executive authority and be the final authority in the financial and administrative affairs of all ministries and other government agencies. The King is the President of the Council of Ministers, and he is supported by the Council's members. Deputies of Prime Minister and Members of the Council of Ministers shall be appointed by the King, as well as relieved from office by royal order. The King is entitled to dissolve and reconstitute the Council of Ministers.

The Council, being the direct executive authority, shall have full power over all executive and administrative affairs. The following shall be included in its executive powers: monitoring the implementation of laws, regulations and resolutions; establishing and organizing public institutions; overseeing the implementation of the general development plan and forming committees to review the performance of ministries and other government agencies or in relation to any specific case.

Judiciary authority

The judiciary is an independent authority. The decisions of judges shall not be subject to any authority other than the authority of the Islamic Sharia. The Supreme Judicial Council is constituted by a President appointed by a royal decree and is 10 members. The judiciary authority includes Supreme Court, the Courts of Appeal, the First Instance Courts and the Enforcement Courts.

The Supreme Court is classified at the top of the judicial organization to receive a complaint against the court that issued the impugned decision. It reviews the decisions in terms of the correct application of the rules, Islamic rules and regulations and their interpretation, including court procedures.

The Courts of Appeal shall review the judgments issued by the courts of First instance, after hearing the litigants' statements, in accordance with the Shari'ah Procedure Law and Law of Criminal Procedure.

The First Instance Courts include general courts, criminal courts, personal status courts, labor courts and commercial courts.

Regulatory authority

The Shura Council expresses its opinion on the general policies of the state that are referred to it by the Prime Minister. The Shura Council consists of a president and 60 members appointed by the King, including subject-matter experts.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Tax regulations regarding Integrated Logistics Bonded Zone (ILBZ) were issued.
- The ZATCA broadened the scope of zero rating on domestic supplies of eligible military goods. In addition, various clarifications on key VAT-related matters were issued as well.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- No.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The general approach to tax enforcement has not substantially changed.
- The tax administration is primarily focused on clarifying existing tax provisions by issuing guidance on various areas, such as deductibility of expenses, income tax withholding, capital tax implication on corporate restructuring events, etc.
- The general approach is to audit all the tax years within the statute of limitation period and raise assessments.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☒ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Amendment to improve the implementation of e-invoicing in KSA based on the outcome of the e-invoicing implementation
- Various amendments to the KSA VAT legislation to provide clarity on issues such as government contracts, administrative requirements for e-invoicing, Article 33 on establishing the eligibility criteria to qualify a supply as "Export of Service" and additional VAT exemptions, etc.
- Various amendments to the RETT and excise tax legislations
- Procedural clarifications on the overall appeal process at General Secretariat of the Tax Committees (GSTC) levels 1 and 2

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☐	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Permanent establishment	Assessment of virtual PE in cases where the contract's duration exceeds 183 days/ 6 months irrespective of the nonresident's physical presence in Saudi Arabia
2	Permanent establishment	Renewed focus on the application of the force of attraction concept in auditing taxpayers
3	Treaty issues	Challenges in the interpretation of DTT provisions
4	Treaty issues	Denial of treaty benefits due to residency issues (e.g., under KSA-UAE tax treaty)
5	Transfer pricing	Headquarter and management services transactions Limited-risk entity structures Royalties/licensing fees
6	Transitional provision	Considering the end of the transitional provision (i.e., increase in VAT rate 5% to 15%), ZATCA audits of its application by taxpayers in KSA Recurrent operating/Net losses Complex/Innovative TP models or policies
7	VAT application on the services export VAT recovery of real estate companies	‣ Challenges on zero rate application on the supply of services to the nonresident ‣ Challenges on input VAT recovery of real estate companies if not registered as "eligible persons" in KSA ‣ Applicability of RETT on build-operate-transfer (BOT) and build-own-operate-transfer (BOOT) contracts

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EY key contacts

Tax policy and controversy

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

This information is current as of 12 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023[1]	% change
Corporate income tax – top rate	17%	17%	–
Personal income tax – top rate	22%	22%[2]	–
VAT, GST or sales tax – standard rate	7%	8%[3]	14.3% increase

[1] Any changes in the key tax rates will be announced in the Singapore Budget. Singapore Budget 2023 was scheduled to be delivered on 14 February 2023.

[2] It was previously announced in the Singapore Budget 2022 that the top personal income tax rate will increase to 24% from the Year of Assessment 2024.

[3] It was previously announced in the Singapore Budget 2022 that the GST rate will further increase to 9% with effect from 1 January 2024.

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- To invest in new capabilities and encourage businesses to transform and seize new growth opportunities from the green economy
- To renew and strengthen the social compact – investing in education, uplifting lower wage workers, boosting retirement adequacy and preparing for future health care needs, so as to build a more caring and inclusive society
- To advance toward a green and sustainable home
- To build a fairer and more resilient revenue system to support Singapore's growing expenditure needs and provide a fairer and more progressive system of taxes and transfers

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Singapore

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☒ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- As of now, there is no indication of any change in the corporate tax rate of 17%, because the rate is generally competitive.
- The government is exploring a top-up tax called the Minimum Effective Tax Rate (METR) regime, in line with the global minimum effective tax rate under BEPS 2.0 Pillar Two.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Direct taxes
  - Generally, Singapore adopts the "operations test" to determine whether income is generated in Singapore and shall, therefore, be liable to tax in Singapore.
  - Singapore has thus far not applied any interim measures nor made any response in its income tax legislation pending the OECD's conclusion on the BEPS 2.0 project.
- Indirect taxes
  - With effect from 1 Jan 2023, GST is extended to include all business-to-consumer imported services, whether digital or non-digital, that are supplied and received remotely.

VAT/GST or sales taxes

- Increase in GST rate
  - The GST rate is increased from 7% to 8% with effect from 1 January 2023, and then from 8% to 9% with effect from 1 January 2024.
- Increase in GST base from 1 January 2023
  - Extension of GST coverage to:
    - Imported non-digital services (currently only applicable to imported digital services) in respect of business-to-consumer transactions (see taxes on digital business activity)
    - Imported low-value goods (currently with a GST import relief threshold of SGD400)

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The top marginal rate is increasing from Year of Assessment 2024 from 22% to 23% (for chargeable income in excess of SGD500,000 up to SGD1 million) and 24% (for chargeable income in excess of SGD1 million).
- Marginal property tax rates are increasing from 2023 in two steps (i.e., 2023 and 2024). The rates from 2024 are increased to 12%-36% for non-owner-occupied residential properties (up from 10%-20%) and 6%-32% for owner-occupied residential properties for the portion of annual value in excess of SGD30,000 (up from 4% to 16%).

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- From 2024 onward, the carbon tax rate will be increased from the current SGD5 per ton to (i) SGD25 per ton (2024-2025), (ii) SGD45 per ton (2026-2027) and (iii) SGD50 to SGD80 per ton by 2030.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No significant developments are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The Inland Revenue Authority of Singapore (IRAS) issued guidelines regarding the GST treatment of cryptocurrency.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- In line with the objective of providing a fairer and more progressive tax system, we believe that the government will expect those with more to contribute more (as can be seen from the increase in top marginal personal income tax rate from the Year of Assessment 2024), particularly in times of slowdown.
- We also expect the government to take measures to support Singaporeans who are more affected by the economic slowdown, rising inflation, GST hike and higher cost of living.

2.6 Political landscape in your jurisdiction

- As the People's Action Party remains the single dominant party in Parliament, tax policy as of now is likely to remain stable and consistent.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- It was announced in the Singapore Budget 2022 that Singapore is exploring a METR regime that will top up an MNE group's effective tax rate in Singapore to 15%. The METR will apply to MNE groups operating in Singapore that have annual revenues of at least EUR750 million, as reflected in the consolidated financial statements of the ultimate parent entity. The METR, when introduced, is expected to closely align with Pillar Two GloBE rules. Consultations with industry stakeholders on the design of the METR were held, and the government indicated that it will continue to monitor international developments before making any decisions on the METR.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- N/A

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Under the Tax Governance Framework (TGF) initiative (voluntary basis), a participating company needs to publish its tax governance policy on the corporate website or an annual report that is publicly accessible.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- IRAS generally adopts a risk-based approach of identifying compliance risks and prioritizing and tailoring specific compliance programs.
- IRAS will take enforcement actions against noncompliant businesses and will impose deterrent measures on taxpayers for noncompliance as well as for incorrect tax filings.
- An advance tax ruling and a voluntary disclosure program are available to taxpayers.
- IRAS has put in place the Assisted Compliance Assurance Programme (ACAP), which is an initiative that provides a holistic framework for GST-registered businesses to proactively manage their GST risks and incorporate tax risk management into part of their corporate governance.
- Participation is voluntary and those with adequate and effective GST controls will be awarded an ACAP status, the benefits of which include step down of IRAS-GST compliance activities and expeditious GST refunds, subject to conditions.
- IRAS formally rolled out tax governance and tax risks management initiatives in 2022, with the objective of guiding large companies in establishing good tax governance and effective internal control frameworks for corporate income tax.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Targeted tax audit efforts (e.g., incentivized companies) will likely contain broader and deeper questions. Businesses without a pre-audit defense strategy can be overwhelmed by the breadth and depth of the tax audits.
- Increased focus will likely be on self-review and controls. Businesses with errors and omissions in their tax returns may face harsher penalties if they do not have adequate self-review process and controls in place.
- Heightened controversy is expected on related-party transactions, mandatory contemporaneous transfer pricing documentations and noncompliance with the arm's-length principle. The IRAS can impose transfer pricing surcharge at 5% of the transfer pricing adjustment amount for non-arm's-length transactions.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Withholding tax compliance	To make sure that withholding tax obligations have been duly compiled with, the IRAS is cross-checking the corporate income tax filing to withholding tax returns and questioning the discrepancies.
2	Writing down allowances for qualifying intellectual property rights	This involves a thorough examination of the independent valuation report submitted by taxpayers.
3	Foreign exchange difference	To make sure that the identification of capital and revenue exchange difference is complete and accurate, the IRAS frequently asks for the nature of the underlying transactions to verify the identification and has imposed penalties for incorrect identification on a number of instances.
4	Incentivized taxpayers	This involves making sure that controls and measures are put in place to identify and allocate income and expenses between concessionary tax rates and normal tax rate correctly.
5	Tax residency	To make sure that the Singapore tax residency claim is well-substantiated when claims for foreign tax credits and foreign-sourced income exemption are made, the IRAS has started to ask detailed questions surrounding the composition of the board of directors, minutes of the board meetings, etc.

Slovakia

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This information is current as of 11 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	15%*/21% *[As of 1 January 2021, preferential tax rate should apply to legal entities referred to as "micro taxpayers" reporting income (revenues) not exceeding EUR49,790 in the relevant tax period.]	15%*/21% *[As of 1 January 2021, preferential tax rate should apply to legal entities referred to as "micro taxpayers" reporting income (revenues) not exceeding EUR49,790 in the relevant tax period.]	–
Personal income tax – top rate	15%*/19%/25% on portion of gross income exceeding €3,212.75 per month *[As of 1 January 2021, preferential tax rate should apply to self-employed persons reporting income (revenues) not exceeding EUR49,790 in the relevant tax period.]	15%*/19%/25% on portion of gross income exceeding €3,453.79 per month *[As of 1 January 2021, preferential tax rate should apply to self-employed persons reporting income (revenues) not exceeding EUR49,790 in the relevant tax period.]	–

VAT, GST or sales tax – standard rate	20%/10%* *[Applicable for selected products (e.g., some foodstuffs, pharmaceutical products, medical equipment for disabled persons, etc.]	20%/10%*/5%** *[Applicable for selected products (e.g., some foodstuffs, pharmaceutical products, medical equipment for disabled persons, etc.)] **[Applicable for supply of a building or parts of a building, including the land on which the building is constructed that is used for the purpose of aided rental housing (should also apply to redevelopment).]	– Reduction for applicable products

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Fiscal consolidation – main driver
- Increase of state income
- Fight against tax fraud and tax evasion
- Tax system consolidation
- Dealing with the consequences of the COVID-19 pandemic

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023

Slovakia

Tax types	Likelihood of changes in 2023	Direction of change
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023

Tax types	Likelihood of changes in 2023	Direction of change
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 — summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Amendment to the Slovak Income Tax Act (ITA) that has been approved by the Parliament recently introduced, inter alia, following changes:

  Transfer pricing

  - In the event of a TP finding upon a tax audit, the ITA would explicitly require assessment of underpaid tax based on the median value unless the taxpayer establishes that, given the circumstances, an adjustment to another value within the interquartile range (upper/lower quartile) is more appropriate. Previously, it was left up to the discretion of tax authority officers performing the tax audit which value to take as a basis for the assessment of additional tax.
  - De minimis rule for related-party transactions would be introduced via defining a "significant controlled transaction." A related-party transaction giving rise to taxable income or tax-deductible expense exceeding EUR10,000 (in the case of loans and borrowings, if the principal exceeds EUR50,000) would be considered significant controlled transaction subject to scrutiny under Slovak TP rules. Tax authorities should not review compliance with the arm's-length principle of transaction that does not exceed this materiality threshold.
  - The amendment also seeks to increase legal certainty by adding a direct reference to the OECD Transfer Pricing Guidelines, which are already a widely used aid of interpretation of the TP rules.
  - TP changes to take effect as of 1 January 2023.

ATAD interest limitation rules

- As of 1 January 2024, due to transposition of the ATAD, which is aimed at combating tax avoidance practices, the new rules limiting the tax deductibility of interest expenses would be introduced.
- The ATAD interest limitation rules are meant to complement the local interest limitation rules, i.e., the current Slovak interest limitation rules based on the limit of 25% of EBITDA should stay in effect.
- The parameters of the ATAD interest limitation rules should be as follows:
  - They should limit the CIT deductibility of all interest expenses (intercompany as well as third party) to 30% of tax EBITDA calculated on a basis of tax base computed in line with the Slovak Income Tax Act, i.e., the ATAD rules would apply after the local interest limitation rules to test the CIT deductibility of the interest that already passes the local interest limitation rules.
  - There should be a de-minimis threshold of EUR3 million, i.e., the ATAD rules should only apply if the net interest expenses exceed EUR3 million in that tax year.
  - Carryover of the unused interest deduction for up to five years should be possible.
- The limitation would apply to interest expenses associated with all forms of debt (e.g., including bonds), other expenses economically equivalent to interest, and expenses incurred in connection with raising funds. All of these should be considered borrowing expenses for the purpose of the ATAD interest limitation rules. Interest capitalized to the book value of the property should also be subject to the ATAD interest limitation rules.
- The current Slovak interest limitation rules should also be modified as from 2023. Interest capitalized to the internal acquisition costs of property should no longer be subject to those rules.

Bond gains collected by non-residents

- Gain generated on bond transactions would be covered by Slovak-source rules, meaning that the same tax regime would be applied to them as to other interest income (19%/35% withholding tax unless exemption from taxation/reduction of local withholding tax on such interest payments is provided by (i) the relevant double tax treaty or (ii) provisions of the Slovak Income Tax Act implementing the EU Interest-Royalty Directive).

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Following the trend in taxation of digital economy at union level, Slovakia adopted with effect from 1 January 2018 unilateral measure allowing taxation of digital services concerning intermediation of accommodation and transfer services irrespective of the existence of physical presence of service provider in Slovakia — so called, the concept of a digital permanent establishment.
- Nevertheless, the Ministry of Finance has opened a consultation on a proposal to introduce a DST on revenue of nonresidents from provision of services, there were no further steps taken in this respect so far, i.e., no specific bill has been drafted yet.

VAT/GST or sales taxes

- An approved amendment to the Act on Value Added Tax (VAT Act) introduces a number of significant changes. Some changes effective from 1 January 2023 include:

  Rental housing

  - In an effort to encourage the construction of rental housing within the new state-supported scheme seeking to attract institutional investors, a reduced 5% VAT rate is introduced for supply of a building or parts of a building, including the land on which the building is constructed within this scheme.
  - For the exemption to apply, the recipient of the supply should be the landlord of the flat within the state-supported rental housing scheme, which has a contract for the operation of the building with an investment partner, in which the building is specified.
  - The reduced VAT rate should also apply to the redevelopment or reconstruction of such a building or part thereof, including construction and assembly works on the building.

  The registration obligation

  - Abolition of VAT registration obligation for taxable persons performing exclusively exempted financial and insurance services and exempted supply and rental of real estate

  Uncollectible claims

  - There is a new obligation of the customer to correct input VAT deduction from the goods and services purchased in Slovakia that are in arrears with the payment at least 100 days.
  - From a supplier's point of view, it's proposed that supplier may correct the tax base if the customer does not fully or partially pay them for the supply of goods or services, and their receivable becomes uncollectible for the purposes of the VAT Act.

  Tax rate reduction

  - The reduced VAT rate should include gastro sector and services provided in connection with sports (e.g., transport by cable cars or ski lifts, access to fitness centers and artificial swimming pools etc.).

Personal taxes *(such as on wages, employment, inheritance or wealth)*

Tax bonus

- Pursuant to the amendment to the ITA, the tax bonus for children is increased to EUR140 (EUR100 as of 2025) per child under the age of 18 and EUR50 per child over the age of 18. When determining the maximum amount of the tax bonus for a child, the partial tax base of the second parent (second eligible person) is also taken into account, but only when the tax return is submitted.

Windfall taxes *(please specify broad or sector specific)*

Solidarity contribution ("Solidárny príspevok" in local language) in the O&G and refining industry

- The entity subject to the contribution is a legal entity or a permanent establishment of a foreign person, which generates at least 75% of its turnover from economic activity to the extent according to a special regulation from activities classified in the Nomenclature of Economic Activities code:
  - 05.10 Mining of hard coal
  - 05.20 Mining of lignite
  - 06.10 Extraction of crude petroleum
  - 06.20 Extraction of natural gas
  - 09.10 Support activities for petroleum and natural gas extraction
  - 19.10 Manufacture of coke oven products
  - 19.20 Manufacture of refined petroleum products
- Fiscal year of application is 2022, payable in 2023.
- Tax rate is 55%.
- Taxable base is calculated from profits that are in excess of a 20% increase of the average taxable profits for the four fiscal years starting on or after 1 January 2018.

Levy from excess income of electricity producers

- Taxpayer can be a domestic legal entity or individual, foreign legal entity or individual that is:
  - Producing electricity in the territory of Slovakia based on the issued license
  - Selling and buying electricity based on issued license in the territory of Slovakia
  - Directly or indirectly connected with another eligible taxpayer
  - Supplying electricity to the wholesale electricity market

- Electricity manufactured is not the subject of the levy:
  - In an electricity production facility with an installed capacity of up to and including 0.9 MW
  - In a facility for the production of electricity from renewable energy sources
  - Produced in pumped water power plants
  - From biomethane
- Fiscal year(s) of application are December 2022–December 2024.
- Tax rate is 90%.
- Excessive income (taxable base) is calculated as the positive difference between the market income and the market income ceiling (between EUR50/MW–EUR250/MW), to be determined by government regulation.

Taxes related to climate change or sustainability

- We are not aware of any new taxes related to climate change or sustainability.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

Parliamentary proposal for a new adjustment of the special levy in regulated industries

- The main changes concern the following:
  - The scope of the special levy to entities that are authorized to do business by the National Bank of the Slovak Republic (NBS) is being extended, except for activities in the field of banking based on a banking license granted by the NBS, e.g., collective investment, activities of management companies
  - It appears that levy could affect bank branches if they operate in Slovakia on the basis of a permit issued in another EU Member State or EEA.
  - The current aggregated annual rate of 4.356% is to be increased to 12%.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- In Slovakia, virtual currencies have been subject to taxation since 1 October 2018.
- We are not aware of any proposed changes in the area of taxation of cryptocurrency.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- N/A

2.6 Political landscape in your jurisdiction

- The last parliament elections were held in 2020 where the OĽaNO (Ordinary People and Independent Personalities) won and formed a government. The next parliament elections should officially be held in 2024. However, since members of the National Council of the Slovak Republic expressed no confidence in the government cabinet of Eduard Heger recently, it is possible that early elections will be held.
- Tax policy leaders are Igor Matovič (Minister of Finance), Marcel Klimek, Ľuboš Jančík (State Secretary, Ministry of Finance).
- Tax administration leaders are Jiří Žežulka (President of Financial Directorate), Michal Šoltes (Vice-President of Financial Directorate).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- N/A

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The measures described in section 2.4 were proposed and/or legislated for in 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- In 2021, The Council of the EU introduced the new rules for digital platforms (DAC7) aimed at increasing legal certainty and providing more clarity to the digital platform operators, who currently may face different reporting obligations in individual counties.
- The new provisions will apply as of 1 January 2023, and the first reporting of data will be required by 31 January 2024.
- DAC7 should cover EU-based sellers using a digital platform or non-EU sellers whose activities involve the rental of immovable property located in the EU. However, the reporting obligation itself lies on the platform operator.
- Under DAC7, reporting platform operators will have to report to the tax authority various information about the sellers who use their platforms, such as seller's revenues, financial account of the seller, commissions, seller verification information, etc.
- The tax authority receiving reportable information will process this information and will exchange it with the tax authorities of the other EU Member States on an annual basis.
- DAC7 directive is already implemented by specific Slovak legislation.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- We are not aware of any other pending tax proposals or consultations.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

Automatic registration of taxpayers

- As of 1 January 2023, registration for income tax should be automatically carried out on the basis of registration of a natural or legal person in the registers, such as business register or trade register.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- See above.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	The focus is on transfer pricing arrangements and tax deductibility of management fees charged by foreign entities from preferential tax regime jurisdictions.
2	**ATAD interest limitation rules**	See above (point 2.4).
3	**DAC7**	See above (point 3.1).
4	CFC issues	As of 1 January 2022, the Slovak legislation has applied the rules for controlled foreign companies also for individuals.
5	DAC6	MDR that is effective from 1 January 2021 in Slovakia requires taxpayers or their intermediaries to disclose information on reportable cross-border arrangements to the relevant tax authorities.

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Tax policy and controversy

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

This information is current as of 18 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	19%	19%	–
Personal income tax – top rate	45%	50%	The top rate was reduced from 50% to 45% for 2022. However, changes were adopted in December 2022, raising the top rate again to 50%.
VAT, GST or sales tax – standard rate	22%	22%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Elections took place in April 2022; the new government's key tax policy objectives are:
  - Amendments of the Personal Income Tax Act to increase taxes of natural persons with higher income (please see below)
  - Pension insurance reform – it is not published yet but will mostly affect social security contributions, with planned implementation by the end of 2024

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

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Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- No significant changes are currently expected.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No significant changes are currently expected.

VAT/GST or sales taxes

- No significant changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

Amendments to the Personal Income Tax Act that are set to be in force as of 1 January 2023:

- **Change in the general tax relief** — Gradual increase from EUR4,500 to EUR7,500, which is expected until 2025 when the amount of the relief will be fixed at EUR5,000
- **Changes in the amount of income for additional general relief** — The total income up to which a tax resident is entitled to additional general tax relief alongside general tax relief: the threshold is EUR16,000
- **Special tax relief for young** — Until the age of 29, a reduction in the employment income tax base to EUR1,300 per tax year
- **Method of reconciliation of reliefs and net annual tax base amounts** — Elimination of the mechanism of automatic adjustment of the amount of tax relief and net annual tax bases
  - For 2023, the adjustment of tax relief and net annual tax bases will not be carried out.
  - The tax relief amounts, and the net annual tax bases, will be adjusted in the same way as was in place for the tax years from 2014 to 2021.
- **Increase of marginal tax rate** — An increase of the tax rate in the top income tax bracket from current 45% to 50%
- **Personal income tax rate on rental income** — The tax rate for income from renting out real estate is proposed to be increased from the current 15% to 25%

Windfall taxes *(please specify broad or sector specific)*

- No significant changes are currently expected.

Taxes related to climate change or sustainability

- No significant changes are currently expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No significant changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Taxation is indirectly changed through changes of taxation of business income governed with amended Personal Income Tax Act, as income of a natural person derived from trading with virtual currencies in performing business activity is taxed in accordance with the rules of business income taxation.
- The amount of costs recognized when determining tax base in the system of standardized costs within business taxation system changed as follows:
  - If the taxpayer meets the mandatory insurance condition (self-employment or full-time employment for at least nine months continuously), recognized standard costs are reduced from 80% to 40%, if taxpayer generates EUR50,000 or more revenue.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The current legislative trend is going in a direction of increasing taxes in general.
- Based on media publishing, some ministers are mentioning the need of increasing taxes in order to execute their programs, but for now no concrete measures or intentions were published except those described in this document.

2.6 Political landscape in your jurisdiction

- Elections were held in April 2022. The new government announced changes in personal income taxation, wealth tax changes and pension system reform. Personal income tax changes were adopted; regarding wealth tax, no recent developments were published. Some measures are envisioned regarding the energy crisis. Pension system reform will likely take place in 2024.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- There are no such plans announced.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- In March 2022, amendments to the Personal Income Tax Act (Amendment ZDoh-2Z) were adopted, which are applied retroactively from 1 January 2022.
- On 23 August 2022, the National Assembly of the Republic of Slovenia adopted the Act on Urgent Measures in the Field of VAT to Mitigate the Rise in Energy Product Prices (ZNUDDVE), on the basis of which the VAT rate for certain energy products is reduced from 22% to 9.5%. This measure applies from 1 September 2022 to 31 May 2023 inclusive.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no developments with respect to increased requirements for public disclosure of tax information.
- Recent amendments of the Tax Procedure Act are giving broader investigative powers to the tax authorities within tax procedures, but the legislative procedure is not finished yet (changes were adopted in the National Assembly on 15 December 2022; however, the National Council can veto and the voting in the National Assembly should be repeated and the higher majority must be achieved).

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- There are no other pending tax proposals.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax authorities generally focus on controls of corporate income tax, taxes and contributions from the income of natural persons, personal income tax, on the VAT sphere the cross-border transactions and online sales, customs and other duties.
- More complex and larger tax evasions will be dealt with in the context of financial investigations.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☒ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Amendments to the Personal Income Tax Act

Slovenia

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	COVID-19-related impacts and outcomes	In 2022, priority controls were performed over compliance with government decrees adopted to prevent the spread of COVID-19.
2	Indirect taxes	In general, tax authorities focus on correct VAT treatment in connection to online sales, cross-border transactions and with regard to customs duties, the calculation of customs value at import.
3	Transfer pricing	The following risks are the most common issues for the tax audit procedure on the TP sphere: ▸ A loss lasting several years and a profit that is lower than the average in the industry ▸ The ratio between capital and loans of the taxpayer (problem of thin capitalization) ▸ Change of business model and change of business organization after takeover ▸ Impairment of assets ▸ Payment of compensation for the use of intangible assets in connection with the reported EBIT
4	Payments to no or low tax jurisdictions or listed jurisdictions	Doing business with countries located in a more favorable fiscal environment may increase the risk of a tax audit procedure initiation.
5	Permanent establishment	The nature of the activities of nonresident entities may create an obligation to register for tax purposes in Slovenia.

Safari in Serengeti of Tanzania

South Africa

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Tax policy and controversy

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This information is current as of 1 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	28%	27%	-3.5%
Personal income tax – top rate	45%	45%	–
VAT, GST or sales tax – standard rate	15%	15%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Tax policy must be seen in the context of broader fiscal policy aimed at reducing the budget deficit and stabilizing public debt through boosting economic growth, increasing revenue collection and reducing expenditures.
- Recent revisions to the corporate tax framework included a reduction in the corporate tax rate accompanied by a broadening of the tax base (i.e., tightening the interest deductibility limitation and limiting the utilization of tax losses).
- In the short-to-medium term, increased revenue collection will come primarily from improved tax collection (i.e., stronger enforcement and enhanced compliance), rather that significant structural tax changes.
- Cross-border activities (i.e., inbound and outbound multinationals) and high-net-worth individuals top the list of enforcement priorities.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

South Africa

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- South Africa has announced a reduction in its CIT rate over time, with the first reduction (from 28% down to 27%) being effective in 2023. While South Africa's current headline CIT rate is considered to be "average" in the African regional context, it is recognized as being "high" compared to the OECD average. National Treasury does, therefore, acknowledge some competitive pressure to reduce the CIT rate.
- Fiscal policy concerns, notably narrowing the budget deficit and stabilizing debt, mean that a further downward adjustment to the CIT rate is unlikely in the short term.
- The primary reliance on improved tax collection and administration is identified as the key short-term revenue initiative.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- While South Africa does have a VAT regime for foreign suppliers of electronic services, no specific new proposals or indications have been made with regard to a general DST.
- South Africa's traditional position has been to stick relatively narrowly to the OECD's BEPS recommendations. National Treasury has indicated in the past that South Africa will look more closely at the possibility of DSTs if the two-pillar solution fails.

VAT/GST or sales taxes

- South Africa's VAT rate of 15% is not considered excessive and is viewed by National Treasury as the most likely source of additional revenue. However, current economic conditions, coupled with the political controversy over the regressive nature of VAT, makes any rate adjustment unlikely in the short-to-medium term.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Structural and rate increases are unlikely in light of current economic and employment concerns. There have also been notable increases (up to the current 45%) over the last few years.
- However, additional tax may be raised by limiting the annual relief for bracket creep/fiscal drag. Increased enforcement is also expected to be a source of additional revenue. There is an increased focus on taxpayers who have failed for submit historic returns.

Windfall taxes *(please specify broad or sector specific)*

- No significant changes are currently expected.

Taxes related to climate change or sustainability

- A carbon tax came into effect in 2019, and no new initiatives are expected for now.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No significant changes are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant developments are expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- In recent times, tax policy has focused on broadening the tax base, improving administration and lowering rather than raising tax rates. Government intends to continue with this approach by avoiding tax rate increases to the degree possible, subject to major expenditure decisions.
- According to the OECD, the commodity cycle boom has boosted the country's tax revenues. These windfall revenues have allowed the government to prolong the Social Relief Distress Grant until March 2024 and introduce temporary measures to cushion or lessen the impact of inflation without adding pressure on public finances.

2.6 Political landscape in your jurisdiction

- South Africa is a functioning parliamentary democracy. There is clear separation between legislature and executive branches, and an independent judiciary.
- The next general elections to elect a new National Assembly will be held in 2024.
- While the traditional dominance of the ruling party appears to be waning, it is not expected that the African National Congress will relinquish its majority in the National Assembly in 2024.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- South Africa is a member of the Steering Group of the OECD/G20 Inclusive Framework.
- The Budget Review 2022 noted that South Africa will propose legislative amendments to implement the BEPS Pillar Two solution, once the framework for these rules has been finalized and translated into a local context. The Minister of Finance has made it apparent that the National Treasury will be unable to make the necessary local legislative proposals until such time as the implementation framework has been completed by the OECD/G20.
- South Africa also deposited its instrument of ratification in respect of the MLI on 30 September 2022. The MLI entered into force for South Africa on 1 January 2023.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The following two key policy changes occurred in 2022 and were aimed at broadening the tax base to minimize the impact of a reduced CIT rate:
  - Extended interest limitation rules
  - Limitation of assessed losses
- Both of these amendments are effective for tax years ending on or after 31 March 2023. This corresponds with the effective date for the reduction in the CIT rate.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- In the 2022 Budget Review, it was noted that the government proposes that the South African domestic legal framework, particularly the Tax Administration Act, be amended to make provision for the full use of joint audits with other tax administrations in order to improve the effective exchange of information under international tax agreements. This could lead to more in-depth audits that may last longer and have a greater impact on multinational companies.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

The main tax proposals for 2022/23 are:

- Inflationary relief through a 4.5% adjustment in the personal income tax brackets and rebates
- An expansion of the employment tax incentive, through a 50% increase in the maximum monthly value, to R1,500.
- Increases of between 4.5% and 6.5% in excise duties on alcohol and tobacco

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- South Africa's tax administration rules are relatively prescriptive on processes such as information-gathering, audits, disputes, etc., and the South African Revenue Service (SARS) largely follows these rules. There has been a significant uptick in disputes relating to administration, procedure, and the Revenue Authority powers, but the rule of law (as regards the tax administration regime) remains robust and intact.
- SARS continues to rely heavily on the pay-now-argue-later rules.
- There is an increasing (perceived) preference toward alternative dispute resolution and settlement processes, meaning that matters are settled with reference to a mutually palatable settlement amount, as opposed to technical merits. This has also resulted in a decline in the number of disputes reaching the courts.
- The most recent development has been the "Enhanced Relationship" initiatives, where SARS relationship managers are reaching out to large corporates with a view to understanding businesses and industries, enhancing relationships and encouraging compliance.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Similar to previous years, there is a focus on transfer pricing and cross-border activity (permanent establishments, CFCs, etc.).
- One of SARS‘ objectives for the period includes modernizing SARS systems to provide digital and streamlined online services. This will in turn improve tax administration and tax enforcement and may have an impact on business taxpayers.
- There is a heightened focus on compliance of taxpayers to legislation; thus, strategic compliance and enforcement interventions have been put in place.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	Transfer pricing audits, across all issues, especially inbound distributors, are expected.
2	Allowances for future expenditure	When income is received in advance, there are current-year allowances for expected future expenditure (e.g., construction contracts), which are increasingly being audited.
3	Employee incentive schemes	The deductibility of employer contributions to certain types of schemes is being audited and challenged.
4	Year-end inventory valuation	Annual write-down of inventory values is challenged.
5	Controlled foreign companies	The exemption for "foreign business establishments" (i.e., substantial physical presence) is being challenged.


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South Korea

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Tax policy and controversy

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

This information is current as of 9 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022		2023		% change
	Tax base of corporate income	Tax rate	Tax base of corporate income	Tax rate	
Corporate income tax – top rate	KRW200 million or less	10% of tax base	KRW500 million or less (Only for qualified SME's)	10% of tax base	-12% Top rate
	KRW200 million ~ KRW20 billion	KRW20 million + 20% of the excess over KRW200 million	KRW500 million ~ KRW20 billion (Only for qualified SME's)	KRW50 million + 20% of the excess over KRW200 million	
	KRW20 billion ~ KRW300 billion	KRW3.98 billion + 22% of the excess over KRW20 billion	KRW20 billion or less	20% of tax base	
	Over KRW300 billion	KRW65.58 billion + 25% of the excess over KRW300 billion	Over KRW20 billion	KRW40 billion + 22% of the excess over KRW20 billion	

	2022		2023		% change
Personal income tax – top rate	Tax base of global income	Tax rate	Tax base of global income	Tax rate	–
	KRW12 million or less	6% of tax base	KRW14 million or less	6% of tax base	
	KRW12 million ~ KRW46 million	KRW0.72 million + 15% of the excess over KRW12 million	KRW14 million ~ KRW50 million	KRW0.84 million + 15% of the excess over KRW14 million	
	KRW46 million ~ KRW88 million	KRW5.82 million + 24% of excess over KRW46 million	KRW50 million ~ KRW88 million	KRW6.24 million + 24% of excess over KRW50 million	
	KRW88 million ~ KRW150 million	KRW15.90 million + 35% of the excess over KRW88 million	KRW88 million ~ KRW150 million	KRW15.36 million + 35% of the excess over KRW88 million	
	KRW150 million ~ KRW300 million	KRW37.6 million + 38% of the excess over KRW150 million	KRW150 million ~ KRW300 million	KRW37.06 million + 38% of the excess over KRW150 million	
	KRW300 million ~ KRW500 million	KRW94.6 million + 40% of the excess over KRW150 million	KRW300 million ~ KRW500 million	KRW94.06 million + 40% of the excess over KRW150 million	
	Over KRW500 million	KRW174.6 million + 42% of the excess over KRW500 million	Over KRW500 million	KRW174.06 million + 42% of the excess over KRW500 million	
VAT, GST or sales tax – standard rate	The rate of value-added tax is 10%				–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

Tax reform proposal was announced on 21 July 2022, aiming to achieve the followings goals:

- Stimulate economic activities
  - Promote corporate competitiveness
  - Strengthen tax support for employment and investment
  - Support family business succession
  - Promote financial markets
- Stabilize people's livelihood through optimizing tax burdens
  - Minimize the tax burden for low- and middle-income taxpayers
  - Support micro enterprises and SMEs
  - Strengthen regionally balanced development
  - Normalize the taxation on real estate
- Strengthen tax system by improving fiscal sustainability and tax fairness
  - Prepare measures to identify income and secure tax revenue
  - Prevent tax avoidance with stricter rules
  - Introduce a global corporate minimum tax system
- Enhance a taxpayer-friendliness
  - Protect taxpayers' rights
  - Enhance taxpayers' convenience

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

South Korea

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☒ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Revision of corporate income tax rates and tax base brackets (lower the highest corporate tax rates from 25% to 22%, and simplify the tax base bracket from four to two brackets for SMEs and from four to three brackets for other corporations)
- Elimination of double taxation on dividend income for foreign and domestic subsidiaries
- Increase in the ceiling of the tax loss carryforward from 60% to 80% to support the pandemic-hit businesses and to mitigate tax burdens

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No changes were made in digital tax.

VAT/GST or sales taxes

- No changes were made in VAT.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Adjustment of the tax base and the amount of tax credit for wage and salary income
  - Raise the income level of two lowest tax base brackets to minimize the tax burden for low- and middle-income households
- Reduction of the amount of tax credit for wage and salary income for employees with total income exceeding KRW120 million from KRW500,000 to KRW200,000
- Increase in the nontaxable meal benefits per month from KRW100,000 to KRW200,000 to minimize the food expense burden
- Adjustment of tax rates and the ceiling for housing in comprehensive real estate holding tax
  - Apply price-based taxation regardless of the number of houses
  - Set the ceiling of the tax burden at 150% of previous year's tax burden regardless of the number of houses possessed

Windfall taxes *(please specify broad or sector specific)*

- N/A, as there is no Windfall tax regime

Taxes related to climate change or sustainability

- N/A, as there is no ESG tax regime

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Delay of the introduction of "financial investment income tax" to 2025, which was initially planned to be introduced in 2023 considering the recent stock market situations and the progress of the investor protection system
- Alleviation of the criteria of being classified as a "major shareholder" regarding capital gains tax for listed companies
  - Increased the major shareholder's stockholding limit to KRW10 billion per stock item

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Delay of the introduction of cryptocurrency taxation to 2025, which was initially planned to be introduced in 2023

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- A global economic slowdown could trigger the government to lower the tax rates and to enhance tax credits in order to relieve taxpayers' tax burdens.

2.6 Political landscape in your jurisdiction

- A new president in the conservative party was elected in the 2022 presidential election.
- The president announced that he would implement tax policies to reduce tax burdens.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- On 21 July 2022, the 2022 tax reform proposals (the 2022 Proposals, not bill) introduced new global minimum tax rules to align with the OECD BEPS 2.0 Pillar Two. The regulation will be included in the Adjustment of International Taxes Act (AITA) and will be effective for fiscal years beginning on or after 1 January 2024.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Expansion of tax benefits for local businesses to revitalize the economy after COVID-19 by enhancing support on growing business markets to build economy for the next generation
  - Increasing support on R&D and investment in facilities in the fields of semiconductors, batteries, vaccine-related technology
  - Expanding the range of "New-growth technologies and Source proprietary technology" supported by the government
  - Providing tax benefits to activate IP market
  - Transfer pricing

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The general approach to tax enforcement in 2023 is alleviating taxpayers' tax burdens, which can be found from the following expected tax reform items:
  - Adjustment of corporate income tax rates and tax base brackets
  - Increase of limit for the deduction of losses carried forward
  - Expiration of additional taxation on excess corporate earnings reserves
  - Adjustment of individual income tax base brackets
  - Postponement of tax on income from virtual assets for two years

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☐ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☒ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☒ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Adjustment of corporate income tax rates and tax base brackets
  - The highest tax rate of corporate income tax will be lowered from 25% to 22% and the income tax base brackets would be simplified.
- Expiration of additional taxation on accumulated excess corporate earnings (AECE)
  - The existing provision on the 20% additional tax on AECE, which is initially designed to facilitate the use of corporate retained earnings to fund facility investment and payroll increases, will expire at the end of December 2022.
- Alleviation of a criteria regarding deduction for business succession
  - To support the smooth succession of the family business of SMEs, the range of SMEs that can benefit from the deduction for family business succession will increase; while only SMEs with revenue of less than KRW0.4 trillion could benefit from the deduction, the SMEs with revenue of less than KRW1 trillion will be subject to the deduction from 2023.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☒	☐	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☒	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transfer pricing**	To scrutinize a substance of intercompany intangible and service transactions
2	**Withholding taxes**	To determine whether the proper amount of tax is withheld or not especially regarding transactions with foreign corporations
3	**Capital gains tax**	To confirm whether the valuation of a property sold is properly carried out
4	**Disclosure**	To check whether a cash-heavy corporation properly reports the cash income amount
5	**Tax residency**	To ascertain whether a taxpayer is a Korean tax resident or a non-Korean tax resident

Spain

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This information is current as of 1 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25% (a minimum 15% rate) 30% (18% minimum tax rate for financial and oil and gas companies) 15% (10% minimum tax rate for newly created companies)	25% (a minimum 15% rate) 30% (18% minimum tax rate for financial and oil and gas companies) 15% (10% minimum tax rate for newly created companies) 23% (companies with net value of turnover <EUR1 million)	New general rate for small companies with turnover under EUR1 million: 23%
Personal income tax – top rate	General base: 47% Saving base: 26%	General base: 47% Saving base: 26% (If tax base falls between 200k and 300k: 27%; if it exceeds 300k: 28%)	–
VAT, GST or sales tax – standard rate	21% general VAT rate 10% reduced VAT rate 4% super – reduced VAT rate	21% general VAT rate 10% reduced VAT rate 4% super – reduced VAT rate	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- A new solidarity tax is expected to be introduced as a temporal measure (2023 and 2024). It will apply to taxpayers holding assets of EUR3 million or more. The tax quota paid under the wealth tax will be deductible in order to avoid double taxation.
- Regarding the corporate income tax, a new general tax rate of 23% will apply for companies with net value of turnover below EUR1 million. It includes a 50% limitation on the possibility of offsetting the carryforward tax losses of the subsidiaries by a consolidated tax group.
- Regarding the personal income tax, the tax rate for the saving base is increased for revenues over EUR200,000. Additionally, the reduction for employment income is increased from EUR18,000 to EUR21,000 and the minimum amount of taxation increases from EUR14,000 to EUR15,000.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes (PIT)	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023

Spain

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- A new general tax rate of 23% will apply for companies with net value of turnover below EUR1 million.
- It includes a 50% limitation on the possibility of offsetting the carryforward tax losses of the subsidiaries by a tax consolidated group.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Spain has joined an agreement concerning the implementation of a transitional system that will allow the gradual termination of existing unilateral DST measures.

VAT/GST or sales taxes

- The limits for applying the simplified system and the special system for agriculture, livestock and fisheries in VAT are extended for fiscal year 2023.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Introducing a new tax on large fortunes (the "solidarity tax") is expected to be a temporal measure (2023 and 2024) and to apply to taxpayers holding assets of EUR3 million or more.
- Self-employed workers will have new Social Security contributions, as well as new minimum and maximum contribution bases, the amounts on which these contributions will apply. A rise of 8.6% is established in 2023 for the contribution bases and their corresponding quotas to all the self-employed who applied an automatic revaluation of their contributions.
- The optional Special Regime for displaced workers to Spanish Territory requires a nonresidency period in Spain of the 10 previous years. It is proposed to reduce this requirement to five years.
- Emerging companies:
  - Investment of new emerging companies: The deduction rate is increased from 30% to 50%, and the maximum base is also increased from EUR60,000 to EUR100,000.
  - Allotment of shares representing the capital of emerging companies to its employees: The exemption increases from EUR12,000 to EUR50,000.

Windfall taxes *(please specify broad or sector specific)*[1]

- Introduction of a new temporal taxation on energetic and financial institutions sectors is to limit the increase in inflation and Price Index Consumer.
- The new tax on financial institutions is a temporal measure (2023 and 2024) and applies to those financial institutions with total income deriving from interests and commissions over EUR800 million in 2019. The tax rate is 4.8% over the margin of interests and commissions accrued in Spain.
- The new energetic taxation is also a temporal measure (2023 and 2024) and applies to those considered as main operators by the National Securities Market Commission and with a turnover greater than EUR1,000 million in 2019. The tax rate is 1.2% over the previous year turnover for the activity developed in Spain.
- Both taxes are considered as nondeductible for corporate income tax purposes, and the corporation must assume the tax with no option of charging the cost of such tax to their customers/clients (penalties foreseen).

Taxes related to climate change or sustainability

- A new tax about non-reusable plastic packaging and about landfills has been approved with entry into force on 1 January 2023.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- Established a legal interest rate at 3.25% and a late payment interest rate at 4.0625%.[2]
- The EU has established a mandatory temporary solidarity contribution in the form of a temporary tax on windfall profits from activities in the oil, gas, coal and refining industries.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- New reporting obligations are established in relation to the ownership of cryptocurrencies:
  - These assets will be included in the 721 tax returns.
  - A new reporting obligation is for cryptocurrency service providers with tax residence in Spain. This information will be included in 172 and 173 tax returns.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- We expect an increase in taxes focused on high-income individuals and big groups of companies.

2.6 Political landscape in your jurisdiction

- The energy crisis and the war in Ukraine led to rising energy prices, which have gradually spread to a growing proportion of the goods and services in the household consumption basket and have reduced purchasing power. Overall, this decline in the incomes of industry and households is also leading to a reduction in demand to produce in other sectors.
- The potential increase of inflation and increasing legal interest rate increase are a priority.

[1] 122/000247 Proposición de Ley para el establecimiento de gravámenes temporales energético y de entidades de crédito y establecimientos financieros de crédito y por la que se crea el impuesto temporal de solidaridad de las grandes fortunas, y se modifican determinadas normas tributarias. (congreso.es)

[2] Proyecto de Ley de PGE para 2022: https://www.congreso.es/docu/pge2023/pge_2023-web/PGE-ROM/doc/1/1/N_23_A_R_1_1.PDF

- The contribution received by the state to the Pension Reserve Fund will add EUR2,957 million. In addition, the 2023 Spanish Budget includes the largest allocation for pensions, which will be revalued in line with the Price Index at around 8.5%.
- The 2023 Spanish Budget includes up to EUR30,000 million European funds (Pollutant Release and Transfer Register and REACT-EU). Seventy-two percent of these resources are for policies to promote a change in the productive model with investments in R&D, industry, energy and infrastructures.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The introduction of a minimum corporate income tax of 15% of the taxable base for companies subject to the general tax rate of 25% will apply to all consolidated groups and to stand-alone companies with an annual net turnover of at least EUR20 million.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The application of the minimum corporate income tax rate
- Reduction of the tax credit for entities engaged in housing leasing
- A new tax on non-reusable plastic packaging and landfills

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- The creation of new reporting obligations in relation to the ownership of cryptocurrencies as well as for the service providers (the entry in force of these tax returns was delayed to fiscal year 2023)

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Annually, the Spanish Tax Agency (AEAT) publishes a resolution determining the broad guidelines for the Tax and Customs Control Plan. The resolution for the years 2020–2023 established the guidelines based on the following pillars:
  - Information and assistance
  - Prevention of tax fraud and promoting voluntary compliance with tax obligations
  - Investigations and actions to verify tax and customs fraud
  - Fraud control in the collection stage
  - Collaboration between the AEAT and the tax administrations of the autonomous regions

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☒ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Introduction of new solidarity tax on large fortunes
- Introduction of a 50% limitation on the possibility of offsetting the carryforward tax losses of the subsidiaries by a Tax Consolidated Group
- Introduction of a new temporal taxation on energetic and financial institutions sectors

Spain

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☒	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	**Description**
1	**Transfer pricing**	There will be a campaign to verify proper compliance with the reporting obligations on related-party transactions that must be declared on a specific form (Form 232).
2	**Tax losses**	The AEAT will continue to check taxpayers who have repeatedly included tax losses pending application in their corporate income tax returns.
3	**Tax fraud**	The fight against fraud will be by direct verification actions.
4	**Exit taxes**	Following the entry into force of the new agreement with Gibraltar, the AEAT will focus a special verification about the taxpayer's special rules of exit.
5	**Digital taxes**	The digitalized business models will still continue to audit the taxation in Spain because of the entry into force of the tax on certain DSTs in 2021.

Oresundsbron bridge between Denmark and Sweden

Sweden

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EY key contacts

Tax policy and controversy

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

This information is current as of 23 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20.6%	20.6%	–
Personal income tax – top rate	55.6%	55.6%	–
VAT, GST or sales tax – standard rate	25%	25%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

The government's published goals for tax law are:

- A legitimate and fair tax system
- Clear rules
- Taxation close to taxable event
- Sustainable rules in relation to the EU

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Sweden

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- In 2022, Sweden implemented new legislation on hybrid mismatches in line with EU standards. It entered into force in 2022, but is expected to attract extra attention from the tax agency in 2023 in terms of monitoring the application of the rules.
- Further, the tax law on losses carried forward has been amended. Previously, losses would survive a change in ownership as long as the consideration paid to acquire decisive influence over the loss-making entity was high enough. Now, the assessment also must cover an estimate whether the transaction was motivated by undue tax reasons.
- The cap for R&D incentives will be expanded as from 1 July 2023. The incentive allows for a reduction of social charges, currently with a maximum of KSEK600. This amount will be increased to KSEK1,500 per month.
- New rules on withholding taxes will be applicable as from 1 January 2024.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No national digital service tax is in the pipeline.

VAT/GST or sales taxes

- The Swedish government has issued a bill on a new VAT act. The objective of the act is primarily to adapt the Swedish act to the EU VAT directive, and to achieve better structural alignment to the directive. In essence, the new law is about modernizing the language and not really introducing new rules. However, this will entail a need for companies to update language in their invoicing to adapt to the new act.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No major changes are currently expected. However, due to the new government, general reductions on taxes on wages are expected.

Windfall taxes *(please specify broad or sector specific)*

- There is currently a bill proposing an extra tax for electricity producers, based on an EU initiative (Council regulation (EU) 2022/1854) to address high energy prices. In essence, the bill is about proposing a market revenue cap and excess profits tax on energy producers in line with the EU energy solidarity contribution.
- There is a 90% percent tax on income from electricity sold for more than SEK1,937 (about USD188) per megawatt-hour would be effective from 1 March 2023 to 30 June 2023.

Taxes related to climate change or sustainability

- Sweden has currently the highest obligation in EU to reduce emission of fossil gases through mix renewable fuel into fossil fuel. The government plans to lower this obligation to be at the minimum level according to EU legislation.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No developments are currently expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No developments are currently expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None.

2.6 Political landscape in your jurisdiction

- The newly elected government has a slightly different tax agenda than the previous. It is looking for general reductions in taxation, primarily for individuals.
- Tax on income from work is expected to be reduced to promote people working.
- Pensions are expected to be taxed more leniently.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The work to implement is ongoing, and the aim is to have enforced new legislation regarding global minimum tax in place as soon as possible. A committee will present its suggestions (Governmental No. — Dir 2022:28).

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Introduction of additional taxes applicable to hydro power plants and fish farming
- Abandoning certain exemptions for data processing centers and electric vehicles

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The tax agency has changed their method to applying a more proactive approach in audits. Previously when conducting audits, the focus was on past years, now audits regularly also cover the current fiscal year. This is communicated as the tax agency primarily wants to enable taxpayers to do things right from the start. Further, digital analysis is increasing.
- There are no generally communicated priorities relating to objective and scope of audits.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☒ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Enactment of Pillar Two and new global minimum tax
- New VAT law
- Overview on rules on interest deductions

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Intellectual property	When IP is transferred within a multinational group, the Swedish Tax Agency (STA) is very interested in testing whether the pricing has been set at arm's length.
2	Transfer pricing	TP is almost always in focus in full-scope audits. The pricing of intra-group transactions remains a hot topic, and we expect the STA to continue performing audits on this issue. It is very important for multinational groups to regularly review their transfer pricing policies to achieve compliance with OECD guidelines and Swedish tax legislation to mitigate the risks for reassessment decisions.
3	Interest deductions	Interest has a big impact on taxable result and is, therefore, always in focus in audits. For the past 10 years interest deductions on intra-group loans have been one of the major risk factors. With new and partly very complex interest deduction legislation having entered into force in 2019, we are seeing a continued focus on interest deductions from the STA.
4	Indirect taxes	The STA currently performs many audits regarding intra-group invoicing on services provided within the group, for example, management fees, where the VAT obligations may differ between the companies in the group.
5	Permanent establishment	The STA has shown a big interest in foreign companies with some sort of presence in Sweden.


Zermatt village with view of Matterhorn

Switzerland

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This information is current as of 21 October 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	Overall tax rate on profit before tax taking into account federal, cantonal and communal taxes varies between 12% and 21% (thereof approx. 7.8% federal tax)	Overall tax rate on profit before tax taking into account federal, cantonal and communal taxes varies between 12% and 21% (thereof approx. 7.8% federal tax)	–
Personal income tax – top rate	Federal: 11.5% Overall tax rate taking into account federal, cantonal and communal tax varies between 22.5% and 41.5%	Federal: 11.5% Overall tax rate taking into account federal, cantonal and communal tax varies between 22.5% and 41.5%	–
VAT, GST or sales tax – standard rate	7.7%	7.7% (On 1 January 2024, the rate will increase to 8.1%.)	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Switzerland as a whole and also the Swiss cantons are striving to remain competitive from a tax point of view, while at the same time adhering to supranational tax harmonization initiatives (e.g., BEPS 2.0).
- There is also "tax competition" among the Swiss cantons themselves.
- In 2020 Switzerland adopted a major corporate tax reform, that in many cantons included a reduction of the CIT rate. In some cantons, the tax rate reduction is effectuated in several steps and continues over the next years.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Switzerland

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- There was a material tax reform (TRAF) in 2020. In 2023, no significant changes are anticipated.
- It is expected that tax administrations and taxpayers will set practices and precedents regarding the implementation of certain elements of the tax reform (e.g., notional interest deduction, patent box, R&D deductions).
- For 2024, it is expected that Switzerland will implement Pillar Two of OECD BEPS 2.0.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- No significant changes are expected.

VAT/GST or sales taxes

- No significant changes are expected.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- For 2023, the maximum amount to be deductible from the taxable income for external childcare will be increased from CHF10k to CHF25k.

Windfall taxes ***(please specify broad or sector specific)***

- No significant changes are expected.

Taxes related to climate change or sustainability

- No significant changes are expected.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- No significant changes are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant changes are expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No immediate effect on the tax policy developments are expected for 2023 due to the macroeconomic effects.

2.6 Political landscape in your jurisdiction

As in the previous year, the Federal Department of Finance is headed by Federal Councillor Ueli Maurer, who will step down at the end of 2022. The succession is currently still unclear, the voting will take on 7 December 2022.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Switzerland plans to implement BEPS 2.0 Pillar Two as of 2024 (IIR, QDMT) and 2025 (UTPR), respectively.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- None

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- None

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Treaty clearance: The conditions under which the notification procedure can be applied for withholding taxes purposes will be lowered as of 1 January 2023. A participation quota of 10% (today 20%) will be sufficient to apply the notification procedure for dividends between Swiss companies. In case the dividend receiver is a foreign company, the participation quota according to the respective double tax treaty is decisive to qualify for treaty clearance. In case a treaty does not mention a minimum shareholding quota for qualifying investments, the 10% quota shall be relevant to apply the notification procedure. Furthermore, the approval will be valid for five years (today it's three years).
- Digitalization: Tax law amendment aims to enable electronic filing of tax returns for cantonal and communal taxes, introducing the possibility for the federal council to mandate digital taxation process for federal taxes.
- VAT: Extension of VAT duty to digital platforms who facilitate the conclusion of sales contracts.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- No general approach for all tax authorities may be identified, as Switzerland's direct taxes are assessed by the 26 cantonal tax authorities based on their cantonal law (which is only partially harmonized).

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☒ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- N/A

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☐
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	TP	There will likely be a review of IC transfer prices, in particular on financial transactions.
2	TRAF measures	With new rules implemented for tax period 2020, it is expected that tax authorities will focus on their application in the first years.


Skyline of Taipei City

Taiwan

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EY key contacts

Tax policy and controversy

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

This information is current as of 15 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	40%	40%	–
VAT, GST or sales tax – standard rate	5%	5%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- CFC rules will come into force on 1 January 2023.
- Amendments were made to tax incentives under the Statute for Industrial Innovation to encourage certain industries (e.g., the company that has a key position in the international supply chain field).
- The Statute for Industrial Innovation extended the applicable year until the end of 2024 and expanded tax incentives to information and communication security products or services.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Taiwan

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- CFC rules will come into force on 1 January 2023. Under the CFC rules, if a parent company holds 50% or more of the shares of its foreign subsidiary located in a low-tax country, or has a significant influence on such foreign subsidiary, the subsidiary should be subject to Taiwan CIT regardless of a dividend distributed to the parent company.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- A business entity that sells goods or services solely or concurrently via online platform, application, or other electronic tools shall reveal its profit-seeking enterprise uniform serial number and the name in accordance with the Regulations Governing Taxation Registration.

VAT/GST or sales taxes

- There are no changes expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- There are no changes expected.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- N/A

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- From our perspective, we expect that the tax policy developments in Taiwan might not have significant adjustments in 2023.

2.6 Political landscape in your jurisdiction

- We expect there will be no significant changes with respect to tax policy due to the upcoming Taiwanese local elections (city mayor elections were held on 26 November 2022 and the Presidential Election will be held in 2024).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Until now, there is no specific implementation timeline or any other statements of a government official for BEPS 2.0 in Taiwan.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- There are no changes expected.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There are no increased requirements for public disclosure of tax information in 2022. However, in 2023, a business entity that sells goods or services solely or concurrently via an online platforms, apps, or other electronic tools shall reveal its profit-seeking enterprise uniform serial number and name in accordance with the Regulations Governing Taxation Registration.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Generally, the Taiwan Ministry of Finance usually issues a tax ruling relating to taxes as their tax enforcement method.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☐ Become somewhat more challenging for taxpayers
- ☒ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- CFC Rules
- Business Mergers and Acquisitions Act with respect to amortization of intangible assets (e.g., customer list)
- Capital gains tax (Joint Property Tax System 2.0)

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☐	☐
An increase in transfer pricing enforcement	☐	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	CFC issues	A CFC is defined by a foreign company registered in a low-tax jurisdiction and directly or indirectly held by a Taiwanese company, and its related parties, or being significantly influenced a Taiwanese company and its related parties.
2	Capital gains tax (Joint Property Tax System 2.0)	Under the Joint Property Tax System 2.0, buildings and lands acquired post 1 January 2016 and sold after 1 July 2021 will be subject to tax based on the progressive tax rates from 20% to 45%.
3	Amortization of intangible assets	The M&A Act amendment expands the scope of intangible assets like trade secrets (e.g., customer relationships) and computer software with tax deductible amortization as a result of the merger or acquisition.
4	Incentives	The act for the development of biotechnology and pharmaceutical industry provides income tax deferral and allows the senior-level professional employees and qualified individual shareholders have the option to choose the taxable amount.
5	Loss carryforward	If a company would like its net income could deduct the losses incurred in the preceding 10 years as determined by the local tax authority, if that preceding loss year has investment income it should deduct its losses first.

Thailand

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This information is current as of 15 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20%[1]	20%[1]	–
Personal income tax – top rate	35%[2]	35%[2]	–
VAT, GST or sales tax – standard rate	7%[3]	7%[3]	–

Source: [1] https://www.rd.go.th/english/6044.html
[2] https://www.rd.go.th/english/6045.html
[3] https://www.rd.go.th/english/6043.html

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- In line with the government's national strategy to promote the film industry and stimulate the economy, the cabinet approved the new ministerial regulation to waive the personal income tax of foreign actors and actresses for five years, starting 180 days after its publication in the Royal Gazette.
- The Revenue Department has indicated that it will undertake a review of tax deductions and tax benefit measures to reform the tax system and tax collection. To do this, the Finance Ministry set up a tax reform committee chaired by the minister, aiming to adjust the tax system.
- The Thai Board of Investment (BOI) approved a tax exemption as part of industry transformation, to promote innovation, competitiveness and sustainability of the country in October 2022.
- Moreover, the BOI has announced the new incentive policy for 2023-2027 that is effective from January 2023.
  On 4 November 2022, the BOI-announced new incentive policy included 9 measures to promote BOI activities, which will be effective from 1 January 2023 to 31 December 2027 as follow:
  1. Measure to promote investment in industries that are important to the development of country
  2. Measure to enhance competitiveness
  3. Measure to maintain and expand existing production bases (Retention and Expansion Program)
  4. Measure to promote relocation
  5. Measure to stimulate investment during the economic recovery period
  6. Measure to upgrade the industry to be smart and sustainable; the BOI has approved the creation of new industry categories that will receive special incentives, including (1) electric vehicles (EVs): production of fuel cell EVs and setting up of EV battery swapping stations, (2) renewable energy: generation of hydrogen-based electricity and related activities, (3) food production for the future: novel and organic food production and (4) aerospace industry: manufacture of equipment for repair, maintenance and ground service, as well as manufacture of mechanical or electronic parts for various satellite and space objects, etc.
  7. Promote SMEs investment
  8. Promote investment in targeted areas
  9. Promote investment for community and social development
- Thailand is expected to introduce a carbon tax to match the global trend. According to global practices, such tax could be levied either on carbon dioxide-emitting products, or factories' production processes that emit carbon dioxide. The introduction of a carbon tax would also serve the Excise Department's policy of promoting the ESG concept in its tax measures.
- The Revenue Department plans to propose a draft law on the exchange of financial account information of nonresidents to the cabinet following the ratification of the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information by the parliament on 6 September 2022. The agreement provides a standardized mechanism to facilitate the automatic exchange of information, in accordance with OECD standards, with an aim to provide local and international tax transparency. The move is in line with Thailand's introduction of the e-service tax law.
- The Ministry of Finance has announced the postponement of the increase in the specific rate of Excise tax applied to sugar sweetened beverages until 31 March 2023.

Thailand

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there is no thin capitalization tax regime

Tax types	Likelihood of changes in 2023	Direction of change
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Thailand

Tax types	Likelihood of changes in 2023	Direction of change
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

● Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

MLI

- On 31 March 2022, Thailand became the 71st country to deposit its instrument of ratification for the MLI. The convention entered into force in respect of Thailand on 1 July 2022. It should be noted that this is not the date of entry into effect for certain taxes and transactions, i.e., the MLI should apply to withholding taxes on or after 1 January 2023, or to taxable periods starting on or after 1 January 2023.
- As from this date, Thailand's treaties with certain countries will be affected by the MLI. This list of affected treaties will increase as further partner countries deposit their instrument of ratification. The extent to which the MLI will modify Thailand's bilateral tax treaties will depend on the final adoption positions taken by other countries.

Multilateral Competent Authority Agreement on Automatic Exchange of Financial Accounting Information (MCAA CRS)

- The Revenue Department is in the middle of proposing laws to the cabinet. It is anticipated that the laws will be enforced by September 2023 to start exchanging information with competent authorities in other jurisdictions.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

Draft tax measure to promote the investment in data centers

On 28 June 2022, the cabinet approved the draft Royal Degree on VAT Exemption to exempt VAT for the service providers that render businesses as follows:

1. Server hosting and related equipment to collect, process and connect electronic data through the Internet network
2. The service provider that supports the businesses mentioned in 1. above:
   - Providing backup services to prevent crashes that cause data damage (Disaster Recovery Site)
   - Providing network connection services with an Internet service provider or cloud service provider
   - Providing system management and information security services

In order to be eligible for VAT exemption, aforementioned service providers must be the data center operators that meet the condition as prescribed under this Royal Decree. The request must be submitted to the Revenue Department within five years from effective date. The service providers then would be exempted for VAT upon receiving approval letter from the Revenue Department.

Further details of this measure, the effective date and associated regulations have yet to be announced.

VAT/GST or sales taxes

- The reduced VAT rate of 7% has been extended until 30 September 2023.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- N/A

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- In order to encourage entrepreneurs to consume or sell biodegradable plastic products and reduce nonbiodegradable plastic waste, the Royal Decree (no. 749) provides extension of the additional tax deduction for biodegradable plastic product expenses previously granted under Royal Decree (no. 702) until 31 December 2024.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- On 24 May 2022, the Royal Decree (no. 744) was published to provide VAT exemption for the transfer of cryptocurrencies or digital tokens via the authorized digital assets trading center under the law on Digital Asset Business from 1 April 2022 until 31 December 2023.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- None.

2.6 Political landscape in your jurisdiction

- Thailand's next general election is tentatively scheduled for 7 May 2023 by the Election Commission, provided the House of Representatives completes its four-year term by 23 March 2023. Competing parties are expected to make a number of pledges, for both traditional and populist policies, and the makeup of any government coalition after the election is uncertain.
- The Constitutional Court is expected to hand down its ruling on the organic laws on the election of members of parliament and political parties. This means it remains uncertain as to whether these amendments to the election regulations will be approved by the court and can be adopted for the coming election. If they cannot be adopted, the election may need to be delayed until there is certainty as to which organic laws are to be applied.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- On 18 October 2022, the Cabinet approved in principle for Thailand to join the Multilateral Competent Authority Agreement on the Exchange of CbCRs. It is anticipated that the exchange of information regarding the CbCR will be started in June 2023.
- In terms of information exchange, Thailand joined the Global Forum in 2017 and has committed to implement the AEOI Standard, which includes the CRS regime by 2023. The CRS Act and any supplemental regulations are under enactment process. It is anticipated that the exchange of information will be started by September 2023.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- The Revenue Department has been developing the information technology platform and encouraged taxpayers to use more e-tax filings and payments of which include e-stamp duty, e-tax invoice, e-receipt, CbCR filings and transfer pricing disclosure form. Some of these are not mandatory yet, but for those taxpayers who use certain e-tax filings and payments, the Revenue Department will provide certain tax incentives, such as extension of deadline for tax filing.
- The Revenue Department has cooperated with other government agencies, e.g., Customs and Excise Departments, BOI, Ministry of Commerce, etc., to improve tax collection and transparency.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

CbCR notification and CbCR filing

For fiscal years starting on or after 1 January 2021, MNEs with annual group consolidated revenue of at least THB28,000 million may be required to file a CbCR in Thailand if certain conditions are met.

There are two key steps that a company should follow regarding CbCR notification and CbCR preparation and filing.

Step 1: CbCR notification

The following entities are subject to the CbCR notification requirement:

- Thai ultimate parent entities (UPE) with an annual group consolidated revenue of at least THB28,000 million
- Thai subsidiaries of MNE groups with an annual group consolidated revenue of at least THB28,000 million, regardless of whether the Thai subsidiary is required to file a CbCR in Thailand; however, if the group has several subsidiaries in Thailand, only one designated Thai subsidiary is required to file a CbCR notification

Step 2: CbCR preparation and filing

The following entities are subject to the CbCR filing requirement:

- UPEs or Thai subsidiaries who are required to file CbCR in Thailand in accordance with the Notification of the Director-General of the TRD No. 408 (DGN 408)

The due date of CbCR notification submission is extended to 12 months from the year-ended date from 150 days from the year-ended date. Therefore, the first CbCR notification submission was due in December 2022.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- In term of the focus on transfer pricing issues, more supplemental regulations and guidelines in relation to CbCR and TP documentations can be expected.
- The Revenue Department has cooperated with the Department of Special Investigation (DSI) to enhance two core policies (i.e., Digital Transformation and Data Analytics) in order to increase efficiency in collecting information/evidence and reduce the procedure for the investigation of the offenses related to special cases (e.g., issuing illegitimate tax invoices).
- The Revenue Department has been promoting fairness in taxation between domestic and foreign entrepreneurs that are providing services in Thailand by participating in the Tax Inspectors Without Borders project under the OECD, especially in e-commerce business and to cope with tax-evasion challenges from the transaction between MNEs by exchanging knowledge and sharing experiences about cross-border tax inspection with Her Majesty Revenue and Customs.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☒ Become somewhat more challenging for taxpayers
- ☐ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Regulations in terms of transfer pricing will continue to be developed, and more supplemental regulations and guidelines can be expected.
- The development and implementation of BEPS 2.0 Pillar Two in Thailand can be expected.
- Tax measures for data center operators in order to promote Thailand as the Regional Digital Hub can be expected.

Thailand

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☐	☐	☒
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☒	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☒	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☒	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☒	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☒	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☒	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☒	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	The related-party transactions are being focused from the tax authorities as the submission of transfer pricing disclosure form is still required. In addition, in 2022, it is the first year for filing of CbCR and CbCR notification to the Revenue Department in Thailand for the fiscal years starting on or after 1 January 2021.
2	Allocated expenses from related parties	Allocated expenses from related parties, especially allocation from overseas group companies, are frequently challenged by tax authorities in more details where the tax authorities are seeking for evidence of proof that whether such expenses are related to the business and for the purposes of making profit, including for the purpose of business in Thailand. Any expense with no or insufficient supporting documents may be challenged by the tax authorities and regarded as nondeductible expenses for corporate income tax purposes.
3	Tax audit on delivery service platform	Currently, tax authorities focus on the online business (i.e., delivery service platform) in several areas (e.g., revenue recognition, VAT submission, negative gross profit margin and continuous loss on net profit).
4	Illegitimate tax invoices	Issues relating to tax invoices are being investigated, e.g., false tax invoice, incorrect tax invoice by cross-checking transactions between the Area Revenue Office where the issuer's registered address is located.
5	Tax audit on dissolution	Extensive tax audits are conducted upon the registration of dissolution in order to make sure that the company has no additional tax liability and is ready to liquidate.

Türkiye

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

This information is current as of 25 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	23% (The rate is temporarily applicable for FY22. The statutory rate is 20%. Also please note that the rate might vary due to specific exceptions.)	20%	-13%
Personal income tax – top rate	40%	40%	–
VAT, GST or sales tax – standard rate	18%, 1%, 8%	18%, 1%, 8%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- How to tax the digital economy (Türkiye endorsed the OECD's two-pillar solution) is the main objective change in the mid-term plan of the government for the period 2022–2024.
- Interest deduction limitation was introduced in 2021, and enterprises whose current liabilities exceed the equity, up to 10% of the total amount of expenses and costs incurred relating with the excess amount, would be treated as nondeductible expenses.
- As of November 2021, the cumulative producer price index of the past three years has exceeded 100% and the producer price index of 12 months has exceeded 10%, meaning that the inflation adjustment for tax purposes for FY2021 would be applicable; however, a bill that postpones the implementation of inflation adjustment to FY24 was passed in the parliament. Moreover, the inflation adjustment for statutory account at the end of FY2023 shall be done for Turkish GAAP purposes, and the adjusted financials are not taken into consideration for tax purposes for the tax base of FY2023. The adjusted values could be used from 1 January 2023.
- To increase the amount of the tax revenue and reduce disputes between taxpayers and the administration, a law regarding restructuring of certain receivables and amending certain laws ("a tax amnesty law") has been announced, which is expected in the first or second quarter of 2023. The rationale of a proposed amnesty is to enhance tax collection and improve its effectiveness and to challenge illicit economy and prevent tax loss by doing so.

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules

Türkiye

Tax types	Likelihood of changes in 2023	Direction of change
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Corporate tax with rate of 20% will be charged on corporate earnings for the 2023 accounting period, while financial sector corporate income tax is 25%.
- There is no other major change on the corporate income tax to be reported.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- In recent years, Türkiye introduced three different taxes on digital business activities (VAT registration for nonresident service providers whose clients are resident non-taxpayers, withholding taxation for nonresident online advertisement and digital service taxation).
- With regard to Turkish DST, the United States announced investigations completed for some countries, including Türkiye. After the investigations, the unilateral measures were found discriminatory and the US imposed tariffs to products from these countries.
- Türkiye endorsed the OECD's two-pillar solution, and Türkiye and the US announced an agreement regarding a compromise on a transitional approach to existing unilateral measures during the interim period before Pillar One.
- Turkish DST is still applicable but in accordance with the agreement between Türkiye and the US, DST liability that US-based companies accrue during the interim period will be creditable against future income taxes accrued under Pillar One of the OECD agreement.

VAT/GST or sales taxes

- There is no major change on the VAT rates for 2023.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- No significant developments are expected.

Windfall taxes ***(please specify broad or sector specific)***

- There is no major change on windfall taxes except financial institutions. In 2022, the corporate income tax rate increased to 25%, compared to standard rate of 20%, for the financial sector, such as banks, electronic payment institutions, asset management companies and insurance companies.

Taxes related to climate change or sustainability

- No significant developments are expected.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- No significant developments are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The effort for a proposal on crypto assets continues under the coordination of the Ministry of Treasury and Finance with participation of the Capital Markets Board, the Revenue Administration, the Central Bank, and the Banking Regulation and Supervision Agency. However, there is no draft available to the public.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- The approach of the tax authority to increase tax revenue is expected in accordance with the mid-term plan regarding 2022-2024, yet there is no announced or publicly available plan to do so.

2.6 Political landscape in your jurisdiction

- The elections will be held in second quarter of 2023, and the economic policy may differ in case of any government change.
- The inflation adjustment for tax purposes is postponed to the end of 2023.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- There is no specific publicly announced plan by the government so far. But the Turkish revenue administration is making preparations, as it is known via the mutual declaration of Türkiye and the US as stated above.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Fourth advance individual and corporate income tax declarations have been abolished.
- The special consumption tax base of automobiles has been re-evaluated.
- Tax deduction on cash capital increases has been limited to a five-year period and a new repatriation has been instated with Law No. 7417.
- Law on Istanbul Finance Center (IFC) has been published, which has various tax advantages for persons working with the IFC.
- Corporate income tax rate has been set at 25% for financial institutions.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- In Türkiye, the Tax Inspectorate is the authorized institution that conducts tax audits routinely. It is expected that most of the tax audits will be concluded under the amnesty law that will be enacted prior to election.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- ☐ Higher number and/or intensity of tax audits expected
- ☒ Around the same number and/or intensity of tax audits expected
- ☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- ☐ Become more challenging for taxpayers
- ☒ Become somewhat more challenging for taxpayers
- ☐ Stay roughly the same
- ☐ Become somewhat less challenging for taxpayers
- ☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- As mentioned above, an interest deduction limitation was introduced in 2021 This will also be the case for FY23.
- The beneficial ownership and management fees to be paid to abroad group countries are typical tax audit subjects.
- The tax audits for the capital commitments pledged, but not yet paid by shareholders, frequently commenced before the companies, due to recent amendment in case law of the tax judiciary.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	**Already occurred in 2022**	**Very likely to occur in 2023**	**May occur in 2023**
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☒	☐	☐
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☒	☒	☐
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Indirect taxes – VAT, GST, sales and use, service taxes	The main item on the agenda of Turkish tax authority has always been combatting fraudulent document (invoice) uses.
2	Tax residency/permanent establishment	Turkish tax administration claims that some companies providing electronic services generate commercial revenue within Türkiye through digital workplaces, which should be considered as permanent establishment according to its opinion.
3	Transfer pricing	It can be said that Turkish tax inspection board (the board) is always enthusiastic to inspect subsidiaries of multinational companies based on the transfer pricing rules. Common criticisms directed to these taxpayers are related to royalties/licensing fees, management fees and procurement structures mostly.
4	Treaty benefits	In recent years, it is observed that Turkish tax administration focused its inspections on the implementation of beneficial owner clauses of DTTs Additionally, regarding TP inspections, the inspectors of the board are keen to reclassify the professional services income payments as royalties in case of the professional services are provided from abroad (HQ of an MNE).
5	Tax refunds	In line with current legislation, tax inspections are mandatory for tax refunds exceeding some certain amounts. Thus, tax inspections initiated upon refund applications are quite common.

Tolerance bridge, Dubai

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This information is current as of 8 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	N/A	9%	100%
Personal income tax – top rate	N/A	N/A	–
VAT, GST or sales tax – standard rate	5%	5%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Revenue diversification
- International tax developments (e.g., BEPS 2.0)
- Investment promotion – business friendly tax environment
- 2023 United Nations Climate Change Conference, or Conference of the Parties of the UNFCCC (COP28), to be hosted by the UAE

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☐ Higher in 2023 ☒ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

United Arab Emirates (UAE)

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Implementation of a federal corporate tax (CT) in 2023

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Direct tax: Not applicable at present
- Indirect tax: No changes anticipated in 2023

VAT/GST or sales taxes

- No changes are currently expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- No personal taxes are applicable or anticipated.

Windfall taxes *(please specify broad or sector specific)*

- No windfall taxes are applicable or anticipated.

Taxes related to climate change or sustainability

- No such taxes are applicable or anticipated.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No other taxes are applicable or anticipated.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- Cryptocurrency policy is on the government's agenda within the UAE, and there may be policy updates and/or guidelines released with respect to the VAT treatment of related transactions in 2023 or later.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- N/A

2.6 Political landscape in your jurisdiction

- The UAE is a federation of seven Emirates. It has a Council of Minister or Cabinet, headed by the Prime Minister, with executive authority to introduce and promulgate legislation. The Federal National Council, whose members are drawn from the individual Emirates based on their population, has both a legislative and supervisory role under the UAE Constitution and is responsible for examining, and possibly amending, all proposed federal legislation.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No clarity at the moment on the timeline of the implementation of Pillar Two — no current coverage under the new CT law that is to be implemented in 2023

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Issuance of the UAE CT law

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- The Federal Tax Authority (FTA) published voluntary disclosure user guide for VAT and excise tax.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- On 31 January 2023, the Ministry of Finance (MOF) of the UAE confirmed that the UAE will introduce federal corporate tax for financial years starting on or after 1 June 2023. The CT law was released on 9 December 2022.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- The UAE FTA is in charge of enforcing tax legislation (currently VAT and in the future CT).
- Tax enforcement is mainly focused on risk-based strategy for audits.
- A whistleblower program (Raqeeb) was implemented.
- The FTA conducts random inspection visits to locations identified as noncompliant.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Introduction of CT in the UAE
- Introduction of e-invoicing legislation
- Amending the statute of limitations rules

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☒	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Transitional rules**	Transitional rules applied at the time of implementation of VAT in 2018; given that the five-year statute of limitation is approaching, it is expected to see an increase in audits to review the application of the transitional rules.
2	**Tax refunds**	The FTA is expected to examine certain industries based on refund claims received during 2022.
3	**Input tax apportionment**	The FTA is examining registrants who has mixed supplies "taxable and exempt" to review the accuracy of input tax claimed, and this is expected to continue during 2023.
4	**Voluntary disclosures (VDs) (negative)**	The FTA is implementing a strict process when dealing with negative VDs, where the registrant is reducing the payable tax by filing a negative VD; it is expected that the same will continue during 2023.
5	**Excise tax**	The FTA issued a relatively large number of audit notifications for excise tax registrants during 2022; it is expected that the audit procedures will start during 2023.


Kiev, Ukraine

Ukraine

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EY key contacts

Tax policy and controversy

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

This information is current as of 5 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	Standard rate: 18% CFC's adjusted profit (where a controller is a CIT-payer): standard 18% rate Special/additional rates: 3 %/0% of income (for insurance business); 10% of income (for gaming machines); 18 % of income (for betting and gambling businesses); 30% of income (for lottery operators) Lower 9% CIT for qualifying transactions (resulting in the exit of capital) within special tax and legal regime for IT industry (Diia City) Starting 1 April 2022 for qualifying taxpayers – the possibility to apply special 2% single tax rate based on income until the abolition of the martial law (vs. tax on profit at 18% standard rate)	Standard rate: 18%[1] CFC's adjusted profit (where a controller is a CIT-payer): standard 18% rate[2] Special/additional rates: 3 %/0% of income (for insurance business); 10% of income (for gaming machines); 18 % of income (for betting and gambling businesses);[3] 30% of income (for lottery operators)[4] Lower 9% CIT for qualifying transactions (resulting in the exit of capital) within special tax and legal regime for IT industry (Diia City)[5] Starting 1 April 2022 for qualifying taxpayers – the possibility to apply special 2% single tax rate based on income until the abolition of the martial law (vs. tax on profit at 18% standard rate)[6]	–

	2022	2023	% change
Personal income tax – top rate	Standard rate: 18% (plus 1.5% military levy under PIT rules) Lower rates: 0% (for some inherited assets and gifts – close family members; for gifts with value below 25% of minimum wage as of 1 January of the current year); 5% (for sale and exchange of some immovable property; for sale (exchange) of movable property with restrictions; for other inherited assets and gifts) Special lower rates for passive income: 5% (for dividends received from resident CIT payers); 9% (for the dividends received from non-residents, non-CIT payers and mutual investment institutions) CFC's adjusted profit (where a controller is individual): 18% standard rate; 5% (for dividends from Ukrainian legal entities-CIT-payers); 9% (for CFC's profit distributed to a controller before filing CFC report (or within 2 years after reporting year) and included into annual PIT report; for dividends received from mutual investment institutions and non-CIT payers). In addition, 1.5% military levy applies to CFC's profit distributed to individual controller	Standard rate: 18%[7] (plus 1.5% military levy under PIT rules)[8] Lower rates: 0% (for some inherited assets and gifts – close family members; for gifts with value below 25% of minimum wage as of 1 January of the current year);[9] 5% (for sale and exchange of some immovable property;[10] for sale (exchange) of movable property with restrictions;[11] for other inherited assets and gifts[12]) Special lower rates for passive income: 5% (for dividends received from resident CIT payers);[13] 9% (for the dividends received from non-residents, non-CIT payers and mutual investment institutions)[14] CFC's adjusted profit (where a controller is individual): 18% standard rate;[15] 5% (for dividends from Ukrainian legal entities-CIT-payers);[16] 9% (for CFC's profit distributed to a controller before filing CFC report (or within 2 years after reporting year) and included into annual PIT report;[17] for dividends received from mutual investment institutions and non-CIT payers);[18] in addition, 1.5% military levy applies to CFC's profit distributed to individual controller	–

[1] Paragraph 136.1 of article 136 of the Tax Code of Ukraine
[2] Paragraph 136.7 of article 136 of the Tax Code of Ukraine
[3] Article 136 of the Tax Code of Ukraine
[4] Paragraph 48 of subsection 4 of section XX of the Tax Code of Ukraine
[5] Para 136.8 of the Tax Code of Ukraine
[6] Paragraph 9 of sub-section 8 of section XX of the Tax Code of Ukraine
[7] Paragraph 167.1 of article 167 of the Tax Code of Ukraine
[8] Paragraph 161 of sub-section 10 of section XX of the Tax Code of Ukraine
[9] Paragraphs 174.2 and 174.6 of article 174 of the Tax Code of Ukraine
[10] Paragraphs 167.2, 172.2 and 172.3 of article 172 of the Tax Code of Ukraine
[11] Paragraphs 173.1 and 173.2 of article 173 of the Tax Code of Ukraine
[12] Subparagraph 174.2.2 of paragraph 174.2 of article 174 of the Tax Code of Ukraine
[13] Subparagraph 167.5.2 of paragraph 167.5 of article 167 of the Tax Code of Ukraine
[14] Subparagraph 167.5.4 of paragraph 167.5 of article 167 of the Tax Code of Ukraine
[15] Subparagraph 170.13.1 of paragraph 170.13 of article 170 of the Tax Code of Ukraine
[16] Subparagraph 170.13.3 of paragraph 170.13 of article 170 of the Tax Code of Ukraine
[17] Subparagraphs 170.13.2.1 and 170.13.2.2 of subparagraph 170.13.2 of paragraph 170.13 of article 170 of the Tax Code of Ukraine
[18] Subparagraph 170.13.3 of paragraph 170.13 of article 170 of the Tax Code of Ukraine

Ukraine

	2022	2023	% change
VAT, GST or sales tax – standard rate	Standard rate: 20% Lower rates: 14% (on import and supply of certain agricultural products) 7% (on qualifying pharmaceuticals and medical products; certain cultural, tourism and temporary accommodation services) 0% (on export of goods, services of international transportation, tolling services)	Standard rate: 20%[19] Lower rates: 14% (on import and supply of certain agricultural products)[20] 7% (on qualifying pharmaceuticals and medical products; certain cultural, tourism and temporary accommodation services,[21] imports and domestic supplies of motor gasoline, heavy distillates, liquified gas, and oil and crude oil products obtained from bitu-minous rocks (minerals) – during the martial law but no later than 1 July 2023)[22] 0% (on export of goods, services of international transportation, tolling services)[23]	– Reduction to 7% in relation to import and domestic supplies of certain goods

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Under the conditions of the martial law in Ukraine, almost all the funds raised through Ukrainian taxes will be aimed to finance the defense and national security purposes. The Ukrainian government continues to look for resources to finance the growing budget deficit, which is further increasing due to the war in Ukraine. The reduction of general tax rates for business in 2023 is not expected.
- The additional freedom and incentives provided to taxpayers at the beginning of the martial law in Ukraine is being gradually narrowed, and return to ordinary tax rules is expected. More and more types of tax audits are being taken out of moratorium.
- Combating the "shadow economy" remains on the agenda.
- Further implementation of BEPS initiatives into Ukrainian tax law is expected to occur in 2023, including enactment of CFC rules (Action 3) and CbC reporting (Action 13).
- Ukraine has joined the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, and it is in the process of implementing the Common Standard on Reporting and Due Diligence for Financial Account Information (CRS).
- The government continues to encourage the IT sector to join the special legal and preferential tax regime for IT industry (Diia City), which was enacted in February 2022. For instance, a number of requirements for maintaining the status of a Diia City resident are suspended for the martial law period.

[19] Subparagraph "a" of paragraph 193.1 of article 193 of the Tax Code of Ukraine
[20] Subparagraph "г" of paragraph 193.1 of article 193 of the Tax Code of Ukraine
[21] Subparagraph "в" of paragraph 193.1 of article 193 of the Tax Code of Ukraine
[22] Paragraph 82 of sub-section 2 of section XX "Transitional provisions" of the Tax Code of Ukraine
[23] Subparagraph "б" of paragraph 193.1 of article 193, article 195 of the Tax Code of Ukraine

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime

Ukraine

Tax types	Likelihood of changes in 2023	Direction of change
8. Transfer pricing rules	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Tax types	Likelihood of changes in 2023	Direction of change
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- New filing obligations will apply to qualifying taxpayers — CFC reporting and CbC reporting.
- The possibility to apply the special 2% single tax rate based on income until the abolition of the martial law, which was introduced on 1 April 2022, remains for qualifying Ukrainian companies (vs. 18% CIT and 20% VAT, save for import VAT). This possibility could be cancelled in mid-2023.
- Increase in tax rates for business entities having economic relations with the Russian Federation is in the process of adoption (1.5 increasing coefficient to CIT, environmental tax, rent fee and property tax).
- Donations in favor of Armed Forces of Ukraine and qualifying military establishments continue to be allowed for CIT deduction in full and are exempted from VAT.
- Diia City regime for IT industry is becoming popular and attracting more and more new residents. This regime anticipates optionality to apply 9% CIT on qualifying transactions (related to the exit of capital) vs. 18% standard CIT rate.
- Nonresidents continue to be in the focus of the Ukrainian tax law. The moratorium for tax audits of nonresidents (representative offices of nonresidents) as well as of Ukraine-sourced income received by nonresidents was recently cancelled.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- No significant changes are expected.
- A 20% VAT on electronic services supplied by nonresidents to private Ukrainian customers entered into force in 2022 and will continue to apply in 2023.

VAT/GST or sales taxes

- A number of rules enacted for the period of martial law, such as the below, will be effective:
  - Taxpayers are allowed to retain input VAT credit in respect of goods destroyed or lost due to force majeure circumstances, or donated to the state or local authorities (including voluntary military units), as well as donated to any third parties for the purposes of securing Ukraine's defense.
  - Free-of-charge supplies to the military units, civil state authorities, as well as to health care institutions do not qualify as VAT-able supply.
  - Lower 7% VAT rate (vs. 20% standard rate) applies for imports and domestic supplies of specific products (e.g., motor gasoline, heavy distillates, liquified gas, and oil and crude oil products obtained from bituminous rocks (minerals)).
  - Importation and domestic supplies of qualifying strategical goods are also included.
- Starting 1 January 2023, supplies of software products are no longer exempt from VAT. A bill to extend this exemption until 2028 was registered with the Parliament, but was not adopted in 2022. There is uncertainty whether the exemption will be re-introduced in 2023.
- VAT exemption is enacted for certain IT-related distance learning services (e.g., computer sciences, cybersecurity, software development, etc.) rendered by Diia City residents.
- Taxpayers who elected to shift to the special 2% single tax will need to comply with VAT assessment obligations when they switch back to the 18% CIT rate and their VAT registration is renewed.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- Special preferential personal income tax rates apply within Diia City regime (available for qualifying IT business):
  - 5% personal income tax
  - 22% unified social tax based on a minimum wage
  - 1.5% military levy
- Military are exempted from the military levy.
- The first CFC reporting for individuals-controllers for 2022 will need to be filed with personal income tax return for 2023.
- There is a risk of double taxation of Ukrainian citizen's income due to their evacuation and stay abroad.
- There is an initiative to merge personal income tax, military levy and unified social tax into a single tax — personal income tax with a tax rate of 29% in 2023 (26% in 2024, 23% in 2025, 20% in 2026). However, due to the martial law and other current priorities, this draft law has not been considered yet.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- N/A

Other taxes *(such financial transaction taxes, solidarity surcharges, etc.)*

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The Law on Virtual Assets was adopted in 2022. However, this law is not effective yet; its entry into force is connected to the date of entry into force of the law of Ukraine on amendments to the Tax Code of Ukraine regarding the peculiarities of taxation of transactions with virtual assets. The latter has not been adopted yet (Draft Law No.7150).
- The National Bank of Ukraine presented the e-hryvnia concept project.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- A global economic slowdown could lead to the reduction of lending, donations and financial aid provided to Ukraine by the foreign partners. This may force the government to look for alternative sources of financing, such as increase in taxes and widening the tax base.

2.6 Political landscape in your jurisdiction

- Among the Ukrainian government's priorities for 2023 are:
  - Provision of the army, defense and security of Ukraine
  - Legislative changes in line with Ukraine's aspirations to join the European Union and NATO
  - Energy supplies stability, defending and restoring energy generation and distribution facilities
  - Restoration of areas damaged by the war
  - Macrofinancial stability and business support programs
  - Implementation of mandatory pension savings, reform of the stock market and capital market
  - Reform of state property management and public administration reform
- Elections to Ukrainian Parliament are upcoming in 2023 (however, they will likely be postponed since holding of any elections under the conditions of martial law is prohibited).
- Attraction of funds from foreign partners (borrowings, donations and financial aid) to cover humanitarian and social needs is one of the priorities.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- No specific actions for implementation of Pillar Two have yet been announced.
- While implementation of BEPS actions remains one of the priorities for Ukraine, the pace and scope of their implementation is impacted by the challenges that Ukraine is facing due to the martial law in Ukraine.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- CFC rules came into force in Ukraine on 1 January 2022.
- On 1 January 2022, tax loss carryforward for large taxpayers was limited by 50% annually (does not apply to tax losses up to 10% of taxable profit of the current period).
- VAT registration and compliance obligations for nonresident providers of digital services to Ukrainian private customers became effective in Ukraine.
- Diia City regime was enacted in early February 2022 and is becoming more and more popular among IT companies.
- A package of preferential tax rules and tax incentives were enacted for the period of martial law, including:
  - Release from liability for tax violations in qualifying cases
  - The possibility to apply special 2% single tax rate based on income starting 1 April 2022 (vs. 18% standard profit tax rate and 20% VAT, save for import VAT)
  - Exemption from real estate tax on commercial property and tax for land plots located at the affected territories as defined by law from 1 March 2022 until the end of the year of the martial law abolition
  - Other CIT and VAT preferential rules for transactions related to providing security and defense of Ukraine as well as for humanitarian purpose
- On 25 November 2022, the possibility to perform a large number of tax audits was resumed, including audits of transfer pricing compliance matters, audits of nonresidents (representative offices of nonresidents) as well as audits on Ukraine-sourced income received by nonresidents, etc.
- Ukraine has joined the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports, which is a condition for the obligation to file country-by-country reporting in Ukraine to become effective.
- Ukraine has joined the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, which is one of the steps to implement Common Standard on Reporting and Due Diligence for Financial Accounting Information (CRS)
- Also, the process on amending double tax treaties concluded by Ukraine is ongoing. The protocols to treaty with Denmark entered into force in 2022, protocols with Qatar and United Arab Emirates are pending. Denunciation of the DTTs with Russia and Belarus took place.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Ukrainian tax authorities are known for their fiscal interpretations of the tax and financial accounting rules during tax audits.
- Due to the war in Ukraine a lot of fiscal measures of the tax authorities were suspended. This includes temporary exemption from tax fines and interest for tax violations committed during the martial law as well as moratorium on tax audits (both subject to exceptions), specific tax incentives, etc.
- The gradual return to the pre-war tax rules is already taking place and is expected to continue in 2023.
- Starting 1 January 2023, during e-audits large taxpayers are obliged to submit standard audit file (SAF-T UA) at the request of the tax authorities. Mandatory submission of this file by large taxpayers is envisaged starting 2025, by all VAT payers — starting 2027.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☐ Become more challenging for taxpayers

☒ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Abolition of moratorium for all tax audits as well as of relief from penalties for tax violations
- Abolition of the possibility to apply special 2% single tax rate (vs. standard CIT and VAT rates), which could take place in mid-2023
- Increased level of enforcement from the tax authorities to cover the growing budget deficit

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☐	☒	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☒
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	**Disputes related to application of martial law special tax rules** (may appear)	In connection with the beginning of the war in Ukraine and introduction of martial law, some changes were made to the tax legislation. The application of new rules without clarification from the tax authorities may cause grounds for tax disputes. For instance, in relation to the following: ‣ VAT exemptions and CIT incentives upon transfer of goods, works, services for the needs of defense (e.g., insufficient documentary evidence or lack of reality of such transactions) ‣ Proving the facts of the documents'/property's destruction by military actions ‣ Tax debt that has arisen due to the war in Ukraine (its occurrence and collection) ‣ VAT implications of return to the standard 18% CIT rate from special 2% single tax rate ‣ Proving the absence of the possibility to timely submit relevant tax returns and pay tax obligations, etc.
2	**Transactions' actual performance test** (disallowance of deductions and VAT credit)	The key focus of the tax authorities during the tax audits was and is expected to continue to be an analysis of the reality of the business transaction (so-called "transaction actual performance test"), which implies actual movement of assets as a result of the transaction. The most common grounds to challenge tax deduction of costs and VAT credit related to transaction are: (i) the counterparty does not have enough resources to carry out business activities, i.e., personnel, assets; (ii) absence of the counterparty at the place of its registration; (iii) absence of information on actual transportation and storage of goods based on its physical characteristics and volume; (iv) an information that a counterparty is a sham business; and (v) insufficient supporting documents or technical defects therein.
3	**Nonresident's activity in Ukraine**	Attention to the nonresident's activity is expected to increase in 2023 due to the facts that (i) 2020 tax reform law significantly specified PE rules by bringing them in line with BEPS standards (Action 7) and (ii) moratorium for tax audits in relation to nonresidents carrying out their activity in Ukraine through the PE was abolished in November 2022. There was the obligation for nonresidents operating in Ukraine through PEs and representative offices to undergo tax registration in Ukraine until 31 March 2022. However, there were a number of practical difficulties for nonresidents after their registration, including with receipt of access to electronic cabinet of taxpayer, with filing tax returns, etc. The tax authorities are granted more administrative powers in relation to incompliant nonresidents, including fine of UAH100,000, tax lien on property, forceful tax registration and tax assessments.

	Issue name	Description
4	**Business purpose test** (disallowance of deductions and VAT credit)	The 2020 tax reform law re-introduced the business purpose test for deduction in relation to certain operations with nonresidents (controlled and operations with nonresidents from "low-tax" jurisdictions and registered in special legal forms). It is expected that in 2023 the tax authorities will scrutinize the transactions' economic substance even more. If they consider that the transaction lacks economic substance, they could challenge related deductible expenses and VAT credit. The tax authorities are well familiar with the business purpose test and historically applied it in practice even when there was no technical mechanism of the use of such test.
5	**Transactions with related parties, including transfer pricing issues**	The tax authorities historically scrutinize transactions with related parties, especially related nonresidents. They usually check compliance with TP rules (both material aspect of compliance with the arm's-length principle and technical aspect of filing TP report and TP documentation), where statutory thresholds for TP control are met. It may be expected that in 2023 TP compliance will continue to be among the main focus areas for tax audits.
6	**Withholding tax and treaty benefits**	The tax authorities historically audit and widely challenge entitlement to benefits (tax relief or reduced WHT rates) under double tax treaties. For this purpose, they, in addition to raising challenges based on lack of/improper formalization of tax residency certificate, argue that nonresident income recipient does not qualify as beneficial owner of income, principal purpose test is not passed, nonresident income recipient has PE in Ukraine to which such income is attributable, other treaty eligibility conditions are not met. We expect that this tendency would likely remain as one of the tax audit focus areas in 2023, especially given that 2020 tax reform law further specified the beneficial owner test, introduced the principal purpose test, "look-through" approach and constructive dividends concept into national tax law.
7	**Interpretation of financial accounting rules**	Given that CIT is calculated based on a taxpayer's financial result determined according to the financial accounting rules, the tax authorities also intend to challenge CIT treatment and assess additional CIT liabilities based on their fiscal interpretations of the financial accounting rules. The most popular grounds for tax reassessments include discounting of financial liabilities; forex differences in transactions with related nonresidents; recognition of income from free-of-charge use of trademarks and other intellectual property rights; recognition of income from all types of activities and from write-off of bad debts (accounts payable), etc.


Rush hour at Liverpool Street Station/London (UK)

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

This information is current as of 16 December 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	19%	25%	31.6%
Personal income tax – top rate * Except for Scotland, which had a rate of 46% in 2022, increasing to 47% in 2023.	45%*	45%*	–
VAT, GST or sales tax – standard rate	20%	20%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Raising additional tax revenue required to fund support to households and businesses for higher energy costs and protecting public services
- Making sure tax policy aligned with wider economic objectives of restoring public finances to a sustainable path, displaying fiscal discipline to support the Bank of England in bringing inflation down, and over the medium term, reducing the national debt as a proportion of the economy
- Supporting government objective of improving UK economic growth and productivity by increased investment in people, infrastructure and innovation

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

United Kingdom

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023 * Enhanced for some, reduced for some – details below
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate* * Increase only to rate for Scotland	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☒ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- The top corporate income tax rate has been legislated to increase from 19% to 25% from April 2023.
- UK is committed to implementing the OECD Pillar Two rules, to deliver a global minimum corporate tax rate of 15%, though this will apply for accounting periods beginning on or after 31 December 2023.
- From April 2023, R&D tax credits for a larger business will be increased, while those for SMEs reduced.
- With the government's aim to boost growth and productivity by investing in people, infrastructure and innovation, the introduction of new or enhanced tax incentives in 2023 to encourage such investment is a possibility.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- The government had previously considered introducing an online sales tax (OST) but has now confirmed it will not proceed with this proposal.
- The UK has had a DST since April 2020. The eventual intention is to sunset this once BEPS 2.0 Pillar One and Two reforms are implemented, but for the present, no changes are expected to the DST in 2023.

VAT/GST or sales taxes

- As above, the government has confirmed it will not proceed with an earlier proposal for a DST.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- Personal taxes are generally set to increase in 2023 as a result of various already announced measures (details below), combined with the effect of inflation (fiscal drag).
- From 6 April 2023, there will be a cut in the threshold at which the 45% additional rate of income tax applies from GBP150,000 per year to GBP125,140.
- The personal allowance and the threshold for the basic rate of income tax, as well as the thresholds for social security contributions (National Insurance contributions or NIC), inheritance tax and pension tax allowances will remain frozen (until April 2028).
- There are also cuts in the dividend allowance (from GBP2,000 per year to GBP1,000 per year from April 2023 and GBP500 from April 2024) and in the annual CGT allowance (from GBP12,300 per year to GBP6,000 from April 2023 and GBP3,000 from April 2024).

Windfall taxes ***(please specify broad or sector specific)***

- From 1 January 2023, the rate of the Energy Profits Levy (a tax on oil and gas profits introduced in 2022) will rise by 10 percentage points to 35%. The investment allowance will be reduced to 29% for all investment expenditure (other than decarbonization expenditure) broadly maintaining its existing cash value.
- The government is also introducing the Electricity Generator Levy, a temporary 45% tax that will be levied on extraordinary returns from low-carbon UK electricity generation. This will apply to extraordinary returns arising from 1 January 2023.

Taxes related to climate change or sustainability

- The government will legislate in 2023 in the Spring Finance Bill to raise the Climate Change Levy (CCL) main rate on gas while freezing the CCL main rate on electricity in 2024-25.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- See the windfall taxes section above for the Electricity Generator Levy, a new tax is being introduced in 2023.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- The government has announced it will launch a consultation on a UK retail central bank digital currency alongside the Bank of England

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Low economic growth in the UK is a matter of high policy concern. One impact on tax policy in 2023 is the potential introduction of tax incentives for business investment in people, infrastructure and innovation, with the aim of improving UK growth and productivity.

2.6 Political landscape in your jurisdiction

- The next general election does not need to be held until January 2025, and the Conservative Party commands a Parliamentary majority.
- No significant change is due in the political landscape in 2023, and therefore, a general continuity in tax policy is expected.

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- In the Autumn Statement 2022, the Chancellor confirmed that the UK will implement the OECD Pillar Two rules for a global minimum corporate tax rate, for accounting periods beginning on or after 31 December 2023.
- This will include an IIR, as well as a supplementary QDMTT tax rule.
- Both the IIR and QDMTT will incorporate the substance-based income exclusion that formed part of the G20-OECD agreement. The rules will apply to large businesses operating in the UK with global revenues over GBP750m.
- The government intends to implement the backstop UTPR in the UK, but with effect no earlier than accounting periods beginning on or after 31 December 2024.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Some major tax policy changes introduced in 2022 were subsequently reversed due to changes in policy and leadership and are, therefore, not covered here.
- Major tax policy developments taking place in 2022, and in place at the end of 2022, were:
  - Increased personal taxation is in the future, with various rates and reliefs frozen or reduced over the next few years.
  - A Health and Social Care Levy on employers, employees and self-employed was to come in from April 2023 but was scrapped in 2022.
  - There was a commitment to introduce a top corporate tax rate of 25% from April 2023.
  - A new tax on the oil and gas sector (the Energy Profits Levy or EPL) was introduced, as well as the announcement of a new Electricity Generator Levy from 2023 on low-carbon UK electricity generation.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- The government reaffirmed in December 2022 its support for the development of a public country-by-country reporting model that works on a global multilateral basis.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- None.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Her Majesty's Revenue & Customs (HMRC) applies a risk-based approach to enforcement and compliance.
- HMRC has a "promote, prevent, respond" strategy to tackle noncompliance, which aims to:
  - Promote compliance by designing it into systems and processes
  - Prevent noncompliance at or near the time of filing
  - Respond effectively to noncompliance
- HMRC's strategy focuses on:
  - Maximizing collection of revenues due
  - Bolstering resources to tackle evasion and noncompliance in the tax system
- International tax, especially transfer pricing, continues to be a priority area in relation to MNEs. HMRC has continued to recruit for senior roles in this area.
- HMRC takes a leading role in international forums to tackle tax crime and continues to develop the J5 initiative (Joint Chiefs of Global Tax Enforcement) to address tax evasion and tax crime. The UK's Corporate Criminal Offence of Failure to Prevent the Facilitation of Tax Evasion (CCO) is a major plank of these efforts.
- As part of the "promote, prevent, respond" strategy, HMRC has an increasing focus on the systems and processes that support tax returns and has recruited more systems audit specialists to develop capacity to check the substance behind Senior Accounting Officer (SAO) filings as the focus on tax risk moves "upstream" to events prior to the tax return being filed.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- [x] Higher number and/or intensity of tax audits expected
- [ ] Around the same number and/or intensity of tax audits expected
- [ ] Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- [ ] Become more challenging for taxpayers
- [x] Become somewhat more challenging for taxpayers
- [ ] Stay roughly the same
- [ ] Become somewhat less challenging for taxpayers
- [ ] Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Greater focus on tax risk management, including SAO certification processes, publication of Tax Strategy, and evidencing a response to the Corporate Criminal Offence. All of these are tested under HMRC's Business Risk Review+ process of annual reviews for clients managed by the Large Business directorate (generally >GBP200m UK turnover), with failures leading to the business being deemed high risk and, therefore, receiving more tax interventions from HMRC. We have seen an increase in detailed "audit questionnaires" being sent to taxpayers to test these areas.
- Continued focus on transfer pricing controversy (often through the Profit Diversion Compliance Facility (PDCF) has increased demand for access to MAP. In October 2021, HMRC implemented a measure to implement tax treaty MAP decisions relating to diverted profits tax (DPT), having previously viewed DPT as not being a covered tax under the UK's treaties. The OECD is concerned about the pipeline of cases going into MAP and has, along with HMRC, reinforced its commitment to ICAP as a means to move businesses toward 'practical certainty' in respect of transfer pricing risk, while reducing the MAP pipeline.
- HMRC published its first Guideline for Compliance (GfC) on PAYE Settlement Agreements. GfCs will be a series of documents designed to make clear HMRC's views on complex, widely misunderstood, or novel areas of the UK's tax rules. They follow a similar model to that of the Australian Tax Office's Practical Compliance Guidelines (PCGs).

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☒	☐	☐
New or expanded criminal tax law(s)	☐	☒	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☒	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	Continued focus is expected on all transfer pricing issues through enquiries but particularly through the Profit Diversion Compliance Facility (PDCF), a facility introduced in 2019, in which HMRC sends warning letters to international groups where HMRC perceives that there is a risk of profit diversion. Issues include country-by-country report data, e.g., where a large proportion of residual profits arise in a low-tax jurisdiction despite low headcount.
2	Anti-hybrid disclosure requirements	HMRC has legislation to correct for tax mismatches arising from hybrid entities and hybrid instruments – a new requirement (effective for CT returns submitted after April 2022) makes sure that companies must confirm that they have proactively considered these measures and provide additional information as to their potential exposure to the anti-hybrid regime. We expect HMRC to scrutinize the new information available to them, which is likely to lead to additional compliance activity in this area.
3	Disallowance of deductions	Unallowable purpose legislation (S441 CTA 2009) – Litigation of cases is expected to continue, following Oxford Instruments, BlackRock, KwikFit, et al.
4	Senior Accounting Officer	For those clients within the scope of SAO (>GBP200m UK turnover) and particularly for those managed by HMRC's Large Business directorate, there has been a strong focus by HMRC on the systems and processes behind the tax returns made by the business. HMRC has recruited more systems audit specialists to bolster their capability in this area.
5	COVID-19-related support schemes (CJRS, SEISS)	Audit of the rapidly rolled out business support scheme payments made during the pandemic, specifically the furlough scheme (Coronavirus Job Retention Scheme (CJRS), and the Self-Employment Income Support Scheme (SEISS) is expected.

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This information is current as of 13 January 2023.

Section 1: Tax rates (2022–2023)

1.1 Key tax rates

	2021	2022	% change
Corporate income tax – top rate	26%[1]	26%[1] Additionally, a new 15% corporate alternative minimum tax (CAMT) applies to companies earning more than USD1 billion in profits, effective 1 January 2023.	–

[1] The federal marginal rate is 21%. The 26% figure reflects the fact that many states and US municipalities also levy their own corporate income taxes, as well as other types of business taxes based on net worth or gross receipts. Some of these rates are as high as 11.5%. For corporations, these state and local income taxes are generally deductible for federal income tax purposes, and thus, the federal benefit reduces the overall effective rate. The average total effective business tax rate imposed on business activity by state and local governments in fiscal year 2021 was 4.9%. See COST/STRI/EY QUEST, "Total state and local business taxes: State-by-state estimates for FY21" (October 2022).

[2] The top individual income tax rate is 37%. The 43% figure reflects an average maximum state tax rate of 6%. US state and municipal individual income tax rates generally range from 0% to 13.3%. The Tax Cuts and Jobs Act (TCJA) imposed an annual USD10,000 limitation on the deductibility of most state and local taxes (USD5,000 for married filing separately), and any such taxes deducted remain taxable under the federal personal alternative minimum tax. The TCJA also doubled the standard deduction, moderating the state and local tax deduction limitation. Additionally, the net investment income tax (NIIT) has been in effect since 1 January 2013. The 3.8% tax applies to certain net investment income of individuals, estates and trusts that have income over statutory threshold amounts. These complex federal and personal income tax adjustments are not included in the rate used here. Only the highest federal regular tax rate is displayed, along with an average maximum state rate (the NIIT is not reflected in these calculations).

Personal income tax – top rate	43%[2] Additionally, a 20% deduction for individuals for domestic "qualified business income" from a partnership, S corporation or sole proprietorship creates an effective 29.6% tax rate for certain pass-through income.	43%[2] Additionally, a 20% deduction for individuals for domestic "qualified business income" from a partnership, S corporation or sole proprietorship creates an effective 29.6% tax rate for certain pass-through income.	–
VAT, GST or sales tax – standard rate	0%[3]	0%[3]	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Republicans control the House of Representatives beginning in 2023, while Democrats control the Senate and the presidency, ushering in an era of divided government.
- Inflation and economic uncertainty may shape tax legislation in the coming year. Policy solutions would have to be agreed upon by members of both parties given the political dynamics. Inflation remains a top concern of US businesses, according to the December 2022 Tax Council (TTC) and Ernst & Young LLP Business Tax Policy Barometer.[4]
- Given the political split between the executive and legislative branches and the two chambers of Congress, it will be difficult to enact any significant new tax legislation unless it is bipartisan. Republican policymakers might focus on oversight of the Biden administration and efforts to rescind provisions of the Inflation Reduction Act (IRA), passed in August 2022, along with policy debates on expiring tax provisions from the 2017 TCJA.
- Republicans have also indicated they may be more focused on controlling spending, which could shape the policies that get through the Congress in 2023.

[3] The US does not have a VAT. However, many state and local governments impose sales taxes, with combined rates varying from 0% to over 10%. It is estimated that there are more than 12,000 separate sales tax rate jurisdictions in the United States.

[4] TTC and Ernst & Young LLP, Business tax policy barometer, December 2022.

United States

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023[5]
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime

[5] Base expansion resulting from implementation of the CAMT.

Tax types	Likelihood of changes in 2023	Direction of change
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Enhanced incentives in 2023 ☐ Same incentives in 2023 ☒ Reduced incentives in 2023[6]
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023[7] ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023[8] ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

[6] 100% bonus depreciation starts to phase down in 2023 under the TCJA.
[7] US state and local sales and use tax purposes could see a mix of developments. The US does not have a VAT or GST.
[8] Id.

United States

Tax types	Likelihood of changes in 2023	Direction of change
15. Personal income tax base[9]	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☐ Yes – significant tax reform ☒ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)[10]

Lower - - - Mixed - - - Higher

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)[11]

Lower - - - Mixed - - - Higher

Overall personal income tax responsibility (the combined effect of base/rate)

Lower - - - No change - - - Higher

● Denotes level of change

[9] On 29 December 2022, President Biden signed into law a $1.7 trillion omnibus appropriations bill that included changes to rules governing retirement (the legislation includes the SECURE 2.0 retirement package, which includes changes to individual retirement accounts and 401k plans) that may have an impact on the personal income tax base of certain taxpayers.

[10] Id. at FN5.

[11] Id. at FN7.

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- While significant new corporate income tax changes are unlikely to be enacted in the coming year due to the political makeup of the federal government, some changes already enacted in 2022 will impact 2023 and beyond.
- The IRA, enacted in August 2022, contains both new taxes and new tax incentives. The Internal Revenue Service (IRS) and Treasury issued several pieces of year-end guidance related to these changes in late December 2022. Among the IRA's tax changes are:
  - A new 15% CAMT based on modified book income that applies to companies that report over USD1 billion in profits to shareholders (based on a three-year average), effective for tax years beginning after 31 December 2022
  - A 1% surcharge on corporate stock repurchases applicable to repurchases of stock made after 31 December 2022
  - New tax incentives for accelerating renewable energy, adopting electric vehicle (EV) tech and improving the energy efficiency of buildings and manufacturing
- The new CAMT brings added complexity for potentially affected companies. They will first need to determine whether the tax applies to them, and then if so, how much they should pay. The IRS and Treasury Department issued initial guidance in December 2022 addressing application of the tax and is expected to provide more detail on when the tax applies, how to calculate it, and the CAMT foreign tax credit in proposed regulations.
- The CHIPS and Science Act of 2022, enacted in August 2022, aims to counter foreign competition and build a domestic US supply chain for semiconductor chips. In addition to USD52.7 billion in funding for semiconductor manufacturing subsidies, grants and loans, the law includes a 25% investment tax credit for investments in semiconductor manufacturing.
- Many other tax items, meanwhile, remain in legislative limbo. Several tax provisions enacted as part of the TCJA were enacted with "sunset" and change dates, some of which have already taken effect. Other provisions, commonly known as "tax extenders," have typically been extended for short periods and are sometimes included in year-end bills. Many of these tax extenders, however, were allowed to expire in 2021, and others are scheduled to sunset at the end of 2025 or 2026.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- While the United States does not have a federal digital services tax, US states continue to grapple with adapting their sales tax codes to the modern economy. It is likely that there will be multiple proposals to address a range of digital products not currently addressed in the tax code, such as cloud computing and services delivered digitally.
- The New Mexico Taxation and Revenue Department issued proposed regulations in August 2022 that would clarify that digital advertising services are subject to the state's gross receipts tax. If the regulations are adopted as proposed, New Mexico would become the second state that taxes digital advertising services.
- The first state to do so, Maryland, had its digital advertising services tax struck down by a Maryland Circuit Court, citing violations of the Internet Tax Freedom Act, Commerce Clause and First Amendment. Litigation over this tax is ongoing.

VAT/GST or sales taxes

- There is no VAT at the federal level, but US states and localities have different sales and use tax regimes and rates. During 2022, some states reduced sales tax rates on, or temporarily suspended their sales tax imposed on, specific goods, such as food for human consumption and gas.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- The SECURE 2.0 Act, included as part of the enacted year-end omnibus appropriations bill, makes several changes to individual retirement account and retirement plans. Changes include:
  - Requiring new 401(k) and 403(b) plans to automatically enroll participants upon becoming eligible
  - Phase-in of an increase in the age for required mandatory distributions to 75
  - Applying a higher catch-up limit at ages 60, 61, 62 and 63
  - Treating student loan payments as elective deferrals for purposes of matching contributions
  - Allowing new Starter 401(k) plans for employers with no retirement plan
  - Allowing long-term part-time workers to participate in employer retirement plans after two years rather than three
  - Allowing employers to offer pension-linked emergency savings accounts to non-highly compensated employees
  - Allowing tax- and penalty-free rollovers from 529 accounts to Roth individual retirement accounts
  - Changing the Saver's Credit to a federal matching contribution deposited into a taxpayer's plan, individual retirement account or retirement plan
  - Offering a tax credit to encourage small employers to make military spouses eligible for retirement plan participation
  - Establishing a Retirement Savings Lost and Found searchable database at Treasury and the Department of Labor
  - Increasing the dollar limit for mandatory distributions to USD7,000
  - Granting relief from early withdrawal penalties for various situations
- The rise in inflation has caused a greater than usual increase in certain annual limits for 2023:
  - Social Security wage limit increases from USD147,000 to USD160,200

    - Salary reduction limit for qualified plans (e.g., 401(k)) increases from USD20,500 to USD22,500
    - Health flexible spending account (FSA) pretax contribution increases from USD2,850 to USD3,050
    - Pretax limit on parking and transit benefits increases from USD280 to USD300
    - Adoption assistance benefit limit increases from USD14,800 to USD15,950
- Most state and local temporary COVID-19 income tax and withholding rules for remote workers expired in 2021 and 2022. Employers will now need to be certain they are tracking the geographic location of remote workers to avoid penalties for underreporting and underwithholding.
- Federal and state unemployment insurance (SUI) trust funds were severely impacted due to COVID-19. Employers will need to closely review their SUI cost estimates to take into account increases that are likely in some states. Additionally, several states needed to take federal unemployment insurance (UI) loans in order to pay the higher volume of claims during the peak of COVID-19. Some states have been unable to repay those loan balances, and consequently, are subject to higher federal unemployment insurance tax (FUTA) due to a reduction that applies to the allowable FUTA credit. Borrowing states are also subject to interest on their federal UI loans and may recover this cost through employer SUI surcharges. The additional charges that may apply from the FUTA credit reduction and employer interest SUI surcharges should also be considered in the overall estimate for federal/state unemployment insurance.

Windfall taxes *(please specify broad or sector specific)*

- N/A

Taxes related to climate change or sustainability

- The IRA included a number of energy-related tax provisions. It extended the Internal Revenue Code (IRC) Section 45 production tax credit for electricity from renewable resources, the IRC Section 48 investment tax credit, and biodiesel and alternative fuels credits through 2024. Thereafter, there will be a transition to technology-neutral emissions-based investment and production tax credits.
- The legislation also included extensions of (and enhancements to) the Section 45Q carbon oxide sequestration credit, Section 48C advanced energy property credit and credits for energy-efficient homes.
- The legislation also added new credits for zero-emission nuclear power production, the production of clean hydrogen, advanced manufacturing and sustainable aviation fuel.
- EV credits under the IRA are available for new, used and commercial vehicles (with income, manufacturer-suggested-retail-price and other limitations).
- The IRA also creates a new regime to make many climate-related tax credits transferable (one time, for cash), as well as a limited direct pay regime.
- The legislation also reinstated the Superfund tax at 16.4 cents per gallon.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- The IRA included a new stock buyback excise tax, effective for repurchases of stock after 31 December 2022. The provision imposes a 1% excise tax on publicly traded US corporations for the net value of any stock that they repurchase during the tax year. Although the IRS and Treasury issued interim guidance on application of the tax in late December 2022, questions remain regarding the scope of transactions to which the new excise tax provision would apply.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- While there are no new taxes on cryptocurrency for 2023, there eventually will be additional reporting obligations. At the federal level, the Infrastructure Investment and Jobs Act (IIJA), enacted in November 2021, made some changes to IRC Sections 6045 and 6045A. They include expanding the definition of "broker" to include crypto exchanges, creating a new "digital asset" category and making digital assets "specified securities" that are "covered" by cost basis rules, among other changes. The law also implicitly requires crypto account holders to furnish Forms W-9 (assuming the account is treated as a "brokerage account") to any exchanges that hold their assets. The IRS announced in late December that brokers will not be required to report dispositions of digital assets until the Treasury Department issues final regulations under those code sections.
- The IIJA also included changes to IRC Section 6050I, effective for transactions on/after 1 January 2024. "Cash" transactions greater than USD10,000 received in a trade or business are reportable to the IRS on Form 8300, and the term "cash" has been redefined to include digital assets.
- State taxing authorities and legislatures have also started to provide more guidance on taxing digital assets. Several states and jurisdictions, such as Arizona, Illinois, Kansas, Michigan, Minnesota, New York State, New Jersey, Pennsylvania, Washington and Puerto Rico, issued some form of state income and sales/use tax guidance on digital assets in 2022.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- High inflation remains a top concern for the business community. According to the TCC/EY Business tax policy barometer published in November 2022, 73% of business respondents expect a US recession in 2023. High inflation and weakening economic growth top the list of respondents' greatest concerns for their company, industry or organization. Nearly half of respondents indicated that high inflation is their greatest concern, while nearly 30% of respondents indicated weakening economic growth was their top concern. and electricity prices, shielding consumers and industry from supply shocks.

2.6 Political landscape in your jurisdiction

- Midterm elections were held in November 2022, and Republicans won narrow control of the House of Representatives beginning in 2023.
- Democrats will still control the Senate and the presidency, although with a slim majority in the Senate.
- Looking ahead, both parties have slim enough majorities that maintaining party unity on policy issues will be difficult.
- Even when the Democrats controlled both branches of government, it was challenging to pass tax legislation as the margins were narrow and most legislation requires 60 votes to get through the Senate. Looking ahead, it will be even more difficult, as Democrats and Republicans have different priorities, although there is some overlap.
- There is bipartisan interest, for example, in acting on relief from the Section 174 research and exploration amortization and Section 163(j) TCJA "cliffs" and non-energy tax extenders. However, so far, Democrats have indicated they do not want to support business tax relief unless Republicans agree to expand the Child Tax Credit (CTC).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The Biden administration's fiscal 2023 Budget would have repealed the Base Erosion and Anti-abuse Tax (BEAT) and replaced it with an "undertaxed profits rule" (UTPR) more consistent with the Pillar Two Model Rules. The change would have been effective for tax years beginning after 31 December 2023. The alignment of the Biden administration's UTPR proposal signaled its support for global adoption of Pillar Two; however, the proposal was never seriously considered by Congress.
- The Build Back Better legislation pushed by the Biden administration and Democrats in Congress would have modified the US's global intangible low-taxed income rules in such a way that they were expected to be treated as a qualified Income Inclusion Rule (IIR) under Pillar Two. However, these changes were ultimately dropped from the final IRA legislation and not enacted.
- Implementation of the Pillar Two agreement through US legislation did not happen in the Democratic-controlled Congress in 2022. The challenges that prevented it will not get easier with Republicans in control of the House and the House Ways & Means Committee, which is responsible for drafting tax legislation, in 2023. These political dynamics make it less likely that the United States will implement Pillar Two in the near term.
- In fact, Republicans have signaled that their scrutiny over US involvement in the OECD initiative will intensify in the coming year. At the same time, the business community is concerned about US international tax rules being out of step with those abroad. Of the respondents surveyed in the November TTC/EY Business tax policy barometer, 58% indicated they were moderately or extremely concerned about the misalignment between the US and global international tax rules, compared to only 4% that said they were not concerned at all.[12]

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- See items above (in 2.4) for more details of enacted legislation:
  - The IRA, which included a 15% CAMT applying to companies reporting over USD1 billion in profits, a 1% excise tax on stock buybacks and significant clean energy tax incentives, was enacted on 16 August 2022.
  - The CHIPS and Science Act of 2022, which provided funding, tax and other incentives for semiconductor manufacturing, was enacted 9 August 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- N/A

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

[12] TTC and Ernst & Young LLP, Business tax policy barometer, December 2022.

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- With the funding from the IRA, the IRS plans to increase enforcement, particularly with respect to large corporations, complex partnerships and high-wealth individuals.
- For large business taxpayers, the IRS continues to take an issue-based approach to audits, relying on so-called "campaigns" to develop issues that can be pursued against multiple taxpayers.
- The IRS continues to pursue additional information reporting and withholding obligations on businesses as a mechanism for achieving tax compliance for individuals and small businesses.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

- [x] Higher number and/or intensity of tax audits expected
- [ ] Around the same number and/or intensity of tax audits expected
- [ ] Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

- [ ] Become more challenging for taxpayers
- [x] Become somewhat more challenging for taxpayers
- [ ] Stay roughly the same
- [ ] Become somewhat less challenging for taxpayers
- [ ] Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- The IRS will receive significant additional funding for enforcement activities with respect to large businesses and wealthy individuals. In 2023, we will begin to see how the IRS deploys this additional funding.
- Challenges to the validity of Treasury regulations and other IRS guidance will continue to be an area of controversy.
- The IRS has publicly announced its efforts to seek additional opportunities to assert the Economic Substance Doctrine and associated penalties to address what the IRS views as "aggressive" tax planning. The IRS has also announced it will take a stronger approach to asserting penalties in cases than it has in the past.

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☒	☐	☐
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☒	☐
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☒	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☒	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☒	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	TCJA	The IRS's campaign to audit issues related to TCJA will continue.
2	Transfer pricing	The IRS will continue to audit and litigate transfer pricing issues, including issues related to intangible assets.
3	R&D tax credit	The research credit remains an area of continued audit and substantial controversy.
4	Foreign tax credits	With the publication of new regulations, the IRS may place new emphasis on foreign tax credits, particularly if taxpayers choose to challenge the validity of provisions to the new regulations.
5	Worthless stock/debt losses	These losses may become more frequent with the ongoing economic headwinds and would be an area of substantial audit activity.


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

This information is current as of 14 November 2022.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	25%	25%	–
Personal income tax – top rate	36%	36%	–
VAT, GST or sales tax – standard rate	22%	22%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Changes on source and territorial criteria for passive income for multinational companies, specially requesting substance
- Increased scrutiny in transfer pricing matters
- Introduction and implementation of BEPS 2.0 Pillar Two rules once there is an international consensus

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
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4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☒ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023
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Uruguay

Tax types	Likelihood of changes in 2023	Direction of change
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
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11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☒ Smaller in 2023 ☐ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☐ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☒ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 — detail

Corporate income taxes

- Uruguay has been performing changes to comply with international organizations such as the OECD and EU.
- In this sense, sourcing criteria was modified effective 2023, and changes to implement BEPS 2.0 are likely to occur.

Taxes on digital business activity *(such as DST, virtual PE, VAT/GST, withholding, etc.)*

- Even if there are no current news in 2023, there may be proposals to be implemented in 2024 in order to comply with BEPS 2.0.

VAT/GST or sales taxes

- No important changes are expected.

Personal taxes *(such as on wages, employment, inheritance or wealth)*

- The President commented that if the economy allowed it, in 2023 personal income tax and social security assistance tax would decrease.

Windfall taxes *(please specify broad or sector specific)*

- No important changes are expected.

Taxes related to climate change or sustainability

- No important changes are expected.

Other taxes *(such as financial transaction taxes, solidarity surcharges, etc.)*

- No important changes are expected.

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- There are bills under Parliament analysis for regulating cryptocurrency from a central bank perspective, and there is still tax uncertainty.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- No additional changes are currently expected.

2.6 Political landscape in your jurisdiction

- For several years and throughout different governments, Uruguay has been performing changes in order to comply with international organizations such as the OECD and EU.
- No major tax reform was proposed (other than regarding social security).

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- Statements of government officials mentioned they are analyzing its implementation.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Applicable in 2023, the source and territorial criteria changes were the most important changes enacted in 2022.

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- Additional substance requirements are applicable in 2023.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- N/A

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- There are no announced political or administration priorities or strategies for tax enforcement in Uruguay.
- It is expected that tax audits will increase significantly in 2023 to catch up after 2020/2021 due to the COVID-19 pandemic disruptions.

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Increased reviews and challenges on transfer pricing matters.
- Change in territorial regime for passive income obtained by Uruguayan subsidiaries of multinational groups, which will become taxable for CIT if there is no substance for fiscal years beginning on or after 1 January 2023.
- Increased reviews and challenges on access to tax treaty benefits.

Uruguay

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☐	☒
An increase in transfer pricing enforcement	☒	☐	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☒	☐	☐
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☐
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☐
National-level cooperative compliance program (similar to "horizontal monitoring")	☐	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☐
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☐
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☐

3.6 Top tax audit issues in 2023

	Issue name	Description
1	Transfer pricing	Royalties and intercompany services – benefit test for local entity and amount
2	Transfer pricing	Selection of external comparables – must be Uruguayan comparables or Latin American according to tax authorities
3	Treaty benefits	Analysis of effective applicability of the treaty benefits (residency, effective beneficiary, substance, etc.)
4	Publicity deduction	Restriction on deduction to the publicity expenses that were informed
5	Conciliation of information	Matching all the data filed (e.g., income according to electronic invoicing, credit/debit cards, VAT and CIT)

Vietnam

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

This information is current as of 11 January 2023.

Section 1: Tax rates (2022-2023)

1.1 Key tax rates in effect in your jurisdiction

	2022	2023	% change
Corporate income tax – top rate	20%	20%	–
Personal income tax – top rate	Resident: 35% Nonresident: 20%	Resident: 35% Nonresident: 20%	–
VAT, GST or sales tax – standard rate	10%	10%	–

Section 2: Tax policy in 2023

2.1 Key drivers of tax policy change in your jurisdiction in 2023

- Continue to issue tax policies to support enterprises impacted by COVID-19, i.e., deferral of tax payment deadline (CIT, VAT, special consumption tax (SCT), PIT), tax exemption and reduction
- Amendment of incentives conditions for supporting industries: stricter requirements for environment protection, quality management system, human resources for R&D, etc.
- Assessment of current tax laws (SCT, CIT, VAT) to propose future revision of tax laws
- Review of CIT incentives regulations for amendment of CIT Law to prepare for the application of Pillar Two

2.2 Tax changes in your jurisdiction in 2023

Tax types	Likelihood of changes in 2023	Direction of change
1. Overall size of corporate tax base in 2023	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023
2. Capital gains tax (imposed on businesses)	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023 ☐ N/A, as there is no CGT
3. Business interest deductibility	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
4. Anti-hybrid rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023 ☒ N/A, as there are no anti-hybrid rules	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no anti-hybrid rules
5. Withholding taxes	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023

Vietnam

Tax types	Likelihood of changes in 2023	Direction of change
6. Controlled foreign company rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☐ No changes in 2023 ☒ N/A, as there are no CFC rules	☐ Lower tax in 2023 ☐ Same tax in 2023 ☐ Higher tax in 2023 ☒ N/A, as there are no CFC rules
7. Thin capitalization rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023 ☐ N/A, as there is no thin capitalization tax regime
8. Transfer pricing rules	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower tax in 2023 ☐ Same tax in 2023 ☒ Higher tax in 2023
9. Treatment of business losses	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower tax in 2023 ☒ Same tax in 2023 ☐ Higher tax in 2023
10. Research and development incentives	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
11. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Enhanced incentives in 2023 ☒ Same incentives in 2023 ☐ Reduced incentives in 2023
12. VAT, GST or sales tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Lower in 2023 ☐ Same in 2023 ☒ Higher in 2023 ☐ N/A, as there is no VAT, GST or sales tax

Tax types	Likelihood of changes in 2023	Direction of change
13. VAT, GST or sales tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☒ Change somewhat likely or possible in 2023 ☐ No changes expected in 2023	☐ Smaller in 2023 ☐ Same in 2023 ☒ Larger in 2023 ☐ N/A, as there is no VAT, GST or sales tax
14. Top marginal personal income tax rate	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Lower in 2023 ☒ Same in 2023 ☐ Higher in 2023
15. Personal income tax base	☐ Change already in place for 2023 ☐ Change already proposed for 2023 ☐ Change somewhat likely or possible in 2023 ☒ No changes expected in 2023	☐ Smaller in 2023 ☒ Same in 2023 ☐ Larger in 2023
16. Do you expect changes to tax enforcement generally?	☐ Yes – significantly increased enforcement in 2023 ☒ Yes – somewhat increased enforcement in 2023 ☐ Yes – decreased enforcement in 2023 ☐ No – changes in enforcement in 2023	
17. Do you expect significant tax reform in 2023?	☐ Yes – comprehensive tax reform ☒ Yes – significant tax reform ☐ No – tax changes expected to be routine	

2.3 Tax policy outlook in your jurisdiction for 2023 – summary

Overall corporate income tax responsibility (the combined effect of base/rate)

Overall VAT/GST or sales tax responsibility (the combined effect of base/rate)

Overall personal income tax responsibility (the combined effect of base/rate)

Denotes level of change

2.4 Tax policy outlook in your jurisdiction for 2023 – detail

Corporate income taxes

- The total amount of provisional CIT paid in four quarters of the tax year must not be less than 80% of the total payable CIT according to finalization.
- A review of current CIT incentives scheme for amendments relating to the application of Pillar Two is expected.
- Stricter conditions requirements should apply for CIT incentives for prioritized supporting industries, including supplementing the condition of environment protection, quality management systems and human resources for R&D activities.

Taxes on digital business activity ***(such as DST, virtual PE, VAT/GST, withholding, etc.)***

- Foreign e-commerce traders and digital platform-based service providers without a permanent establishment in Vietnam are required to register with the General Department of Taxation of Vietnam via a web portal (https://etaxvn.gdt.gov.vn) to enable declaration and payment of tax.
- Development of the Multilateral Tax Agreement MLC to implement the Pillar One solution is expected.

VAT/GST or sales taxes

- A decreased VAT rate of 8% for certain goods and services was effective from February to December 2022.
- Clearer guidance is expected on VAT refund under Decree 49/2022/ND-CP to remove difficulties for enterprises, including enable VAT refund for projects divided into several investment phases or investment categories and VAT refund for enterprises with a conditional business line.
- A review of the current VAT law and proposal of amendments according to the Action Plan of Tax Reform up to 2025 is expected. Some directions presented in the Tax Reform Strategy that should be followed are reducing the items of non-taxable goods and the items subject to a 5% tax rate and moving toward applying one tax rate.

Personal taxes ***(such as on wages, employment, inheritance or wealth)***

- No changes to taxes on wages and employment are expected in 2023.

Windfall taxes ***(please specify broad or sector specific)***

- There are no windfall taxes in Vietnam so far.

Taxes related to climate change or sustainability

- No changes are expected in 2023.

Other taxes ***(such as financial transaction taxes, solidarity surcharges, etc.)***

- N/A

Developments in the governance or taxation of cryptocurrency or the creation of a central bank digital currency

- No significant developments are expected.

2.5 What, if any, effect do you expect the current global economic slowdown to have on tax policy developments in your jurisdiction in 2023?

- Some tax policies to support enterprises to overcome difficulties due to impact of COVID-19 and an economic slowdown are expected to be issued and implemented, such as tax exemption and reduction; extension of payment deadline for CIT, VAT, PIT, land rent; and review of unreasonable tax regulations for amendments to remove obstacles for enterprises during their business operation.

2.6 Political landscape in your jurisdiction

- No changes to the political landscape are expected in 2023

2.7 What plans, if any, for action have been announced in your jurisdiction in 2022 regarding the implementation of Pillar Two of BEPS 2.0?

- The government has set up a Task Force team, including representatives from Ministry of Finance and other relevant ministries, to study and propose policy solutions relating to Pillar Two.

2.8 What major tax policy changes occurred in your jurisdiction in 2022?

- Reduced VAT rate from 10% to 8%, applied to certain goods and services; expenses of donation or sponsors given for COVID-19 pandemic are eligible for deductible expenses when calculating taxable corporate income (Resolution 43/2022/QH15, Decree 15/2022/ND-CP guiding Resolution 43/2022/QH15)
- Deferral of payment deadline for CIT, VAT, PIT and land rent fee for certain business sectors; deferral of excise tax payment deadline for domestically manufactured or assembled automobiles (Decree 32/2022/ND-CP; Decree 34/2022/ND-CP)
- Amendment of tax regulations related to VAT refund; value-added taxable price of real estate transfer (Decree 49/2022/ND-CP)
- Revision of tax regulation related to provisional CIT paid (the total amount of provisional CIT paid in four quarters of tax year must be at least 80% of the total payable CIT according to finalization) (Decree 91/2022/ND-CP)
- Issuance of Taxation Reform Strategy up to 2030 (Decision 508/QD-TTg)

2.9 Were there any developments in your jurisdiction in 2022 with respect to increased requirements for public disclosure of tax information?

- There were no significant developments in 2022.

2.10 Major pending tax proposals in your jurisdiction not otherwise covered

- Draft Circular guiding the Decree 49/2022/ND-CP related to VAT refund: completed the proposal and public consultation stage but still pending at finalization stage to be officially issued
- Draft Circular on CIT and Circular on VAT to replace the current ones: completed the proposal and public consultation stage but still pending at finalization stage to be officially issued

Section 3: Tax enforcement in 2023

3.1 Current general approach to tax enforcement in your jurisdiction

- Priorities: Still mainly focus on hot topics like transfer pricing, incentives, capital transfer, project transfer, e-commerce activities, real estate transfer, VAT refund
- Resources: Enhancement of IT application, improvement of skills and capacities for tax officers through intensive training programs
- Strategy and method: Using the risk management system and IT application to effectively improve capacity for tax enforcement

3.2 What is the outlook for tax audits in your jurisdiction in 2023?

☒ Higher number and/or intensity of tax audits expected

☐ Around the same number and/or intensity of tax audits expected

☐ Lower number and/or intensity of tax audits expected

3.3 If the current global economic slowdown persists through 2023, what effects, if any, do you think it would have on tax enforcement in your jurisdiction in 2023?

I would expect tax enforcement to:

☒ Become more challenging for taxpayers

☐ Become somewhat more challenging for taxpayers

☐ Stay roughly the same

☐ Become somewhat less challenging for taxpayers

☐ Become far less challenging for taxpayers

3.4 Which three ongoing or expected developments in relation to tax legislation, tax administration or tax enforcement (including new programs) would have the most impact on business taxpayers in your jurisdiction in 2023?

- Tax policies to support enterprises impacted by the COVID-19 pandemic expecting to be implemented, e.g., tax exemption and reduction, tax payment deferral
- Digitalization of tax administration for all tax functions (e-tax system): tax registration, tax declaration, tax payment, VAT refund procedure, risk assessment and case selection for tax audit/inspection, etc.
- Strengthen the tax administration of e-commerce activities, business activities on digital platforms to expand the tax base

3.5 In terms of tax enforcement measures, do you foresee your jurisdiction introducing or utilizing any of the following measures in 2023?

Enforcement area	Already occurred in 2022	Very likely to occur in 2023	May occur in 2023
A higher number of information requests being sent to business taxpayers	☒	☐	☐
An increase in tax authority funding/budget	☐	☒	☐
An increase in transfer pricing enforcement	☐	☒	☐
Auditing of COVID-19 support/stimulus measures *(please specify measure(s) most likely to be audited)*	☐	☐	☒
New disclosure/transparency requirements	☐	☐	☒
New or expanded criminal tax law(s)	☐	☐	☒
Mandatory program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
Voluntary program(s) that test a company's tax governance and/or tax controls	☐	☐	☒
National-level cooperative compliance program (similar to "horizontal monitoring")	☒	☐	☐
Joining the OECD's International Compliance Assurance Programme (ICAP)	☐	☐	☒
New or enhanced dispute **prevention** program(s) *(please specify)*	☐	☐	☒
New or enhanced dispute **resolution** program(s) *(please specify)*	☐	☐	☒

3.6 Top tax audit issues in 2023

	Issue name	Description
1	CIT incentives	Stricter assessment on the conditions to enjoy CIT incentives, especially for industry-based incentive More conservative view on the CIT incentive application, e.g., requirement of investment registration certificate amendment for expansion project without consideration of actual investment
2	Capital gain tax	Challenge on capital transfer transaction with no mark-up, even if transaction for internal restructuring Evaluate indirect capital transfer transactions to impose capital gain tax
3	Transfer pricing	Potentially reject the TP documentation and deem the profit margin based on internal comparable data of tax authorities without disclosing to taxpayers Focus on the deductibility of service fees charged by related parties (normally the suitability, reasonableness and completeness of supporting documents in relation to the service supply)
4	Foreign contractor withholding tax	Strong viewpoint on the tax rate applicable to the Engineering – Procurement – Construction Contract Interpretation of tax regulations in a rigid way and treatment more favorable for tax authorities
5	Deductible expenses for CIT purpose	Paying more attention to the condition of deductibility of expenses for CIT calculation based on the CIT regulations and other relevant regulations

Glossary of terms

AI: artificial intelligence

AEOI: Automatic Exchange of Information

ALP: arm's-length principle

AMT: alternative minimum tax

APA: advance pricing agreement

ASEAN: Association of Southeast Asian Nations

ATAD: Anti-Tax Avoidance Directive

BAPA: bilateral advance pricing agreement

BEPS: base erosion and profit shifting

BEPS 2.0: the ongoing project on addressing the tax challenges arising from the digitalization of the economy

BEPS IF: BEPS Inclusive Framework

BtB: Business to business

BtC: Business to consumer

CA: competent authority

CBAM: Carbon Border Adjustment Mechanism

CbC: country-by-country

CbCR: country-by-country reporting

CCTB: Common Corporate Tax Base

CCCTB: Common Consolidated Corporate Tax Base

CFC: controlled foreign company

CGT: capital gains tax

CIF: cost, insurance and freight

CIT: corporate income tax

CRS: Common Reporting Standard

DAC6: EU directive regarding the mandatory automatic exchange of information

DAC7: EU tax transparency rules reporting by digital platforms on their sellers

DAC8: The proposed Crypto-Asset Reporting Framework

DTA: deferred tax asset

DEMPE: develop, enhance, maintain, protect and exploit

DPT: diverted profits tax

DST: digital services tax

DTT: double taxation treaty

EBIT: earnings before interest and taxes

EBITE: earnings before interest, taxes and exceptional items

EBITDA: earnings before interest, taxes, depreciation and amortization

EC: European Commission

ECJ: European Court of Justice

ESG: environmental, social and governance

EP: European Parliament

ETT: electronic transaction tax

EU: European Union

EU ATAD 2: EU requirement for Member States include in domestic legislation a number of anti-hybrid provisions in line with OECD BEPS Action 2

FATCA: Foreign Account Tax Compliance Act

FBAR: Report on the Foreign Bank and Financial Accounts

FBT: fringe benefits tax

FDI: foreign direct investment

FTA: Free-trade agreement

FTT: financial transaction tax

G20: The Group of Twenty, an intergovernmental forum comprising 19 countries and the European Union

GAAR: General Anti-Abuse Rule

GCC: Cooperation Council for the Arab States of the Gulf

GDP: gross domestic product

GHG: greenhouse gas emissions

GloBE proposal: Global Anti-Base Erosion proposal under Pillar Two of the OECD

GST: goods and services tax

HNWI: high-net-worth individual

ICAP: International Compliance Assurance Programme

IFRS: International Financial Reporting Standards

IIR: Income Inclusion Rule

IMF: International Monetary Fund

IP: intellectual property

ITR: income tax return

M&A: mergers and acquisitions

MAP: mutual agreement procedure

MAPA: multilateral advance pricing agreement

MCAA: Multilateral Competent Authority Agreement of the OECD for the CRS

MDR: Mandatory Disclosure Regime

MLI: multilateral instrument or the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting as part of the CRS

MNC: multinational company

MNE: multinational enterprise

NATO: North Atlantic Treaty Organization

NOL: net operating loss

O&G: oil and gas

OECD: Organisation for Economic Co-operation and Development

PE: permanent establishment

PIT: personal income tax

PPT: principal purpose test

QDMTT: Qualified Domestic Minimum Top-up Tax

R&D: research and development

R&E: research and exploration

RCEP: Regional Comprehensive Economic Partnership

SAF-T: Standard Audit File for Tax

SME: small- or medium-sized enterprise

SST: sales and service tax

TARIC code: Tarif Intégré Communautaire (Integrated Tariff of the European Communities

TP: transfer pricing

UBO: ultimate beneficial owner

UN: United Nations

UTPR: Undertaxed Profits Rule

VAT: value-added tax

WHT: withholding tax

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