

The outlook for
global tax policy
and controversy
in 2021:
Jurisdiction reports



Contents

Argentina	Kazakhstan
Australia	South Korea
Austria	Kuwait
Bahrain	Luxembourg
Belgium	Malaysia
Brazil	Mexico
Canada	Netherlands
Chile	New Zealand
China Mainland	Nicaragua
Colombia	Norway
Costa Rica	Oman
Croatia	Panama
Cyprus	Peru
Czech Republic	Philippines
Denmark	Poland
Dominican Republic	Portugal
El Salvador	Qatar
Egypt	Russia
Estonia	Saudi Arabia
Finland	Singapore
France	Slovakia
Germany	Slovenia
Greece	South Africa
Guatemala	Spain
Honduras	Switzerland
Hong Kong	Taiwan
Hungary	Thailand
India	Turkey
Indonesia	UAE
Iraq	Ukraine
Ireland	United Kingdom
Israel	United States
Italy	Vietnam
Japan	Glossary
Jordan	





Argentina

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%	25% (*)	-17%
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35%	35%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	21%	21%	–

(*) Ongoing discussions about the possibility of maintaining the 30% rate for 2021. To be monitored.

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

The government seeks fiscal sustainability but at a pace that allows the country to recover and sustain that recovery. To achieve that, those who foster economic growth, recovery and exports will receive advantages. Some proposed measures for 2021 include:

▸ Excise taxes increase on electronic products

▸ Online betting tax rate increase

▸ VAT and import duty exemption on vaccines and disposables imported by the Ministry of Health

▸ Discussions about a new wealth tax on high net worth individuals

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
16. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
17. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
18. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ In 2018, the rate of 35% decreased to 30% with the goal of dropping to 25%.
- ▶ This drop was expected to happen in 2021, but may be delayed, as such, the 30% rate may continue.

Taxes on digital business activity

- ▶ VAT (IVA) on digital services is already in force.
- ▶ A tax similar to a DST (IIBB) is expected to enter into force in 2021 at a provincial level.

Taxes related to climate change or sustainability

- ▶ Liquid fuel tax and carbon dioxide tax will not apply to imports of diesel and diesel oil or on domestic sales during 2021 to compensate for peak demand that cannot be met by local production.

VAT/GST/sales taxes

- ▶ VAT and import duty exemption on vaccines and disposables imported by the Ministry of Health

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Argentina

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Argentina mid-term legislative elections in October 2021
- ▶ An economic recession aggravated by COVID-19
- ▶ High inflation rates
- ▶ Central Bank controls on inflow and outflow of foreign currency

2.8 Names of current tax policy and tax administration leaders

- ▶ Martin Guzman, Economy Minister
- ▶ Mercedes Marco del Pont, Director of Federal Tax Authority (AFIP)

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Deeper control of international operations and structures
- ▶ Informative regime requiring local entities and individuals to report further information (beneficial owner)
- ▶ Issuance of long-awaited transfer pricing regulations
- ▶ Implementation of mandatory disclosure rules

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Increase of tax audits on cross-border transactions

3.2 Key enforcement developments seen in 2020

- ▶ Transfer pricing audits

3.3 Likely enforcement developments in 2021

- ▶ Increase of tax audits on cross-border transactions and structures, based on TP regulations and information regimes issued in 2020

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	Intercompany cross-border charges
2	CFC issues	Foreign companies owned by Argentinian individuals
3	DEMPE	Discussions about functions and activities carried out in Argentina and not properly remunerated
4	Transfer pricing	Business restructuring, financial transactions, foreign intermediaries, among others
5	MDR	Expected audit activity based on tax planning to be reported under the new MDR obligation

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input checked="" type="checkbox"/>	<input type="checkbox"/>



Australia

[Return to Contents](#)

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This information is current as of 18 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate and if local rates apply, an average of the top local rates)</i>	30% ¹ (26% for “base rate entity,” i.e., income under \$50m for 2020-2021) ²	30% (25% for “base rate entity,” i.e., income under \$50m for 2021-2022 and future years)	0% (-4%)
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	45% ³	45%	–
VAT, GST or sales tax – standard rate	10% ⁴	10% ⁵	–

¹ Section 23 (2Xb) of the Income Tax Rates Act 1986

² Sections 23 (2Xa) and 23AA of the Income Tax Rates Act 1986

³ Schedule 7 of the Income Tax Rates Act 1986

⁴ Section 9-70 of a New Tax System (GST) Act 1999

⁵ Section 9-70 of a New Tax System (GST) Act 1999

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Tax policies focused on supporting economic recovery following severe natural disasters, unprecedented catastrophic bushfires and the COVID-19 crisis.
- ▶ Economic recovery continued to be the theme for the 2020-21 Budget released on 6 October, including extending wage subsidies, investment in infrastructure and measures to stimulate business investments and stimulate consumption by bringing forward previously announced personal tax cuts.
- ▶ The return to a COVID-19 normal with an opening up of the domestic economy and strong iron ore commodity prices assisted a stronger than expected recovery of record high federal budget deficits, but concerns remain around the slow return of international travel and with stimulus measures tapering off, including the JobKeeper wage subsidy.
- ▶ Policies, such as the improved R&D tax incentive, instant expensing of assets, various FBT exemptions on training/retraining costs will support the next wave of economic recovery.
- ▶ Deeper economic and tax reform beyond the economic recovery policies and other tax matters remains challenging and uncertain.
- ▶ Following various reporting deferrals provided by the Australian Taxation Office (ATO) during the COVID-19 crisis to support adversely impacted businesses, the ATO stepped up its activities toward the end of calendar year 2020, addressing governance issues and conducting compliance reviews and actions.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Australia

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
11. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The standard corporate rate remains at 30%; but for “base rate entities” with less than \$50 million of aggregated turnover, the current tax rate of 26% will drop to 25% in 2021-2022 and future years.

Other Measures

- ▶ Significant R&D tax incentive changes were enacted following announcement in the 2020-21 Budget, including a new intensity test, improved benefit rates, uncapped or higher caps on R&D expenditure, simplicity and greater certainty. Under the new law from 1 July 2021, all claimants accessing the non-refundable R&D tax offset will receive a benefit of between 8.5% and up to 16.5% (above the corporate tax rate), and all claimants under the refundable R&D tax offset will receive a benefit of 18.5% (above the corporate tax rate). In total, this represents an additional \$2 billion in business R&D support over the forward estimates, encouraging business to accelerate innovation and R&D across the economy.
- ▶ The Government has announced it will clarify the circumstances in which a foreign incorporated company will be classified as Australian tax resident for domestic income tax purposes. The announcement follows the consultation process and reports issued by the Board of Taxation on the matter. According to the

announcement, foreign incorporated companies will only be considered Australian tax residents if they have a “significant economic connection with Australia” as well as their central management and control from date of royal assent to amending legislation. Consultation on the Treasury paper or exposure draft law is expected to commence or continue in 2021.

- ▶ The Government has announced that it will support the recovery from the COVID-19 crisis by modernizing and expanding the Australian tax treaty network to eliminate double taxation, settle taxing rights between Australia and other countries, and attract foreign investment and skilled workers. Refurbishing Australia's treaties with key strategic partners where necessary to maximize the benefits for Australia's economy will be a priority. A draft tax law or consultation paper is expected in 2021.

Taxes on digital business activity

- ▶ Australia has no current plans to proceed with any further unilateral measures, such as a digital services excise, after prior year's measures such as a diverted profits tax, multinational anti-avoidance law for avoided PE measures and extending GST on digital supplies and low-value goods.
- ▶ No specific policy is expected until an OECD digital tax agenda is set. Australia is contributing to the process under the OECD Inclusive Framework.

Australia

Taxes related to climate change or sustainability

- ▶ Generally, instant expensing will help with replacing inefficient vehicles, plant and equipment.
- ▶ No specific changes are expected in tax policies related to climate change or sustainability.

VAT/GST or sales taxes

- ▶ Australia's GST flows to the states not to the Federal Government.
- ▶ Although various industry stakeholders have urged the Government to reform the Australian GST regime post-pandemic, there are no clear indications yet from the Government to do so.

Taxes on wages and employment

- ▶ The Government announced in 2020-21 Budget various FBT exemptions, including:
 - ▶ Exemption for certain employer-provided retraining and reskilling costs, for employees who are redeployed or made redundant – from 2 October 2020; FBT is currently payable on employer training that is not sufficiently connected to an employee's current employment
 - ▶ Changes to allow tax deductions to employees for such training undertaken at their own expense
 - ▶ Small business FBT exemptions on car parking and multiple work-related portable electronic devices extended to businesses with an aggregated annual turnover up to \$50m from 1 April 2021
- ▶ Payroll tax returns are lodged, and payment of liability made, at an agreed frequency (monthly, quarterly, or annually) to the respective revenue office in the Australian state and/or territory in which the wage payment is deemed liable.
- ▶ In 2020, all states and territories in Australia provided multiple payroll tax concessions, including payment deferrals, waivers, refunds and discounts to COVID-19-impacted businesses under certain payroll tax thresholds.
- ▶ The State of Victoria, which suffered the longest and most intense COVID-19 lockdown provided several concessions, including:
 - ▶ Deferral for eligible businesses with payrolls up to \$10m on payroll tax liabilities for the entire 2020-2021 financial year
 - ▶ A commitment of \$550m in refunds on payroll tax paid in the first three quarters of FY19/20, for small and medium businesses with annual payroll of less than \$3m

- ▶ Businesses receiving JobKeeper payments (JKP) will be exempt from paying payroll tax and WorkCover premiums on payments to employees if their staff are currently stood down; payments above a part-time employee's usual salary, due to JobKeeper being a minimum of \$1,500, will also be exempt from payroll tax and the WorkCover charge
- ▶ Payroll tax threshold for annual payments increased from \$40,000 to \$100,000
- ▶ Some of the payroll tax concessions in other States and Territories include:
 - ▶ Australian Capital Territory: an optional interest free deferral on FY20/21 payroll tax until 1 July 2022 for businesses paying <\$10m in wages
 - ▶ Queensland: a two month waiver of payroll tax for July and August 2020 and deferral of lodging for affected businesses until 31 July 2020; businesses able to pay off existing payroll tax deferred liabilities over the course of 2021
 - ▶ Tasmania: payroll tax to be waived on JKP up to \$1,500; amounts payable past \$1,500 to be subject to payroll tax until 28 March 2021
 - ▶ Northern Territory: extension of tax exemption for hiring territory employees to 30 June 2021

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Australia's 46th Parliament opened on 2 July 2019, after reelection of the Morrison Government. One of the primary tax policies pushed by the Prime Minister Scott Morrison post-election was the reduction of personal income tax brackets. This measure was amended to bring forward the tax cuts in the 2020-21 Budget.
- ▶ The majority of the tax policies introduced by the Government during the pandemic were broadly supported by the opposition party in the Parliament, resulting in swift passage and enactment.
- ▶ In general, political tensions exist with businesses and other stakeholders advocating measures to stimulate Australia's economy despite budgetary policy to maintain a budget surplus.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- ▶ Scott Morrison, Member of Parliament, Prime Minister
- ▶ Josh Frydenberg, Member of Parliament, Treasurer
- ▶ Michael Sukkar, Member of Parliament, Assistant Minister to the Treasurer

- ▶ Senator Simon Birmingham, Minister for Finance
- ▶ Senator Jane Hume, Minister for Digital Economy, Superannuation, Financial Services and Financial technology
- ▶ Michaelia Cash, Member of Parliament, Minister for Employment, Skills, Small and Family Business
- ▶ Michael Keenan, Member of Parliament, Minister for Human Services and Digital Transformation
- ▶ Michael McCormack, Member of Parliament, Deputy Prime Minister (National Party)

Tax administration leaders in Australian Tax Office

- ▶ Chris Jordan AO, Tax Commissioner and Registrar of the Australian Business Register
- ▶ Jeremy Hirschhorn, Second Commissioner (Client Engagement)
- ▶ Kirsten Fish (acting), Second Commissioner (Law Design and Practice)
- ▶ Ramez Katf, Second Commissioner (Enterprise Solutions and Technology Group) and Chief Information Officer
- ▶ Rebecca Saint, Deputy Commissioner (Public Groups and International)
- ▶ Hector Thompson, Deputy Commissioner (Public Groups and International)

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

Key COVID-19 tax policies

- ▶ Increasing instant asset write-off (IAWO) – From 12 March 2020 the IAWO threshold was increased from \$30,000 to \$150,000 and expanded for businesses with aggregated annual turnover less than \$500 million. In the 2020–2021 Budget the Government introduced the temporary full expensing of depreciating assets IAWO measure for eligible entities with aggregated annual turnover < \$5 billion and alternatively corporate tax entities with income < \$5 billion where a \$100 million asset expenditure test has been met.
- ▶ Backing business investment – the Government also enacted a time-limited 15-months investment incentive (through to 30 June 2021), by accelerating depreciation deductions for eligible businesses. This allowed deduction of 50% of the cost of an eligible asset on installation with existing depreciation rules applying to the balance of the asset's cost.
- ▶ Boosting cash flow for employers – Up to a \$25,000 tax free payment to small – and medium-sized businesses with a turnover of less than \$50 million that employ staff (50% of pay-as-you-go withheld, with a minimum \$2,000 payment and up to a cap of \$25,000 over 6 months) for eligible businesses.
- ▶ JobKeeper payments – Government enacted JKP wage subsidy package to support businesses affected by the COVID-19 crisis to cover employee payments. Affected employers (with aggregated turnover of < \$1b) having a fall in turnover of 30% or (with aggregated turnover of > \$1b) having 50% can receive a \$1,500 subsidy per eligible employee from 30 March 2020. The JKP rules were amended in September to modify the decline in turnover tests and payment rates until March 2021.

Other key tax policies

- ▶ Hybrid mismatch rules amendment – Amendment clarifies various aspects of rules, including operation for trusts and partnerships, deducting hybrid, dual inclusion income rules, corresponding foreign hybrid mismatch rules, application to multiple entry consolidated groups, etc.; it also makes sure the hybrid mismatch integrity rule can apply appropriately to financing arrangements designed to circumvent hybrid mismatch rules.
- ▶ Temporary loss carryback – This measure allows corporate tax entities the option to claim a carryback tax offset in their 2021 or 2022 income tax return.
- ▶ R&D tax incentive (R&DTI) changes – Significant R&DTI changes were made after the 2020–21 Budget announcement to introduce a new intensity test, improved benefit rates, uncapped or higher caps on R&D expenditure, simplicity and greater certainty. The new measures are effective from 1 July 2021. The former 2019 R&DTI reform bill was discharged from Parliament.

- ▶ Personal income tax changes – The already legislated second stage of the personal income tax relief plan announced in the 2019-20 Budget (which built on the Government's 2018/19 plan), to provide tax relief to low – and middle-income earners, that was scheduled to commence from 1 July 2022, will now commence retrospectively from 1 July 2020.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Board of Taxation's review into CGT rollover ongoing; the Board will submit a report to the Government and recommend improvements needed to the regime
- ▶ Mandatory e-invoicing adoption by businesses – Treasury consultation paper
- ▶ New South Wales proposal to move to an annual land tax by phasing out stamp duty
- ▶ Amending Australia's Offshore Banking Unit regime
- ▶ Amending income tax residency rules for individuals

Consultations:

- ▶ Corporate tax residency reform announced; clarity on the circumstances in which a foreign incorporated company will be classified as an Australian tax resident for domestic income tax purposes
- ▶ FBT exemptions announced in 2020–21 Budget – consultation expected to commence on FBT exemption for certain employer-provided retraining and reskilling costs, for employees who are redeployed or made redundant from 2 October 2020
- ▶ Modernizing Australian treaty network – Measure to support the recovery from COVID-19 crisis by modernizing and expanding Australian tax treaty network to eliminate double taxation, settle taxing rights between Australia and other countries, and attract foreign investment and skilled workers
- ▶ Consultation on 2021–22 Pre-Budget submission to collect public views and comments and potentially incorporate into the budget process

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ ATO's tax performance programs provide for specialist tax performance teams to engage with taxpayers. These programs aim to:
 - ▶ Support willing participation, focusing on prevention rather than correction
 - ▶ Provide assistance to help taxpayers get things correct
 - ▶ Identify and deal with noncompliance
- ▶ ATO uses a justified trust strategy to review the top 1,000 multinational and public companies, and the top 500 private groups. This is a tailored compliance approach to make sure they pay the right amount of tax.
- ▶ Justified trust reinforces ATO's commitment to consulting and developing mutual expectations – making it easier for those who do the right thing and harder for those who do not.
- ▶ Some key taxpayers experience justified trust as a one-way street where requests for rulings and advance pricing arrangements turn into audits for example.

3.2 Key enforcement developments seen in 2020

- ▶ The ATO continues to analyze large or multinational businesses using various risk filters to detect risks of noncompliant tax positions.
- ▶ Ongoing review and audit activity include:
 - ▶ Real-time review of transactions
 - ▶ Close eye on media reportage of businesses
 - ▶ Activity for high net worth individuals

ATO key tax performance programs include:

ATO Combined Assurance Review (CAR) program

- ▶ The ATO CAR program is the successor to the income tax Streamlined Assurance Review (SAR) program, including reviews on both income tax and GST.
- ▶ ATO began notifying taxpayers of CAR in 2020.
- ▶ For those taxpayers that have already been subject to an income tax SAR, the income tax portion of the CAR is a “top-up” review. For taxpayers that have not been subject to either an income tax or GST SAR, the CAR is far more extensive.

Top 1,000 tax performance program

- ▶ The program seeks to identify tax risks and provide assurance to the ATO that the top 1,000 taxpayers in the public groups and international segment are paying the right amount of income tax.

- ▶ The program involves taxpayers being subjected to SAR, which is an intensive review of a taxpayer's income tax position (including transfer pricing) for the “open” income years.
- ▶ The responses to the SAR form part of a permanent record of the taxpayer with the ATO, which will influence further ATO compliance activity.
- ▶ SARs target companies with revenue greater than AU\$250 million.

Top 1,000 Next Actions Program

- ▶ In this program, the ATO examines the tax affairs of Australia's largest 1,000 public and multinational companies with an annual turnover above \$250 million to give us and the community confidence that these companies and superannuation funds are paying the right amount of tax.

Top 100 justified trust program

- ▶ The top 100 program seeks to assist the ATO to obtain justified trust that top 100 public groups and multinationals are complying with their tax obligations and paying the right amount of tax in Australia.
- ▶ This is more intensive than under the SAR process with a detailed “audit” of the “open” income years. It leads to an ATO tax assurance report that documents ATO compliance activities undertaken, findings and conclusions.

Top 500 private groups tax performance program

- ▶ The top 500 (expanded from top 320) private groups receive an ATO-intensive engagement to provide assurance that private groups are paying the right amount of tax.

Next 5,000 tax performance program

- ▶ The Next 5,000 tax performance program (previously known as the high wealth private groups tax performance program) seeks to give the community confidence that Australia's largest privately owned and wealthy groups are paying the right amount of tax.
- ▶ The program covers Australian resident individuals who, together with their associates, control wealth of more than \$50 million. The program doesn't cover private groups that are already a part of the Top 500 private groups tax performance program.
- ▶ ATO aims to increase ongoing willing participation by applying the justified trust methodology in our one-to-one tailored engagements.
- ▶ The program also focuses on prevention rather than correction through providing public advice and guidance on issues relevant to the Next 5,000 population.
- ▶ The Next 5,000 program runs for four years from 2019–2023.

Australia

Top 1,000 GST assurance program

- ▶ The ATO top 1,000 GST assurance program covers the top 1,000 public and multinational companies and super funds, focusing on GST. Around 320 large public and multinational businesses will be reviewed over four years, selected for review based on a range of risk factors, with plans for six-month GST assurance reviews.

Top 100 GST assurance program

- ▶ Aims to obtain greater assurance that the top 100 taxpayers are reporting the right amount of GST utilizing a justified trust approach. It includes:
 - ▶ An ATO engaging with the taxpayer through a 12-month GST assurance review focused on the last complete financial year
 - ▶ Using ATO justified trust methodology and tailored compliance activities
 - ▶ Currently developing and testing a GST analytical tool

Top 100 justified trust income tax program

- ▶ Justified trust reviews with each of the top 100 as part of the yearly pre-lodgment compliance review and annual compliance arrangement processes
- ▶ Seeking to gain and maintain a high level of assurance, recognizing some taxpayers might need a number of years to reach high-assurance status

3.3 Likely enforcement developments in 2021

- ▶ Continuation of tax performance programs as mentioned above
- ▶ Broader application of CARs
- ▶ Increased reviews with particular focus on international tax matters, including:
 - ▶ A new compliance program to review inbound distribution arrangements (IDAs) with concerns about the arm's length nature of IDAs and arrangements that are within the high-risk zone in accordance with the ATO Practical Compliance Guideline 2019/1
 - ▶ Potentially increased application of ATO compliance resources after 31 January 2021 to determine if a foreign company has a permanent establishment in Australia due to COVID-19 restrictions

Expected ATO audit activity in 2021:

- ▶ Superannuation Guarantee (SG) audits and reviews – covers employers that have not used the SG amnesty and have fallen behind on their SG obligations because of COVID-19 business cash flow pressures
- ▶ Single Touch Payroll audits and reviews – data capturing, which continues to become more detailed and sophisticated, feeding increased information to the ATO
- ▶ JobKeeper payment audits and reviews – covers the large number of Australian employers that have enrolled in JobKeeper (particularly after the expansion of JKP)

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	<p>ATO has confirmed that during transfer pricing compliance activities, emphasis will be placed on gathering evidence to support any changes to, or impacts on, the business as a result of the COVID-19 crisis, and taxpayers should consider documenting these changes as they are considered and implemented.</p> <p>Compliance activity around inbound distribution arrangements has commenced. While only impacting a small number of taxpayers, it is noteworthy that the ATO has now invoked the diverted profits tax.</p>
2	Related-party financing arrangements	<p>Such arrangements remain an ongoing area of focus, including hybrid mismatch.</p> <p>Zero interest rate loan guidance for outbound loans was finalized, with no guidance on inbound zero interest loans.</p>
3	IP migration	<p>ATO is expected to remain focused on arrangements that involve the migration of Australian intangible assets and associated rights to international related parties on non-arm's-length terms or in a manner intended to avoid tax in Australia.</p> <p>ATO released in February 2020 Taxpayer Alert TA 2020/1 to express concerns with arrangements that:</p> <ul style="list-style-type: none"> ▶ Bifurcate intangible assets and mischaracterize Australian DEMPE activities ▶ Involve the non-recognition of Australian DEMPE activities <p>These arrangements do not appropriately remunerate Australian entities for functions performed, assets used and risks assumed in connection with intangible assets. ATO has concerns that these arrangements may fail to properly comply with the provisions for capital gains tax, capital allowances, transfer pricing, general anti-avoidance and diverted profits tax.</p>
4	Domestic tax risks	<p>Items of concern include R&D, capital allowances, tax losses and consolidation.</p>
5	PE issues	<p>The ATO updated COVID-19 and PE guidance states that the ATO will not apply compliance resources to determine if a foreign company has a PE in Australia if:</p> <ul style="list-style-type: none"> ▶ It did not otherwise have a PE in Australia before the effects of COVID-19. ▶ The temporary presence of employees in Australia continues solely due to COVID-19 travel restrictions. ▶ Those employees temporarily in Australia will relocate overseas as soon as practicable after international travel restrictions are relaxed. ▶ Those employees have not been recognized as creating a PE or generating Australian source income in Australia for the purpose of the tax laws of another jurisdiction. <p>This ATO approach is applicable until 31 January 2021. The ATO may take a stricter approach after January.</p>
6	CAR	<p>The ATO CAR program is the successor to the income tax SAR program, including reviews on both income tax and GST.</p>

Australia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited) <i>JobKeeper, instant asset write-off, cashflow boost</i>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Austria

[Return to Contents](#)

EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 15 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	55%	55%	–
VAT, GST or sales tax – standard rate	20%	20%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ COVID-19 and resulting business restrictions
- ▶ Economic impact of the resulting macroeconomic changes
- ▶ Reducing administrative workload through extension of lump-sum deductions
- ▶ CO2 reduction (green tax)

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 ⁴ <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021 <input checked="" type="checkbox"/> Unclear at this time
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Reduction of CIT from 25% to 21% in 2022-2023
- ▶ Accelerated depreciation options introduced mid-2020
- ▶ Loss carryback/COVID-19 reserve introduced mid-2020

Taxes on digital business activity

- ▶ New digital advertising tax in Austria from 2020
- ▶ An EU-wide digital tax expected

Taxes related to climate change or sustainability

- ▶ Car insurance tax increase for cars with high CO2 emissions
- ▶ Changes for flight impost (increase for short-distance flights)

VAT/GST or sales taxes

- ▶ EU VAT e-commerce package from 1 July 2021
 - ▶ Changes on import sales tax for low-value deliveries

- ▶ Abolishment of delivery threshold for deliveries to EU countries (except turnover <10,000 Euro p.a.)
- ▶ Extension of Mini-one-stop-shop (MOSS) to above deliveries
- ▶ Online platforms (marketplaces) included in the delivery chain from a VAT perspective under certain conditions
- ▶ Extension of time-limited reduced VAT rate (5% instead of 13% reduced rate) to battle the impact of COVID-19
- ▶ 0% VAT on mouth/nose protections, COVID-19 tests and vaccines from 20 days after effect of the respective EU directive until 31 December 2022

Taxes on wages and employment

- ▶ Retrospectively introduced reduction of the first level of the progressive rate from 25% to 20% will be permanently kept (introduced mid-2020 with effect from 1 January 2020).
- ▶ Reductions of the higher levels in the future are expected (35% to 30%, 42% to 40%).

Austria

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Coalition between center-right conservatives and green party
- ▶ Besides COVID-19 measures, a focus on not making new debt nor raising existing taxes
- ▶ Administrative savings through simplifications
- ▶ Focus on reducing unemployment through tax incentives rather than social benefits

2.8 Names of current tax policy and tax administration leaders

- ▶ Gernot Blümel, Minister for Finance, ÖVP – Austrian People's Party

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Measures taken battling the economic effects of COVID-19

2.10 Pending tax proposals or consultations

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Generous tax deferrals for businesses impacted by COVID-19 countermeasures
- ▶ Controls of eligibility for COVID-19 subsidies retrospectively
- ▶ Continuous enforcement through company audits with halts only due to government COVID-19 countermeasures
- ▶ New organization of tax offices (Finanzamt Österreich) effective with 2021

3.2 Key enforcement developments seen in 2020

- ▶ N/A

3.3 Likely enforcement developments in 2021

- ▶ N/A

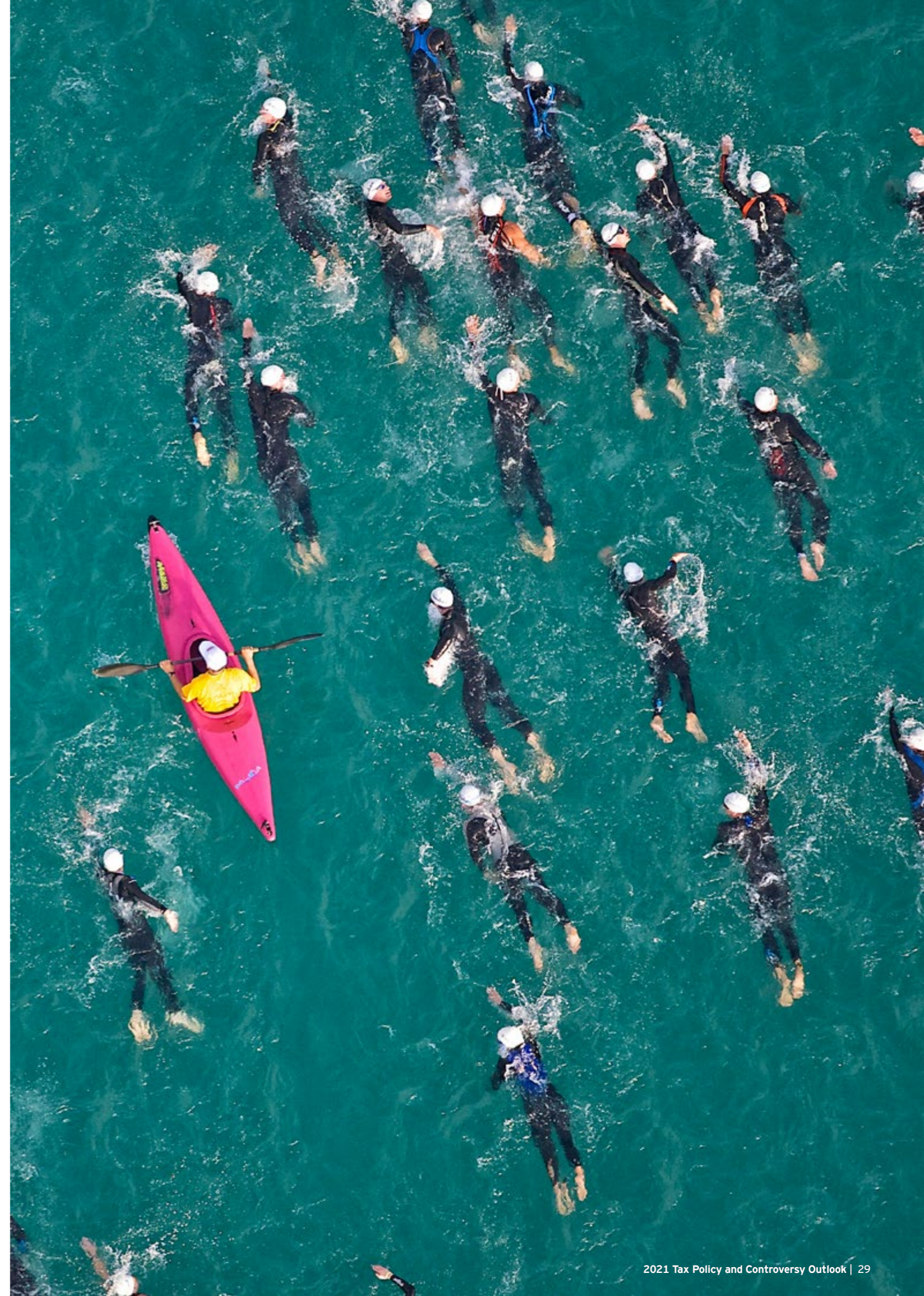
Austria

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Indirect taxes	Indirect taxes are an ongoing audit focus of the Austrian tax authorities. With the reduced VAT rates battling the impact of the COVID-19 crisis as well as the increased use of data, we expect this to also be a top tax audit issue in 2021.
2	Transfer pricing	Transfer pricing is an ongoing audit focus of the Austrian tax authorities.
3	Tax loss	To ease the economic impact of COVID-19 restrictions, a limited tax loss carryback has been introduced into Austrian tax law. Since this loss carryback can be considered in the 2019 tax returns even before the 2020 tax return has been handed in, we expect extensive auditing activity for companies that make use of the loss carryback.
4	Withholding taxes	Withholding taxes are an ongoing audit focus of the Austrian tax authorities.
5	Interest deductions	Austria has finally implemented the interest limitation rule demanded by the EU Anti-Tax Avoidance Directive. This new rule took effect on 1 January 2021. Please note that existing limitations on interest deduction will remain in force as well. We expect that interest deduction will continue to be a major focus in upcoming tax audits.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Bahrain

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	46% Rate applies only to tax on income from oil and gas activities	46% Rate applies only to tax on income from oil and gas activities	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A	N/A	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	5% (in some cases, 0% and VAT exemption may apply)	5% (in some cases, 0% and VAT exemption may apply)	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Parliamentary discussion around the introduction of corporate income tax outside of the oil and gas sector in order to shore up Bahrain government's revenues considering dampening global oil prices and the COVID-19 pandemic
- Continuation of past cooperation with the OECD on matters relating to harmful tax practices

VAT

- VAT introduced in 2019 to move away from oil and gas sector based dependent government revenues, budgetary deficits and increase tax revenue.
- Evolving VAT landscape from neighboring GCC countries.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

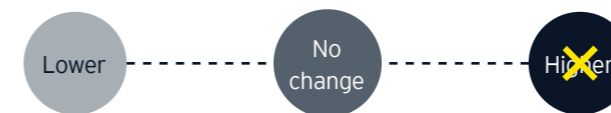
Bahrain

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> N/A <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> N/A <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The topic of a wider corporate tax system is increasingly discussed among government and business leaders in Bahrain. 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.
- ▶ Since 2001, Bahrain has been cooperating with the OECD in the OECD's overall initiative to address the international issue of harmful tax practices. More recently in 2018, Bahrain has

committed to the implementation of the BEPS Project under the Inclusive Framework minimum standards. These include Actions 5,6, 13 and 14 with the requirement to undertake domestic framework to allow for the collections and sharing of information and CbCR requirements as well as introduce MAPs with guidelines. To date, Bahrain has implemented Economic Substance Regulations and is in the process of bringing out a domestic CbCR law and some limited TP documentation. Bahrain has recently also signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS.

Bahrain

- It is expected that Bahrain will continue its engagement with the OECD in introducing policies that prevent harmful tax practices, establish foster tax transparency and effective exchange of information along with its commitments to the BEPS IF initiative.

Taxes on digital business activity

- There is no corporation tax in Bahrain on non-oil and gas sectors.
- We are not expecting any tax policy shift on digital businesses from a VAT perspective. The VAT rules are relatively new and cover most digital activities on the tax treatment.

Taxes related to climate change or sustainability

- There is no corporation tax in Bahrain on non-oil and gas sectors.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales

VAT/GST/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 precedent of practice and interpretation of the legislation by the tax authority remains somewhat unclear.
- Bahrain is part of the GCC VAT framework. Its VAT policies are similar to policies adopted by neighboring GCC member countries. At this point in time, however, there is no indication on any change or amendments to VAT law and regulations.
- 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.

Taxes on wages and employment

- No personal income/wage tax in Bahrain

- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Up to November 2020, no revenue raising measures have been formally discussed, proposed or enacted

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- 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 largely by civil law with limited influence in so far as statutory interpretation is concerned, from common law as well.

2.8 Names of current tax policy and tax administration leaders

- Bahrain's Minister of Finance and National Economy – H.E. Shaikh Salman bin Khalifa Al Khalifa
- National Bureau of Revenue – Rana Faqih
- Director of Public Revenue Policy – Mrs. Raghdan Saleh Qassim

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ From a corporate tax perspective, no change as such. It is expected that Bahrain will continue its engagement with the OECD in introducing policies that prevent harmful tax practices, establish and foster tax transparency and effective exchange of information along with its commitments to the BEPS IF initiative.
- ▶ There is no change from a VAT perspective.

2.10 Pending tax proposals or consultations

- ▶ **Proposals:** CbCR, potential limited TP documentation around master file, local file, MLI, MAP etc.
- ▶ **Consultations:** Potentially corporate tax
- ▶ No proposals from a VAT perspective

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ From a corporate tax perspective, the approach is congenial, cooperative and transparent.
- ▶ From a VAT perspective, 2019 was the first year of VAT audits and these increased in the year 2020. Generally, the audits were targeted on large taxpayers and taxpayers seeking a refund of VAT from the tax authority. The information collected by the tax authority was general business information for the purpose of profiling and to undertake data and trend analyses.

3.2 Key enforcement developments seen in 2020

- ▶ Issuing of assessment and penalties for incorrect payment of VAT liabilities, incorrect VAT returns, and noncompliance with the VAT law
- ▶ Creation of a structured appeals and review section within the tax authority (first-level appeal)
- ▶ Establishment of an independent VAT Appeals Review Committee for resolution of any disputes (second level appeal)

3.3 Likely enforcement developments in 2021

- ▶ Continuing audits from a VAT perspective

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Refunds	Seeking refunds of VAT from the tax authority
2	Targeted sectors	The sectors that are predominantly providing exempt and taxable supplies are more likely to be picked up for an audit by the tax authority.
3	Large taxpayers	An increase in the level of operations of a business could generate an audit from the tax authority.

- ▶ PE issues
- ▶ Disallowance of deductions
- ▶ Treaty benefits
- ▶ CFC issues
- ▶ DEMPE issues, including location of people and IP
- ▶ Tax losses
- ▶ Tax refunds
- ▶ Withholding taxes
- ▶ Interest deductions
- ▶ Indirect taxes (including customs/excise duties)
- ▶ Digital taxes
- ▶ Transfer pricing
- ▶ IP-related issues
- ▶ High-value services transactions
- ▶ Headquarter and management services transactions
- ▶ Intercompany financing transactions
- ▶ Procurement structures
- ▶ Limited-risk entity structures
- ▶ Limitation of deductibility of costs based on domestic rules, not on transfer pricing adjustments

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Aerial of Antwerp city along Scheldt river

Belgium

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	50%	50%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	21%	21%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Key driver of tax policy change in 2021: relaunch and transition plan, aimed at stimulating the economy, increasing the competitiveness and supporting strategic sectors, rebounding from the COVID-19 crisis
- ▶ Focus on prevention of tax fraud and providing guarantees for a correct and fair calculation and collection of (withholding) taxes, by implementing new tools and digital platforms, optimization of procedures, digitalization and e-audits
- ▶ With regard to general tax policy, objectives for 2021 in general:
 - ▶ Preparation of a broad tax reform aimed at modernizing and simplifying the tax system, making it fairer and more neutral while focusing on increasing the employment ratio, supporting climate ambitions, entrepreneurship and stimulating investments
 - ▶ Focus on foreign taxpayers and complex international constructions
 - ▶ Further focus on increasing the number of participants within the Co-operative Tax Compliance Programme (CTCP) at large enterprises and rollout for SMEs
 - ▶ Participation in international tax initiatives

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Belgium

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Two important measures representing the “COVID-19 – fiscal bazooka:”
 - ▶ The carryback of current-year losses, allowing companies to impute expected losses of the current tax period on the taxable profits of the previous taxable period by way of a tax-exempt reserve:
 - ▶ The use of the exempted reserve was limited to an accounting year closed between 13 March 2019 and 31 July 2020.
 - ▶ This measure was already implemented in 2020 for 2020 losses, but will also have effect in the next year.

- ▶ The reconstitution reserve: a relaunch measure focusing on safeguarding the liquidity and solvability of companies:
 - ▶ During three consecutive tax periods relating to tax years 2022, 2023 and 2024 (income years 2021, 2022 and 2023), companies would be allowed to create a special reserve corresponding to the amount of losses suffered in 2020 under the condition of maintaining their equity position as well as their existing employment level.
 - ▶ Companies making payments to companies located in tax havens (unless supported from an economic perspective) or having share participations in companies situated in tax havens will be excluded.
- ▶ Increased investment deduction for SMEs of 25%

Belgium

Taxes on digital business activity

- ▶ There are currently no taxes specific to digital business activity.
- ▶ In June 2020, a proposal was submitted in Parliament to introduce a digital tax in Belgium, based on the Proposal of the European Commission for a Council Directive on a digital services tax, dated 21 March 2018.
 - ▶ However, national threshold for the DST would be set at €5 million and would limit the global threshold to digital revenues.
 - ▶ It also adds modifications to make sure that the tax would not be considered as a direct tax, which would make it inapplicable if the targeted companies do not have permanent establishments in Belgium.
 - ▶ The draft law also introduces an autonomous procedure to collect the tax.
 - ▶ This proposal is nongovernmental draft legislation (submitted by three members of the parliament) and is still pending in parliament.
- ▶ According to the statement of the new government, Belgium is expected to follow EU and OECD developments with regard to a DST.
 - ▶ In the policy document of the new Minister of Finance, he underwrites the OECD initiatives relating to taxation of the digital economy.
 - ▶ Moreover, if no international agreement can be found in this regard within the OECD or EU, the government aims at introducing a digital service tax, but only by 2023.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

Taxes related to climate change or sustainability

- ▶ No specific taxes supporting climate ambitions are foreseen in 2021.

VAT/GST or sales taxes

- ▶ Implementation of the e-commerce directive
- ▶ Reduced VAT rate for the demolition and reconstruction of residential buildings extended to the entire Belgian territory for a period of two years, also extended to the delivery of such houses and the vesting of property rights (transfer and retransfer included)

Taxes on wages and employment

- ▶ A new payroll tax exemption for:
 - ▶ Employers attributing more training hours to their employees than regulatory prescribed; in practice, if an employee, during an uninterrupted period of 30 calendar days, follows training of at the least 10 days, an amount of 11.75% of the employee's remuneration will not have to be paid to the treasury
 - ▶ Researchers with a bachelor's degree
- ▶ Plans for broad personal income tax reform

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ With the announcement of a political agreement between seven political parties, Belgium has had a new government since October 2020.
- ▶ Although the reached Government agreement is generally very ambitious, concrete measures remain quite vague or refer to initiatives that were already agreed upon under the former temporary government.

2.8 Names of current tax policy and tax administration leaders

Tax administration leaders:

- ▶ Vincent Van Peteghem, Minister of Finance

Tax policy leaders:

- ▶ Hans D'Hondt, Head of Management Committee

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ A new transfer pricing circular letter provides the Belgian interpretation of the OECD Guidelines, without the intention to deviate from it.
- ▶ The third wave of the corporate income tax reform entered into force as from 1 January 2020; the most important measures of this third wave are:
 - ▶ Voluntary taxation of exempt reserves
 - ▶ Extension of disallowed expenses, including car expenses
 - ▶ Changes to the deduction of losses of foreign PEs
 - ▶ Broad Belgian PE definition
 - ▶ Abolishment of accelerated depreciation
 - ▶ Maximum interest on current account positions

Belgium

- ▶ The mandatory disclosure regime (DAC6) became effective as from 1 January 2020.
- ▶ The MLI entered into force for Belgium on 1 October 2019 and had effect as of 1 January 2020 for taxes withheld at source and for all other taxes levied for tax periods beginning as from 1 April 2020.
- ▶ Amendments have been made to the interest deduction limitation and hybrid mismatch regimes.
- ▶ A measure for carrying back current-year losses has been introduced, which allows companies to impute expected losses of the current taxable period on the taxable profits of the previous taxable period by way of a tax-exempt reserve.
 - ▶ The use of the exempted reserve is limited to an accounting year closed between 13 March 2019 and 31 July 2020.
- ▶ Implementation of the quick fixes in VAT became effective as from 1 January 2020.
- ▶ With respect to taxes on wages and employment, the social liability exemption could be claimed for the first time in the tax return of tax year 2020.

2.10 Pending tax proposals or consultations

- ▶ **Proposals:**
 - ▶ Bill of Program Law
 - ▶ Bill of law “on temporary support measures in response to the COVID-19 pandemic”
- ▶ **Consultations:**
 - ▶ Draft law “containing various urgent tax and anti-fraud measures”
 - ▶ Draft law introducing an annual tax on securities accounts

- ▶ Focus will be on the fight against tax fraud in a more integrated way; this will be a priority of the new government.
- ▶ The Ministerial Committee for the fight against tax and social fraud, and the corresponding College will be reinstalled.
- ▶ A “basket” system will be launched, with the tasks of the tax authorities being divided over a larger geographical area in order to allow flexible deployment of employees (on the basis of their competencies) and an equal treatment of the taxpayers.
- ▶ This tool will contribute to compliance with applicable tax laws through more effective and fairer monitoring of the taxpayers’ situation.
- ▶ Centers of excellence will be created in order to pool know-how on international constructions.
- ▶ Development of a “Specific Matter” center, focusing on audits of foreign taxpayers; to this end, the center will focus on the tax analysis of multinational groups of companies and to optimize this work, new knowledge platforms will be developed.
- ▶ A specific cell will be set up to bring together expertise on complex international constructions.
- ▶ Generally speaking, the Minister is fully committed to international cooperation and data exchange.

With regard to the collection and recovery of tax debts:

- ▶ Further efforts are being made on digitalization.
- ▶ On one hand, the focus will be on stimulating voluntary payment of taxes and the repayment of overpayments and, on the other hand, “Collection,” i.e., the realization of forced payment at the right time.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The relationship between taxpayer and tax authorities is overall neutral.
- ▶ Generally, tax enforcement begins with a request for information, and the process can be collaborative or adversarial, depending on behavior of parties.
- ▶ In order to improve the relations between taxpayers and authorities, the tax authorities introduced the CTCP for large companies (horizontal monitoring regime), which relies on collaboration between taxpayer and tax authorities and mutual trust.
- ▶ Tax authorities are increasingly focusing on e-audits and have formed specialized teams for this purpose.

3.2 Key enforcement developments seen in 2020

- ▶ For companies, focus centered on:
 - ▶ The correct application of the conditions relating to the special liquidation reserve
 - ▶ Correct declaration of income, more specifically foreign income
 - ▶ Nonrecurring costs of exceptional size or having an exceptional impact

- ▶ Lack of consistency in turnover (comparison of turnover with similar companies in equally similar situations)
- ▶ Holding companies organizing a capital increase directly followed by a capital decrease
- ▶ For individuals, tax audits focus centered on:
 - ▶ The deduction of real (other than lump-sum based) professional costs
 - ▶ Real estate rental income stemming, in case the tenant uses it for professional purposes
 - ▶ Movable income relating to foreign accounts not mentioned in the tax return
 - ▶ Non-filing of the tax return

3.3 Likely enforcement developments in 2021

- ▶ Due to the COVID-19 situation, the tax authorities didn’t publish their annual focus areas in relation to tax audits.
- ▶ However, in the policy agreement from the new Minister of Finance, we notice that in 2021:

In the field of taxation and tax audits:

- ▶ Further efforts will be made to increase the number of participants in the CTCP for large companies and the aim is also to expand to SMEs, with an emphasis on building partnerships.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Transfer pricing audits, including on finance transactions
2	Management participations	Extensive audits with respect to management participations (we presume that these audits will end in a court case)
3	R&D	Audits with respect to R&D wage tax exemption
4	Beneficial ownership	Tax audits in which the Belgian tax authorities intend to apply the principles of the Danish court cases

Belgium

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Brazil

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	34% ¹	25%-34%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	27.5% ²	27.5%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	18%-19% ³	18%-25%	32%

¹ Law 9,430/1996, Article 2 and Law 7,689/88, Article 3.

² Law 11,482/2011, Article 1.

³ Rates vary per state and are based in different laws issued per state.

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- 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 and/or changes to income taxation.
- 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. On July 2019, the OECD jointly with the Brazilian Internal Revenue Services (RFB) presented the outcome of the 15-month work program, which analyzed the legal and administrative framework behind the Brazilian transfer pricing system, as well as its implementation.
- The next steps will include identifying the specific needs for implementing new transfer pricing rules in Brazil and developing a course of action to determine the issues that need to be addressed by the new rules (if applicable). During 2020, the OECD and the RFB also ran a public survey to understand taxpayers' view on the adoption of safe harbors and of advance pricing agreements upon adoption of the arm's length principle in Brazil. Results should help guide policy in this sense.
- Digital tax environment – Tax authorities are expected to keep the trend of becoming more digital and increasing control over 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. There have already been two bills in this area presented to Congress.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 ⁴ <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

⁴ Note that any changes introduced in 2021 should only be applied in the following calendar year, given the anteriority principle set forth in the Brazilian Federal Constitution.

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
9. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
11. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

- ▶ The Ministry of Economy, the President of the Senate and the President of the Chamber of Deputies created a mixed tax reform commission made up of senators and deputies to prepare a consolidated text for a tax reform. The work of the tax reform commission has been slowed down due to the COVID-19 pandemic but is expected to resume during 2021.
- ▶ On 21 July 2020, the Executive branch submitted its first suggestion: a bill that would replace the PIS and COFINS (Social Security Contributions on Sales) with a new tax, the Contribution on Goods and Services (Contribuição de Bens e Serviços (CBS).
- ▶ On the same date, the Executive branch reiterated its intention to implement a more comprehensive tax reform phased in as follows:

- ▶ Phase I – replace PIS and COFINS with CBS (bill mentioned above)
- ▶ Phase II – replace the Federal Excise Tax (IPI) with a selective tax
- ▶ Phase III – change the income taxation for legal entities and individuals, with a shift toward taxing dividend distributions (currently, dividends are exempt from taxation in Brazil)
- ▶ Phase IV – reduce the payroll tax
- ▶ In December 2020, the Minister of Economy announced that a potential fifth action in this sense would be focused on allowing individuals to update value of assets to market value, prior to an alienation; such step-up would be subject to taxation, but at a rate lower than the current capital gains tax rates. The intent would be to advance collection on such assets.

Brazil

- ▶ If the schedule is kept as is, new bills are expected in the coming months.
- ▶ Further, in an effort to simplify the Brazilian tax system, the Government also stated that it is talking with representatives of states and municipalities to try to incorporate the State VAT (ICMS) and the Municipal Service Tax (ISS) into the CBS.
- ▶ There are also some discussions to reduce the payroll tax. But to avoid that reduction causing a huge impact on the social security budget there is discussion to introduce a new tax that would be levied on payments and financial transactions. The tax could be similar to the previous provisional contribution on financial transactions (CPMF – Contribuição Provisória sobre Movimentação Financeira), but potentially with a broader scope.
- ▶ Introduction of measures to review and analyze the differences in the Brazilian transfer pricing rules as compared to the OECD standard with the purpose of aligning the Brazilian transfer pricing rules with the OECD standard are expected in the near future.
- ▶ Opening of negotiations for new tax treaties and more amendments/changes to the ones in force are expected.

Taxes on digital business activity

- ▶ In 2020, two bills were proposed to the National Congress establishing a contribution on digital services. These bills are still being discussed and further changes shall be monitored to confirm if a digital service tax will be introduced in 2021.

Taxes related to climate change or sustainability

- ▶ No relevant developments

VAT/GST or sales taxes

- ▶ As indicated, Phase 2 of the tax reform may contemplate the replacement of the Federal Excise Tax (IPI) with a selective tax that would be levied only on certain products, such as cigarettes and alcohol, to discourage consumption.
- ▶ Further, the Government also stated that it is talking with representatives of states and municipalities to try to incorporate the ICMS and the ISS into the CBS. The Government's idea is to incorporate some of the changes proposed in two major bills dealing with the taxation charged on consumption that are currently being discussed in the two houses of the National Congress:
 - ▶ Bill for Amendment of the Constitution 45/2019 proposes, among other measures, (i) replacement of IPI, ICMS, PIS, COFINS and ISS by an IBS; (ii) elimination of tax incentives; (iii) introduction of a new tax with "extra fiscal purpose" (IS for its Portuguese acronym).

- ▶ Bill for Amendment of the Constitution 110/2019 proposes, among other changes, (i) replacement of IPI, Tax on Transactions (IOF), Program of Social Integration, COFINS, Salário-Educação, Contribution of Intervention in the Economic Domain-combustíveis, ICMS and ISS by the IBS; (ii) maintenance of tax incentives to specific products/sectors, including Zona Franca de Manaus (ZFM); (iii) Introduction of the IS with a wider scope (products/services for mass-consumption).

Taxes on wages and employment

- ▶ As indicated, the fourth phase of the Government's tax reform proposals may introduce a reduction of overall taxation of payroll, which may require the introduction of a new tax to be levied on payments and financial transactions in order to increase revenue – earlier this year, Brazil's Minister of Finance announced that the tax rate may be between 0.2% and 1%.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VAT/sales taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Government is engaged to pass revenue raising measures and significant reforms in the agenda, including:
 - ▶ Tax reforms
 - ▶ Administration reform
 - ▶ Privatization programs
 - ▶ Review of trade agreements

2.8 Names of current tax policy and tax administration leaders

Tax policy leader

- ▶ Paulo Guedes, Finance Minister

Tax administration leader

- ▶ José Tostes, Brazilian Federal Revenue Service Secretariat

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Introduction of a series of emergency tax measures to combat the COVID-19 Pandemic
- ▶ Examination of different proposals to create a digital contribution (similar to the DST introduced in many European and OECD countries)
- ▶ Abolition of the integrated system for the foreign trade of services, intangibles and other transactions, which was an ancillary obligation for taxpayers reporting cross-border transactions involving the provision of services, intangibles and other similar transactions that may have an impact on their equity

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Bill 3,129/19 proposing, among other changes, WHT on dividend payments

Brazil

- ▶ Bill for Amendment of the Constitution 128/2019 proposing, among other changes, WHT on dividend payments, CIT rate reduction, introduction of a new tax on financial transactions – IMF, replacement of ICMS, PIS, COFINS and ISS by IBS
- ▶ Bill for Amendment of the Constitution 45/2019 proposing tax reforms
- ▶ Bill for Amendment of the Constitution 110/2019 proposing tax reforms
- ▶ Bill 3,887/2020 proposing the creation of a CBS
- ▶ Bill 2,358/2020 and Complementary Bill (PLP) 218/2020 proposing the creation of digital taxes

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The RFB has a very well-developed, sophisticated electronic compliance and audit system. All tax returns are submitted electronically, and invoices are generally issued electronically. Therefore, the trend in the federal administration is toward digital audits. This has spurred thousands of notifications of deficiencies, audits and numerous assessments each month.
- ▶ The most developed states and municipalities are following the federal lead on this “e-tax” trend.
- ▶ High-income corporate taxpayers are audited at the federal level by specialized tax offices in São Paulo and Rio de Janeiro. These offices target issues such as tax planning and corporate restructuring, transfer pricing, controlled foreign corporation rules and cross-border transactions.

3.2 Key enforcement developments seen in 2020

- ▶ Improvement of data comparisons to identify inconsistencies
- ▶ Identification of a series of cases of tax evasion in the following sectors: cigarettes, beverage, and fuel
- ▶ Development of new tools to identify tax evasion
- ▶ Write-off of taxpayers register numbers (CNPJ) used in tax frauds
- ▶ Identification of inconsistencies between company's gross revenue and the amount declared in the tax returns

3.3 Likely enforcement developments in 2021

- ▶ The RFB will likely continue to enforce the points mentioned above in 2021.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	International tax planning	Triangular export transactions of commodities aimed at transferring taxable income to non-regular jurisdictions
2	Tax planning	Internal restructurings generating amortizable assets Misuse of investment funds to conduit abusive tax planning Investors of the financial market registered as “nonresidents” that receive tax benefits applicable to fixed and variable income securities without proving their nationality
3	Tax credit refunds/offsetting	Considering most of the ancillary tax obligations in Brazil (including income tax returns and VAT returns) are submitted electronically and the Brazilian IRS has a well-developed, sophisticated electronic compliance and audit system, the taxpayers have received thousands of notifications related to refunds and offsetting of tax credits.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of January 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	27.85%	27.54% 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 24% in Alberta to a high of 31% in Prince Edward Island.	-1.11% (or a 0.31 percentage point decrease) Nova Scotia reduced its general corporate tax rate from 16% to 14%, effective 1 April 2020; Quebec has gradually reduced this rate from 11.9% in 2017 to 11.5% in 2020; and Alberta reduced it from 10% to 8%, effective 1 July 2020 (calendar year-end rate 9%).
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	50.44%	50.44% ² Top combined federal (33%) and provincial (21%) marginal rate of 54% is in Nova Scotia. Other top combined provincial/territorial marginal rates range from a low of 44.5% (Nunavut) to a high of 53.53% (Ontario).	Tax brackets and indexed threshold income levels vary by province/territory. Eight of Canada’s 10 provinces have top personal marginal tax rates in excess of 50% (up from 7 in 2019 when British Columbia (BC) created a new top bracket for income above \$220,000 at a rate of 20.5%. Only Alberta (48%) and Saskatchewan (47.5%) have top marginal rates below 50%.

¹ Federal Income Tax Act, s. 123; various provincial/territorial tax statutes

² Federal Income Tax Act, s. 117; various provincial/territorial tax statutes

VAT, GST or sales tax – standard rate

(Please list standard national rate, and if local rates apply, an average of the standard local rates)

Combined rates varied 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 have a multi-stage VAT administered by the Canada Revenue Agency called the Harmonized Sales Tax (HST), which consists of a 5% federal component (the GST) and the respective provincial component: New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and Prince Edward Island. Three provinces have a retail sales tax, which they administer: 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 Canada Revenue Agency (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.

Manitoba reduced its RST from 8% to 7% effective 1 July 2019. A further drop to 6% was to have taken place on 1 July 2020, but, due to the COVID-19 pandemic, the reduction has been postponed until further notice.

No change

³ Federal Excise Tax Act, s. 165; various provincial tax statutes

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The most important driver that will influence tax policy in 2021 is the COVID-19 pandemic, as in most other jurisdictions. Two main factors will come into play: (1) how quickly the spread of COVID-19 can be contained and (2) how quickly the Canadian economy can rebound. At this point in time (January 2021), many Canadian provinces are in the midst of a second wave of infections with hospital ICUs nearing capacity and no clear leveling off in sight. Accordingly, there is a patchwork of associated provincial business lockdowns. Having no source of domestic vaccine production, the federal Government has procured foreign-sourced supplies, but estimates it will not be until September 2021 at the earliest when all Canadians who want the vaccine can be vaccinated.
- ▶ A further key driver is a significant increase in federal and provincial deficit and debt levels, largely due to COVID-19-related economic relief programs for businesses and individuals and, given the second wave, extension of eligibility for these programs well into 2021.
- ▶ An indication of the intended direction of the government's overall fiscal policy was contained in its 2020 Fall Economic

Statement (FES), released on 30 November 2020. The government projected a federal budgetary deficit of \$381.6 billion in fiscal year 2020-2021 and committed to sustain a “fiscally expansive approach to fighting the COVID-19 pandemic” that would be “limited and temporary.” The FES contained a number of new spending commitments and several new tax measures (several of which are outlined in section 2).

▶ A driver that will also impact federal tax policy is that a minority government is in power, and it is widely anticipated that a federal general election will be called at some point in 2021. This means the 2021 budget will be an “election budget,” reducing the likelihood of expenditure restraint or proposed tax increases despite this serious deterioration in the government's fiscal balance. A date has not yet been announced for the 2021 federal budget. The federal Government did not bring down a budget in 2020 (it had been scheduled to be tabled on 30 March 2020 but was postponed indefinitely due to the COVID-19 crisis).

2.2 Tax issues in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
4. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The need for additional tax revenue to offset the substantial increase in the budgetary deficit caused by COVID-19-related support program expenditures is more than offset by the need to facilitate a rapid recovery across most sectors of the economy. For this reason, there is no expectation of any corporate tax rate increases, at least in the near term.

Taxes on digital business activity

- ▶ The 2020 FES contained two proposals related to the digital economy:
 - ▶ Extension of the existing requirement for domestic vendors of digital products or services to register and remit GST/HST to foreign-based vendors who have no physical presence in Canada, effective 1 July 2021

- ▶ In the context of the OECD's BEPS 2.0 proposals, the unilateral imposition by Canada of a new tax on corporations providing digital services rules, effective 1 January 2022 if there is not a consensus before then on a multilateral approach recommended by the OECD.

- ▶ Further details are to be disclosed in the 2021 federal budget.

Taxes related to climate change or sustainability

- ▶ In December 2020, the federal Government announced a proposal to increase the existing carbon tax from its current \$30/tonne of GHG emissions to \$170/tonne by 2030. This tax is currently scheduled to increase by \$10 annually until it reaches \$50/tonne in 2023. The announcement, if implemented into law, will increase the carbon tax by \$15/tonne per year starting in 2023 until it reaches \$170/tonne in 2030. This tax is set under the federal Greenhouse Gas Pollution Pricing Act.

VAT/GST or sales taxes

- ▶ Foreign-based vendors of digital products or services with no physical presence in Canada do not have to charge GST/HST on sales to Canadian consumers. To level the playing field, the federal Government has proposed that they must register and remit GST/HST on supplies made to Canadian consumers, effective 1 July 2021 (and must also pay GST/HST on goods in fulfillment warehouses, similar to Canadian vendors). Draft legislation was released in the 2020 FES.

Taxes on wages and employment

- ▶ In its 2020 FES, the federal Government released draft legislation to restrict favorable tax treatment of employee stock options with certain exceptions for start-up, emerging or scale-up corporations.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Canada

2.7 Political landscape

- As discussed above, a minority government is in power, and it is widely anticipated that a federal general election will be called at some point in 2021.

2.8 Names of current tax policy and tax administration leaders

Tax policy leader

- Chrystia Freeland, Minister of Finance
- Michael Sabia, Deputy Minister, Department of Finance
- Andrew Marsland, Senior Assistant Deputy Minister, Tax Policy, Department of Finance
- Miodrag Jovanovic, Associate Assistant Deputy Minister, Department of Finance
- Wayne Easter, Chair of the House of Commons Standing Committee on Finance, 43rd Parliament, 2nd Session (September 23, 2020-Present)
- Pierre Poilievre, Finance Critic, Conservative Party of Canada
- Peter Julian, Finance Critic, New Democratic Party of Canada

Tax administration leader

- Diane Lebouthillier, Minister of National Revenue
- Bob Hamilton, Commissioner of the Canada Revenue Agency (CRA)
- Ted Gallivan, Assistant Commissioner, Compliance Programs Branch, CRA
- Cathy Hawara, Assistant Commissioner, Appeals Branch, CRA
- Geoff Trueman, Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, CRA

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- There were no substantive tax policy changes in 2020. The federal budget that had been scheduled to be tabled on 30 March 2020 was postponed because of COVID-19 and has not been rescheduled. A date has not yet been announced for the 2021 budget.

2.10 Pending tax proposals or consultations

Proposals:

- A number of legislative proposals from the 2019 federal budget still outstanding (including cross-border share lending arrangements and foreign affiliate dumping)
- Proposals in the 2020 FES outlined above

Consultations:

Open:

- None (a consultation on modernizing the GAAR, as announced in the 2020 FES, is pending but not yet open)

Recent and closed:

- Strengthening Canadians' Retirement Security Consultation (January 2021)
- Department of Finance Consultation on Official Development Assistance, 2020 (November 2020)
- Notice of intent to impose countermeasure actions against the United States in response to tariffs on Canadian aluminum products (August 2020)
- Canada Emergency Wage Subsidy Consultation (June 2020)

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- 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 regard 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. In its 2020 FES, the Government allocated an additional \$606 million over five years to the CRA for new and existing initiatives targeting international tax evasion and aggressive tax avoidance. This is in addition to the \$350 million per year in incremental funding it had already allocated in federal budgets since coming to power in 2015.
- The Government also announced in the FES that it would be launching consultations in the coming months on the modernization of its anti-avoidance rules, in particular the GAAR.

3.2 Key enforcement developments seen in 2020

- There was a mid-year pandemic-related pause in enforcement activities by the CRA. Full resumption was observed by November 2020. Some taxpayers received a windfall/pass on some tax years becoming statute-barred during the pause.
- CRA enforcement programs (and other programs) enhanced their remote audit capacities.

3.3 Likely enforcement developments in 2021

- Pending implementation of digital services taxes
- Scrutiny of COVID-19-related assistance programs

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Continued high CRA coverage of all transfer pricing transactions
2	Hybrid debt	Continuation of CRA project challenging hybrid debt structures
3	Permanent establishment risk	Nonresidents providing services in Canada face greater scrutiny, separate and sometimes in conjunction with a review of transfer pricing issues
4	Underground economy	Continued focus of CRA enforcement resources on domestic underground economy issues
5	Tax refunds	Expected widespread utilization of 2020 incurred losses will trigger widespread refund requests and associated scrutiny

Canada

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (in particular, the Canadian Emergency Wage Subsidy Program and the Canada Emergency Rent Subsidy for businesses; and Canadian Emergency Response Benefit Program for individuals)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Chile

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	27%	27%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	40%	40%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	19%	19%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Complete revision of tax exemptions and preferential regimes
- ▶ Outline the principles of a new tax reform focused on equity
- ▶ As part of the constitutional process (a Constitutional Convention of members elected by popular vote is to draft a new Constitution throughout 2021, which will contain the basic principles of taxation and public expense)

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The panel of economists appointed by the government to lay out the main principles of guidelines of a future tax reform (not likely to take place in 2021) also includes a complete revision of the tax exemptions of all different taxes.
- ▶ As a result, public discussion will likely revolve around whether certain benefits (e.g., capital markets) are justified to be maintained.

Taxes on digital business activity

- ▶ As the 2020 tax reform already introduced digital taxation, no further changes are expected in 2021.

Taxes related to climate change or sustainability

- ▶ This will probably be part of the report made by the panel of economists appointed by the government.

VAT/GST/sales taxes

- ▶ As of 2020, business-to-consumer e-invoicing became mandatory (business-to-business e-invoicing has been mandatory for several years now in Chile), the VAT discussion will probably be centered on how this changes offer opportunities to tackle evasion.

Taxes on wages and employment

- ▶ Some discussion has arisen (though it is not certain whether this will be part of the panel's discussion) on whether the exempt bracket of payroll taxes should be diminished, as a very small proportion of workers are outside it.

2.5 In 2021, what do you believe your jurisdiction’s primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other A full review of existing exemptions

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The political scene is heavily driven by COVID-19 social and economic effects.
- ▶ Public expenditure has generated a very strong public deficit, yet are still below the region and most developed economies.
- ▶ The economy is suffering and people grow tired of mobility and sanitary restrictions.
- ▶ The popular election of the Constitutional Convention is to take place in April (before which they “approve” of a new Constitution won by a landslide in October); it is expected that the new constitution will also fill a large part of the political debate.
- ▶ The Government is at an all-time low approval rate as a result of the COVID-19 contingency (and an initial response that generally has been deemed to be slower than it should have been).

2.8 Names of current tax policy and tax administration leaders

- ▶ Ignacio Briones, Treasury Ministry
- ▶ Fernando Barraza, Internal Revenue Service commissioner
- ▶ Manuel Alcalde, Treasury Head of Tax policy

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The COVID-19 situation has shifted the tax administration's efforts into helping small and medium businesses, and we've seen a less contentious approach to taxpayers and increased its efforts to reach agreements before taking matters to court
- ▶ The tax administration was recently exposed to public criticism and scrutiny as a result of not pursuing criminal charges against politicians that were convicted for corruption charges, and also for allowing expense deductions in companies that were prosecuted for corruption as well.

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ President Piñera's (large) tax reform was finally enacted, including key features like digital taxation, intangible amortization, and an overhaul of the small – and medium-business tax regime; strengthening of taxpayer rights; thin capitalization rules changes; foreign tax credit enhancement, expense deductibility, among others.
- ▶ Important COVID-19 tax measures were enacted; among them, the lowering of the corporate tax rate for small and medium businesses; VAT deferrals; full depreciation; stamp tax transitory exemption, among others

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A

3.2 Key enforcement developments seen in 2020

- ▶ After several years of inactivity, the tax administration started promoting APAs
- ▶ In 2020, the first APAs were agreed upon, with many more in the pipeline.

3.3 Likely enforcement developments in 2021

- ▶ Expense deductibility and exemptions
- ▶ Transfer pricing

Chile

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	The Chilean tax authority has enhanced and sophisticated its focus on transfer pricing, as its teams of inspectors have more experience and training. Its focus will likely be intangibles and IP, limited-risk entities structures, and intercompany finance transactions.
2	Disallowance of deductions	In 2020, the tax reform included a whole new set of rules for expenses (many pro-business), so it is likely that the tax administration will focus its audit efforts into the new rules.
3	Tax losses/refunds	A benefit named “provisional payments on absorbed profits” will gradually be diminished until its elimination in 2024. The benefit allowed taxpayers to apply for a tax refund on received dividends that were subject to corporate taxes in the source company, whenever the recipient is in a tax-loss situation. Many holding companies applied to this benefit every year, and it is likely many will opt to obtain more dividends from its subsidiaries before the benefit is eliminated, which in turn will be a focus of audits.
4	Digital taxes	With the recently enacted rules, it is likely to be a focus of audit.
5	VAT	The new business-to-consumer e-invoicing will be a focus of attention.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/> COVID relief measures	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





China Mainland¹

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Different IIT rates applicable subject to income types: ² General consolidated income (wages): 45% Business operation income: 35% Interest and dividend: 20%	Different IIT rates applicable subject to income types: ³ General consolidated income (wages): 45% Business operation income: 35% Interest and dividend: 20%	–

¹ “China” in this publication refers to the mainland China tax jurisdiction.

² Order of the President [2018] No. 9

³ Order of the President [2018] No. 9

	2020	2021	% change
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	6%, 9%, 13% (depending on the industries) and 0% for certain eligible activities as well as export of goods and services ⁴	6%, 9%, 13% (depending on the industries) and 0% for certain eligible activities as well as export of goods and services	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

The two blueprints proposed in Communist Party of China (CPC's) 5th Plenary Session of 19th Central Committee

- ▶ China publishes economic development plan every five years
- ▶ In October 2020, the CPC held its 5th Plenary Session of the 19th Central Committee (the 5th CCPC Session), which proposed two blueprints to map China's economic developments' frameworks and directions, and set the overarching goals and determining the focused areas:
 - ▶ **Short-term plan** – for the next five years, the “14th Five-Year Plan”
 - ▶ **Mid-/Long-term plan** – for the next 15 years, titled as “Long-term Development Objectives Through Year 2035”

- ▶ The full documents will be published in 2021; nevertheless, the Communiqué of the 5th CPCCC session announced key areas highlighted as:
 - ▶ Innovation-driven economy
 - ▶ A new development paradigm with both the domestic and cross-border circulations reinforcing each other
 - ▶ Enhancement of further opening up
 - ▶ Green economy
 - ▶ Major breakthroughs in core technologies in key fields
 - ▶ A fully modernized ecological development (e.g., modern service and agricultural)
 - ▶ Talent attraction and retention
 - ▶ Rule of law
 - ▶ High-quality development for the Belt and Road Initiative

⁴ The Interim Regulations of the People's Republic of China on Value-added Tax (effective as of 19 November 2017) provides VAT rates of 17%, 11%, 6% and 0% (for specific exported goods).

The 17% and 11% rates have been reduced to 16% and 10%, respectively, from 1 May 2018. (Source: Circular MOF/STA Caishui [2018] No. 32)

The 16% and 10% rates have been further reduced to 13% and 9% respectively from 1 April 2019. (Source: Public Notice MOF/STA/GAC [2019] No. 39)

The 13% rate applies to most of supplies of goods or services (unless those eligible for a reduced rate or an exemption).

The 9% rate applies to taxpayers who sell or import the goods and provide services listed in the Interim Regulations.

The VAT Reform was rolled out gradually to nationwide on 1 August 2013. Railway transport (applicable tax rate of 11%) and postal industries (applicable tax rate of 11%) were included in the VAT Reform from 1 January 2014. (Source: Circular MOF/SAT Caishui [2013] 106). The telecommunications industry was included from 1 June 2014, with applicable rates of 11% and 6% for basic telecommunication services and value-added services, respectively. (Source: Circular MOF/SAT Caishui [2014] 43. Caishui [2015] 118 has set out the VAT zero rating treatment for selected VATable services.)

The final stage of VAT Reform started on 1 May 2016 (Source: Circular MOF/SAT Caishui [2016] 36) and the scope of the VAT Reform was further expanded to cover the Construction Industry (applicable tax rate of 11%), Real Estate Industry (applicable tax rate of 11%), Finance Industry (applicable tax rate of 6%) and life style service industry (applicable tax rate of 6%). Since then, the Business Tax was phased out in PRC.

⁵ 2035 远景目标

China Mainland

Recovery from COVID-19

- ▶ To continue the necessary stimulus measures and support businesses and economic to recover from the COVID-19 pandemic

Digitalized administration trend

- ▶ To further digitalize tax administration to identify high-tax risk areas, leveraging big data and cloud computing through the State Taxation Administration of China (STA) Golden Tax Phase 3 system
- ▶ To build up Golden Tax Phase 4

Digital tax – BEPS 2.0

- ▶ It is not expected that China would introduce a digital service tax.
- ▶ Currently, all sales of goods and service are subject to VAT, regardless if they are digitalized or not.

Development of China special economic regions

- ▶ Possible stimulus plan for China's city grouping (the Beijing-Tianjin-Hebei region in the north, the Greater Bay Area in the south, the Chengdu-Chongqing City Group in the west and the Yangtze Delta in the east)

- ▶ To establish new PFTZs and integrated bonded areas in the central and western regions
- ▶ To allow more flexibility to PFTZs

Belt and Road Initiative (BRI) cooperation and collaboration

- ▶ The overall direction is to use tax, customs and financial policies to continue to support/facilitate BRI developments.

Regional Comprehensive Economic Partnership

- ▶ China joined RCEP in November 2020, which is a free-trade agreement in the Asia-pacific region between the 10 ASEAN countries and 5 of their FTA partners – Australia, Japan, New Zealand and South Korea in addition to China.
- ▶ RCEP is intended to facilitate international supply chains and trade within the region by reducing tariffs and red tape.
- ▶ RCEP is expected to help stimulate the economy amid the COVID-19 pandemic.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 (Note: due to tax supporting policies for enterprises greatly impacted by the COVID-19 epidemic) <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021 (Note: in-line with macroeconomic development trends)
12. Other business incentives - including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Higher incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021 (Note: due to increasing capacity of tax administrations in digitalized tax administration)
4. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

New tax policies might be designed to feed the following economic development needs as planned in the 14th 5-year plan:

- ▶ Enhanced incentives for R&D
- ▶ Strengthened policies for talent attraction and retention
- ▶ Build a modernized economic system (covering industrial/agricultural sectors, etc.)
- ▶ Rule of law in tax administration
- ▶ Tax policies to drive a more eco-friendly development
- ▶ Continue policies to support businesses recovery from COVID-19
- ▶ Promote green development
- ▶ Control the heated real estate market

Corporate income taxes

- ▶ China extended the 15% CIT rate for qualified enterprises engaged in encouraged industries in the Western Regions to the end of 2030; the criteria has also been relaxed.
- ▶ Companies that have business substance and engage in encouraged industries in Hainan are entitled for a reduced CIT rate from 2020 to 2024.

Taxes on digital business activity

- ▶ There is no specific DST applied in China at current stage.
- ▶ Digital services are subject to general VAT.
- ▶ It is observed that many countries have passed a kind of VAT/GST on digital products or transactions; China is looking into this as well, but so far, DST is not on the priority list based on its economic development needs.

Taxes related to climate change or sustainability

- ▶ China's prevailing Environmental Protection Tax does not apply to carbon dioxide emission.
- ▶ China has been studying the possibility and effectiveness in levying carbon tax on carbon dioxide emission; however, China has not introduced specific carbon tax.⁸

VAT/GST/sales taxes

- ▶ The draft VAT Law was released for public consultation on 27 November 2019 and the public comments closed on 26 December 2019; the draft 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 period
 - ▶ Tax reduction/exemption procedures: empower the State Council to formulate VAT preferential policies and shall submit to the Standing Committee of the National People's Congress for record-filing purposes

Taxes on wages and employment

- ▶ An IIT exemption was created for the additional allowance and bonus paid to medical staff and qualifying personnel who are involved in COVID-19 prevention, treatment and/or handling related emergency measures (to be provided by the government by the end of 2020). [MOF/STA Public Notice [2020] No. 10]
- ▶ Due to COVID-19, the National Legislative Department has put efforts on evaluating the IIT impacts on cross-border individuals (e.g., the determination of the income source) and exploring possible resolution for mismatch between the employment/payroll location and actual work/residential location caused by travel restrictions; however, no specific policy has been released.
- ▶ From an administrative perspective, certain local governments (e.g., Beijing, Shanghai, Tianjin and Shenzhen) promulgated that social securities collection are to be administered by tax authorities from 1 November 2020; more locations could follow in 2021.
- ▶ The requirement for 2020 PRC Annual IIT Reconciliation filing, especially for China tax residents who have worldwide income, is expected to be released by the end of 2020, which will enhance the tax administration on overseas income of China-domiciled tax residents.

⁶ [MOF, STA and NDRC [2020] No. 23

⁷ [Caishui [2020] No. 31]

⁸ www.mee.gov.cn/xxgk2018/xxgk/xxgk13/201810/t20181015_662260.html
www.mee.gov.cn/xxgk2018/xxgk/xxgk13/201911/t20191112_742030.html

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ No change in political landscape
- ▶ Continue China's general policy on international cooperation and collaboration
- ▶ Continue strengthening BRI network
- ▶ Focusing on long-term modernized economy development strategy
- ▶ The overall goal of China's government for next stage development: support the "dual circulation" development strategy (a new development paradigm with both the domestic and cross-border circulations reinforcing each other)

2.8 Names of current tax policy and tax administration leaders

Country economic leaders

- ▶ Xi Jinping, the leader of the Central Financial and Economic Affairs Commission of CPC;⁹ People's Republic of China (PRC) President
- ▶ Li Keqiang, the Deputy leader of the Central Financial and Economic Affairs Commission of CPC;¹⁰ PRC Prime Minister

Country legislation and policy key drivers, including:

- ▶ National People's Congress (the parliament)
- ▶ The State Council along with the ministries and other governmental authorities under it
- ▶ Certain state-funded research institutions

Current Tax policy and administration leaders at ministry level:

- ▶ Minister Liu Kun, the Minister of the Ministry of Finance¹¹
- ▶ Minister Wang Jun, the Commissioner of the STA¹²

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

CIT-, VAT-, IIT-related tax incentives released under the COVID-19 context

- ▶ Please refer to the COVID-19 stimulus tracker¹³ for more details

Other major CIT-, VAT-, IIT-related tax incentives:

▶ CIT

- ▶ Tax incentives for the IC industry and the software industry: qualifying enterprises or projects are entitled to CIT incentives such as 10-year CIT exemption, 5-year CIT exemption followed by a 5-year 50% reduction of the statutory CIT rate, etc.¹⁴

▶ VAT

- ▶ From 20 August 2019, interest income derived by financial institutions for granting loans with a term of more than one year but less than five years to designated entities (i.e., small – and micro-sized enterprises and self-employed industrial and commercial households) may be exempt from VAT before 31 December 2020.¹⁵
- ▶ From 30 November 2018 to 29 November 2023, the bonded delivery of commodity futures that are opened to overseas investors as approved by the State Council shall be temporarily exempt from VAT.¹⁶
- ▶ Import-level VAT for the importation of equipment for key IC projects can be paid by installments (detailed policies are expected to be released).¹⁷

Regional tax incentives

▶ Hainan Free-Trade Port (FTP):¹⁸

- ▶ **CIT:** Enterprises registered in the Hainan FTP and engaged in substantial business in encouraged industries are entitled to a reduced CIT rate of 15% starting from 1 June 2020.
- ▶ **CIT:** For enterprises registered in the Hainan FTP and engaged in tourism, modern services or high-tech industries and any income derived from new outbound direct investments made before 2025 shall be exempt from CIT.
- ▶ **CIT:** For all enterprises established in the Hainan FTP, qualified capital expenditures are allowed be one-off deductions for CIT purposes.
- ▶ **IIT:** For high-end or urgently needed talents that work in the Hainan FTP, an IIT responsibility exceeding a 15% tax rate could be rebated through an application process and filing of Annual IIT Reconciliation return.
- ▶ **Zero customs duty**

⁹ http://www.gov.cn/zhengce/2018-03/21/content_5276191.htm#1

http://www.gov.cn/xinwen/2019-08/26/content_5424679.htm

¹⁰ http://www.gov.cn/xinwen/2019-08/26/content_5424679.htm

¹¹ <http://www.mof.gov.cn/zhengwuxinxi/benbugaikuang/buzhangzhichuang/czblk/index.htm>

¹² <http://www.chinatax.gov.cn/chinatax/n810209/n810575/n811941/index.html>

¹³ <https://find.ey.net/discover/sitepages/home.aspx?detailPath=FKVYTZ57RF4K-1759553496-7598#detailPath=FKVYTZ57RF4K-1759553496-7598>

¹⁴ http://www.gov.cn/zhengce/content/2020-08/04/content_5532370.htm

¹⁵ <http://www.chinatax.gov.cn/chinatax/n359/c5157154/content.html>

¹⁶ <http://www.chinatax.gov.cn/chinatax/n810341/n810755/c5144203/content.html>

¹⁷ http://www.gov.cn/zhengce/content/2020-08/04/content_5532370.htm

¹⁸ http://szs.mof.gov.cn/zhengcefabu/202006/t20200630_3540842.htm

http://szs.mof.gov.cn/zhengcefabu/202006/t20200630_3540853.htm

http://www.gov.cn/zhengce/2020-06/01/content_5516608.htm

China Mainland

- ▶ **Western Regions (CIT):** Mainland China has extended the 15% CIT rate for qualified enterprises engaged in encouraged industries in the Western Regions to the end of 2030, the criteria has also been lowered.¹⁹
- ▶ **Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone (CIT):** Eligible legal entities that are engaged in core products and technology of key industries (such as integrated circuits, artificial intelligence, biomedicine, and civil aviation) in the Special Area and carry out substantive production or R&D activities are entitled to a reduced CIT rate of 15% within five years from the date of establishment.²⁰
- ▶ **Guangdong-Hong Kong-Macao Greater Bay Area (VAT):** From 1 October 2020 to 31 December 2023, an insurance enterprise registered in Guangzhou shall be exempt from VAT on the income from international shipping insurance business provided to an enterprise registered in Nansha Free Trade Zone.²¹
- ▶ Cross-border e-commerce pilot zones (ECPZs): Creation of 46 newly established ECPZs, for a total of 105 zones²² that are exempt from VAT and Consumption Tax.

New tax laws

- ▶ City Construction Tax Law promulgated and will take effect from 1 September 2021.²³ Not a new operation cost. It's a tax legislation conversion from current administrative fee. For businesses, the general tax responsibility will be the same as what's currently imposed under the administrative fee system.
- ▶ Deed Tax Law promulgated and will take effect from 1 September 2021.²⁴

Positions regarding treaty implementation under the COVID-19 epidemic

- ▶ China's position on determination of PEs during the epidemic:²⁵
 - ▶ Temporary working from home – should not constitute PEs
 - ▶ Temporarily conclusion of contracts in an individual's home in China on behalf of overseas enterprise – will not constitute a dependent agent PE if such activities are carried out only on an incidental basis
- ▶ Construction PE – the duration of temporary interruption due to the epidemic is allowed to be excluded when calculating the threshold for PE purposes

- ▶ Resident status
 - ▶ Temporary changes to the place of decision-making by senior officers under the epidemic prevention and control measures will not in general change the determination of the place of effective management, nor will it affect the resident status under the tax treaties according to the place of effective management.
 - ▶ Temporary changes to the place of residence of an individual due to the epidemic prevention and control will not normally cause change to his/her permanent home or center of vital interests, and as a result, his/her resident status under the tax treaties will not change.

2.10 Pending tax proposals or consultations

- ▶ VAT Law (Draft)²⁶
- ▶ Consumption Tax Law (Draft)²⁷
- ▶ Revised Draft of the Tax Collection and Administration Law (Discussion Draft)

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ **During the peak of COVID-19**
 - ▶ STA suggested to all tax authorities to reduce or defer tax inspections unless significant risks were identified.
 - ▶ However, it was still emphasized that “tax-related illegal cases should be timely investigated.”
 - ▶ Invoice fraud cases and the cases involving frauds by taking advantage of COVID-19 relieving measures have been mentioned as the focused audit area.
- ▶ **Under the current context (epidemic control in China has become stable). In September 2020 China STA proposed:**
 - ▶ Focused risk control: focusing on key industries and areas with high frequency of tax evasions
 - ▶ Enhanced collaborations with other authorities to increase the efficiency of tackling the tax frauds (e.g., public securities, business registrations, financial institutions, customs)
- ▶ **Advance ruling**
 - ▶ Certain local tax authorities implement advance ruling on a trial basis.
- ▶ **Digitalized tax administration-pilot runs**
 - ▶ Big data cloud platform fully established
 - ▶ Pilot run of blockchain-based invoice in Beijing
 - ▶ Pilot run of electronic VAT special invoices in certain areas (e.g., Zhejiang Province²⁸ and Shijiazhuang in Hebei Province²⁹)
 - ▶ Electronic VAT special invoices to be applicable by the end of 2020

3.2 Key enforcement developments seen in 2020

The audit targets for 2020 might include (all based on our observations. no public official information available):

- ▶ Targeted transactions: equity transfer (direct or indirect), related-party transactions (intercompany charges), substantial outbound payments, tax incentive claims and cross-border M&A
- ▶ Targeted industries – no national list available as targets vary locally: real estate, construction, finance, e-commerce, hotel, pharmacy and trade etc.

3.3 Likely enforcement developments in 2021

- ▶ **Enhanced tax enforcement very likely with the upgrading and enhancing of digital tax administrations**
- ▶ **More transparent tax environment with the enhanced utilization of Golden Tax system**
 - ▶ Enhanced information exchange and integration between China's Golden Tax System (GT) and other governmental digitalized administrative system
 - ▶ Golden Tax Phase IV expected to launch in 2021
- ▶ **Big data utilization and application**
 - ▶ A designated big data bureau under STA
 - ▶ Fully integrate the data in GT and data sourced from other channels
 - ▶ By the end of 2020: major tax-related administrative matters to be handled online as well
 - ▶ A more competent tax risk management
 - ▶ Enhanced tax credit system based on big data analysis
 - ▶ More targeted tax administration/audit/services based on risk and credit system
 - ▶ All taxpayers, including nonresidents, may opt into online filings/applications
 - ▶ Fully digitalized invoicing system (plan to build a national unified electronic invoice service platform and a tax network trusted identity system by the end of 2021)
 - ▶ Expand the application of blockchain
- ▶ **Tax audit**
 - ▶ Digital audit maybe be further utilized
 - ▶ Digital audit on large-sized enterprises (to be rolled out nation-wide based on the result/feedback delivered/received by the current pilot run)
 - ▶ With the full launch of the GT Phase III and the initialization of GT Phase IV, China tax administration targets to fully utilize the automatic processing of tax data for tax risk management
 - ▶ Further enhance data utilitarian and digitalized tax administration with the ongoing development of the Big Data and Tax Risk Management Department (established in 2019) and E-tax Management Center (recently upgraded from previous Information Center)
 - ▶ Expand the data exchange applicable scope/network between tax authorities and other government authorities and institutions
- ▶ **Possibility for advance ruling pilots to be expanded to more locations**

¹⁹ http://szs.mof.gov.cn/zhengcefabu/202004/t20200426_3504576.htm

²⁰ http://czj.sh.gov.cn/zys_8908/zcfg_8983/zcfb_8985/sszc_8998/20200731/7b47d6fe57814605bde67b05a611f3d9.html

²¹ http://czt.jiangsu.gov.cn/art/2020/11/5/art_77309_9559708.html

²² http://www.gov.cn/zhengce/content/2020-05/06/content_5509163.htm

²³ <http://www.npc.gov.cn/npc/c30834/202008/9591538ccd764bb787e01e729fe0cbbb.shtml>

²⁴ <http://www.npc.gov.cn/npc/c30834/202008/6037bcf5f0ce4078b7875802ef613064.shtml>

²⁵ <http://www.chinatax.gov.cn/chinatax/n810219/n810744/c101510/c101520/c5155584/content.html>

²⁶ <http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5140207/content.html?from=timeline&isappinstalled=0>

²⁷ <http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5140457/content.html>

²⁸ http://zhejiang.chinatax.gov.cn/art/2020/10/15/art_8414_81818.html

²⁹ http://hebei.chinatax.gov.cn/sjzsw/gg/sjgg/202010/t20201012_2724629.html

China Mainland

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax incentive qualification	For companies that are enjoying preferential income tax rates (e.g., HNTE, software companies, etc.), focus from tax authorities will be validation of relevant data supporting the qualification, e.g., volume of R&D expenditure, percentage of qualified income, number of headcounts of R&D team. Cases have been seen that HNTE companies are considered as disqualified after income tax annual filing and are required to pay back the taxes underreported.
2	Anti-tax avoidance on individuals	The Ministry of Finance and STA collectively launched an announcement in January 2020 that further clarifies the procedures for China tax residents to report their overseas income and claim credits (if foreign income tax has been paid). Along with the expansion of CRS scheme, anti-tax avoidance on high net worth groups has become quite a focus of local tax authorities and tax audit cases on individuals become more and more frequently observed from social media.
3	Application of special VAT rate	For enterprises claiming the use of zero-rate VAT or exempted VAT treatment, STA will examine the eligibility of applying these special rates.
4	Fraudulent VAT invoice	STA will focus on reviewing whether fraudulent VAT invoices were issued as well as used to claim input tax credit.
5	Export control on Customs	Enterprises exporting products, technologies or services are subject to strict export control in mainland China. Only those listed on the export-allowable category can be sold by enterprises in mainland China to overseas parties. Any violation will be subject to severe financial as well as disciplinary consequences. Chinese authorities, including Customs have increasing focus in these areas.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Colombia

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	32%	31%	-3.1%
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	39% The rate goes from 19% to 39% Incomes below USD1,100 are not taxable	39%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	19%	19%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Reduction of exceptions in income tax for specific industries according to the results of the Experts Exceptions Commission
- VAT tax on basic consumer products
- Reduction of the base for the personal income tax
- Invest in the development of the Colombian Tax Office
- Reduction of the tax base for the wealth tax; currently the base is for liquid equity above US \$1.5 million

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Colombia

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input checked="" type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The Expert Commission in Tax Affairs recommended to reduce the tax reliefs granted to certain industries; some of such recommendations are under legal review. However, a formal draft of the bill has not been released yet and is not public.
- ▶ There are efforts to stop the approbation of the free trade zone that has a special lower rate.

Taxes on digital business activity

- ▶ No changes

Taxes related to climate change or sustainability

- ▶ VAT benefits for investments that reduce the greenhouse effect and special deductions in income tax

VAT/GST/sales taxes

- ▶ Includes basic consumption products

Taxes on wages and employment

- ▶ No changes

Colombia

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The Minister of Finance has stated that in the first quarter of 2021 tax reform will be presented.
- ▶ The main changes have not yet been discussed.

2.8 Names of current tax policy and tax administration leaders

- ▶ Alberto Carrasquilla, Minister of Finance

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The emergency state declared due to the COVID-19 outbreak triggered transitional tax reductions on consumption tax for restaurants, hotels (hospitality) and other sectors, and created a certain tax amnesty for debts with the tax authorities. However, some of those measures were declared unconstitutional by the constitutional court.

2.10 Pending tax proposals or consultations

- ▶ Proposals: none
- ▶ Consultations: none

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The tax office has initiated programs in the compliance stage and the audit stage; the main programs are:
 - ▶ Include wealth or equity from abroad from taxpayers who are fiscal residents in Colombia
 - ▶ Transfer pricing audits

3.2 Key enforcement developments seen in 2020

- ▶ Include wealth or equity from abroad from taxpayers who are fiscal residents in Colombia
- ▶ Transfer pricing audits

3.3 Likely enforcement developments in 2021

- ▶ Focus on loss determinations in mergers and acquisitions

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax losses	In mergers and acquisitions, regarding a new interpretation of the tax court in relation to the total amount that can be used in the new company
2	Transfer pricing	Headquarter and management services transactions and challenges to the TP method used in the TP return and study are top areas.
3	Disallowance of deductions	In the oil and gas sector, the tax office has challenged the deduction of the royalties paid to the Colombian government.
4	Withholding taxes	The withholding tax of profits from tax branches of the oil and gas sector, which in Colombia have a special regimen, due to the exchange regimen

Colombia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Costa Rica

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30% ¹	30%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25% ²	25%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	13% ³	13%	–

¹ Section 15 a) of the Income Tax Law

² Section 15 c) of the Income Tax Law

³ This is the general VAT tax rate; however, the VAT Law includes three reduced rates (4%, 2% and 1%) that applies to certain goods or services

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The Government's intention to become an OECD member keeps driving tax policy; authorities will implement the compromises and BEPS measures necessary to demonstrate the country's commitment with the OECD international tax standards.
- ▶ Efforts to increase tax collection and tax transparency continued.
- ▶ Tax authorities resume transfer pricing tax audits in cooperation with the International Taxation Department.
- ▶ Tax policymakers and tax authorities remain strong in their approaches and positions with taxpayers.
- ▶ Some new tools for tax authorities are already in force, granting them access to more information; for example, entry into force of the Registry of Transparency and Final Beneficiaries will allow authorities to have access to information regarding shareholders and ultimate beneficial owners of companies, as well as other legal vehicles (trusts, foundations, money managers, etc.).
- ▶ Tax authorities are continuing to focus major efforts on the implementation of the comprehensive tax reform (the Law for the Strengthening of Public Finances) that was approved in December 2018 and entered into force in July 2019 (2018 tax reform).

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives N/A	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ 2018 tax reform introduced several changes to the Income Tax Law, including the capital income and capital gains tax and corporate income tax (global income), among others.
- ▶ Capital income and capital gains are subject in most cases to a general rate of 15%.
- ▶ Expenses paid to entities which are residents of noncooperative jurisdictions are not deductible, however taxpayers are able to demonstrate to tax authorities that expenses were real.
- ▶ A reference to the arm's-length principle to transfer pricing purposes was included.
- ▶ Some BEPS actions have been introduced, including an interest limitation rule under which interest expenses that exceed 20% of a taxpayer's EBITDA would not be deductible for corporate income tax purposes (financial interest expenses are excluded) and a provision regarding the treatment of hybrid mismatch arrangements.

Taxes on digital business activity

- ▶ The Value-Added Tax Law established that digital services are taxable when they are used and consumed within the Costa Rican territory, regardless if they are provided by nonresident entities from abroad.
- ▶ If nonresident entities that are providers or intermediaries of cross-border digital services decide not to register as such before the tax authorities, entities that issue credit or debit cards for international are required to act as VAT withholding agents and collect and pay VAT to the tax authorities for the purchases of services carried out through internet or digital platforms.

Taxes related to climate change or sustainability

- ▶ N/A

Costa Rica

VAT/GST or sales taxes

- ▶ 2018 tax reform introduced a new VAT Law that intends to tax the most dynamic sector of the Costa Rican economy (services), which was, for the most part, not affected by the previous sales tax.
- ▶ The VAT is 13% on the sale of goods and the supply of all types of services within Costa Rica, with reduced rates applicable to certain categories: 4% for certain goods and services such as private health and plane tickets, foods, 2% for medicines and inputs for their production; and 1% for basic foods and a limited number of goods and services are exempt.

Taxes on wages and employment

- ▶ 2018 tax reform added two tax brackets with rates of 20% and 25%, previously the highest tax rate was 15%.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Despite passage of tax reform, the Government still has pressure to reduce the fiscal deficit, especially regarding the adoption of measures to reduce public expenditure.
- ▶ Accordingly, tax authorities remain strong in their positions and interpretations of the law to increase tax collection.
- ▶ There is a greater call for transparency and fair taxation, which implies that tax matters are in the public debate.
- ▶ The Government has discussed economic and fiscal policy decisions to combat the COVID-19 crisis.

2.8 Names of current tax policy and tax administration leaders

Tax policy:

- ▶ Carlos Alvarado, President of the Republic of Costa Rica
- ▶ Elian Villegas, Minister of Finance

- ▶ Alejandra Hernández, Vice Minister of Finance
- ▶ Francisco Fonseca, Director General of Finance

Tax administration:

- ▶ Carlos Vargas, Director General of Taxation
- ▶ Gerardo Bolaños, Director General of Customs

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Taxes on digital business activity

2.10 Pending tax proposals or consultations

Proposals:

- ▶ No relevant tax proposals are pending.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ We expect that the tax authorities generally will be strong with taxpayers, applying highly subjective and/or retroactive interpretations or threatening/using criminal sanctions.

3.2 Key enforcement developments seen in 2020

- ▶ No relevant key enforcement developments observed in 2020.

3.3 Likely enforcement developments in 2021

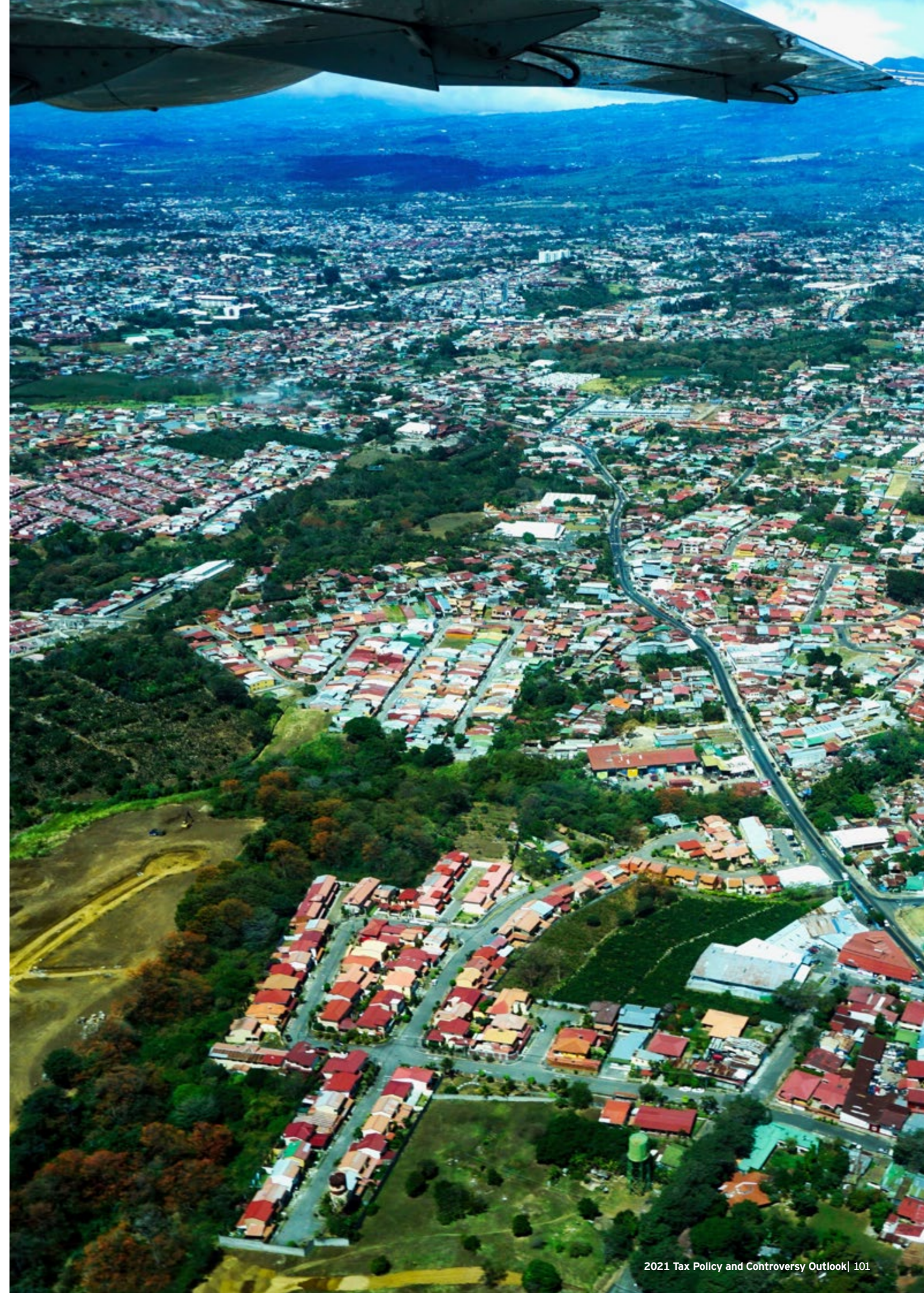
- ▶ Developments will probably be aligned and oriented in order to increase revenue due to the COVID-19 crisis.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	International transactions	Tax authorities will keep focusing on international transactions made by taxpayers, including transfer pricing issues.
2	VAT and income tax law	Taxpayers will experience extensive examination by the tax authorities regarding the VAT Law and Income Tax Law, with special attention on deductible costs and expenses, withholding taxes and tax credits, among others.
3	Transparency and substance	Tax authorities will keep carrying out greater scrutiny of transparency and business substance in order to determine economic reality of taxpayers regarding their income, activities and transactions.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Croatia

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This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	18%	18%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	36%	30%	-17%
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	25%	25%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- On 1 October 2020, a public consultation was initiated for legislative amendments under the Program of the Government of the Republic of Croatia for the period 2020–2024. Respective legislative changes aim, inter alia, to continue decreasing the overall level of tax and reducing the administrative work of compliance.
- The Government will continue to implement the policy of relieving both citizens and companies to help the Croatian economy fight the uncertainties caused by the COVID-19 pandemic.
- The respective legislative changes relate the areas of corporate income tax, personal income tax, VAT, and fiscalization.

2.2 Tax changes in 2021

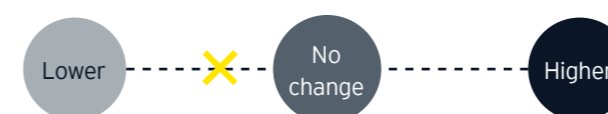
Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Reduction of the tax rate from 12% to 10% for taxpayers who generate income up to HRK 7,500,000
- ▶ Reduction of the withholding tax rate from 12% to 10% for dividends
- ▶ Reduction of the withholding tax rate from 15% to 10% on the fees for foreign performers
- ▶ Tax deduction for credit institutions of receivables written-off from non-related natural person or legal entity (previously value-adjusted and reserved) if certain criteria are satisfied
- ▶ Verification and adjustment of the applied transfer prices for each tax period

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ No changes are expected in 2021.

VAT/GST or sales taxes

- ▶ Application of the VAT exemption regarding defense efforts
- ▶ Extension of the option to apply the VAT postponed accounting on importation (introduced initially as a COVID-19 measure)
- ▶ Increase of the threshold for the application of the cash accounting scheme from HRK 7,500,000 to HRK 15,000,000
- ▶ Abolition of VAT exemption for small consignments imported from third countries into the EU with a value of less than EUR 22
- ▶ Availability of one-stop-shop to non-established taxable persons making distance sales; abolition of current thresholds for distance sales; HRK 77,000 threshold for micro-businesses
- ▶ The one-stop-shop will be available to non-established taxable persons making distance sales. The current thresholds for distance sales will be abolished. Threshold of HRK 77,000 for micro-businesses

Croatia

Taxes on wages and employment

- ▶ Reduction of the tax rates applicable to annual and final income from 24% to 20% and from 36% to 30%
- ▶ Reduction of the tax rate applicable to final income and flat rate scheme from 12% to 10%
- ▶ The tax treatment of the national support for the elderly has been established. This national support for the elderly will not be considered as an income for personal income tax purposes. Also, this receipt will not be considered when determining the right to personal deduction for dependent members.
- ▶ The possibility of providing benefits in kind arising from share awards or optional purchase of own shares was extended.
- ▶ Annual taxation at the rate of 24% of other income receipts up to five times the amount of the personal allowance base shall be abolished.
- ▶ On income determined as the disproportion of assets, the tax will be increased by 100% instead of 50%.
- ▶ Public notaries will be obliged to deliver notarized documents on the realization of rent and lease to movable and immovable property to the tax authorities, based on which the tax liability will be determined.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The level of tax shall be increased for individuals who do not report their incomes in accordance with legislation that governs taxation of other income as a difference between the value of assets and the amount of funds used for the acquisition of those assets (disproportion of assets).

2.8 Names of current tax policy and tax administration leaders

- ▶ Zdravko Marić, Minister of Finance of the Republic of Croatia
- ▶ Božidar Kutleša, Assistant Minister of Finance and Director General of the Tax Administration

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Actions were taken to harmonize with EU legislation with regard to counter tax avoidance practices
- ▶ Actions were taken to harmonize with the ATAD regarding hybrid mismatches with third-party countries and exit taxation

- ▶ Additional rules in case of statutory changes, liquidation or bankruptcy introduced.
- ▶ Relevant provisions of MDR introduced.
- ▶ Certain provisions of the tax legislation are amended in order to assist businesses affected by the COVID-19 pandemic as well as other special circumstances, including the measure of deferral or exemption of payment of tax liabilities, elimination or reduction of CIT prepayments, decrease of CIT base and others.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Proposed legislative amendments have been sent to the Parliament, i.e., legislative amendments are still not officially adopted.

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ N/A

3.2 Key enforcement developments seen in 2020

- ▶ Actions were taken to harmonize with the EU legislation regarding to the 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.
- ▶ Actions were taken to harmonize with the ATAD regarding hybrid mismatches with third countries and exit taxation.
- ▶ Additional rules in case of statutory changes, liquidation or bankruptcy introduced.
- ▶ Relevant provisions of MDR introduced.
- ▶ A new provision of the General Tax Act prescribes that a taxpayer who uses the tax system to use organizational forms that are taxable at the lowest prescribed rates, which were not intended for a particular group of taxpayers, by changing them

frequently, or by using one tax form for each the contracted work that is then replaced with others will be considered to use the tax system to obtain tax benefits contrary to the purpose of the law, and will pay the prescribed tax obligations as if there had been no such abuse.

3.3 Likely enforcement developments in 2021

- ▶ Verification and adjustment of the applied transfer prices for each tax is expected. This means that taxpayers would need to have information on arm's-length character of related-party transactions for each tax period and before CIT return is submitted, so that the appropriate adjustment of CIT basis can be included in the CIT return if related-party prices are not at arm's length.
- ▶ For individuals who do not report their incomes in accordance with legislation that govern taxation of other income as a difference between the value of assets and the amount of funds used for the acquisition of those assets (disproportion of assets). On such determined income, the tax will be calculated at a rate of 30% instead of 36%, and the tax calculated in this way will be increased by 100% instead of 50%.

Croatia

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax losses	Checking that tax losses are carried forward within the legally prescribed period and utilized in the order in which they were incurred (i.e., the earliest losses should be utilized first)
2	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
3	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

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Cyprus

[Return to Contents](#)

EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	12.50%	12.50%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35%	35%	0%
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	19%	19%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Actions to address certain features of the tax system available for use by individuals and multinationals
- Improve the efficiency and digitalization of the judicial system and the public sector
- Effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

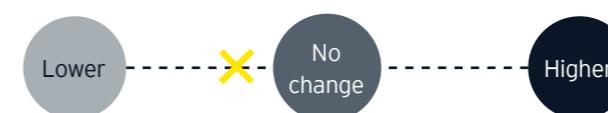
Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Expected introduction of broader transfer pricing rules

Taxes on digital business activity

No developments in this area as Cyprus is waiting for the completion of BEPS 2.0 Pillar 1 and any adoption of a digital tax at a national level will be after a consensus is reached at an EU level

Taxes related to climate change or sustainability

- ▶ No policies as of yet

VAT/GST or sales taxes

- ▶ In order to support the economy in view of the COVID-19 crisis from 1 July 2020 until 10 January 2021, the Cyprus Government applied a temporary reduction from 9% to 5% of the VAT rate applicable to:
 - Hotel accommodations
 - Restaurants and catering services
 - Passenger transport in urban, intercity and rural taxis, and tourist and intercity buses

Taxes on wages and employment

- ▶ The Ministry of Finance proposed an extension until 2025 for the 20% exemption for wages from any employment exercised in the Republic by an individual who was resident outside the Republic before the commencement of employment, or €8.550, whichever is lower.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The political landscape, as far as the tax policy is concerned, is focused on maintaining and enhancing Cyprus's competitiveness in attracting foreign direct investments.
- ▶ At the same time, the government has been adopting recommendations made by the EU and the OECD regarding changes in tax laws and practices.
- ▶ In 2021, we expect the political agenda to include changes to the tax system that will be driven by international developments (BEPS 2.0) as well as the need to address the fiscal deficit that has resulted due to the pandemic.

2.8 Names of current tax policy and tax administration leaders

Tax policy:

- ▶ Mrs. Loukia Mouskou, Economic Policy, European and International Affairs Directorate, Ministry of Finance

Tax administration:

- ▶ Mr. Yiannis Tsangaris, Commissioner of Tax, Department of Taxation, Ministry of Finance

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

Corporate Income Tax

- ▶ Prolongation of the Cypriot Tonnage Tax Regime until 31 December 2029
- ▶ Adoption of legislation with respect to hybrid mismatch rules with effect from 1 January 2020
- ▶ Adoption of legislation with respect to exit taxation rules with effect from 1 January 2020
- ▶ Amendments to the notional interest deduction rules (change in the definition of the reference interest rate, change in the definition of new equity, change in the definition of the 80% restriction)
- ▶ Amendments to the taxation of intangible assets (no obligation to prepare a balancing statement in the event of sale, allowance to carry forward unused tax depreciation)
- ▶ A tax credit equal to 50% of the monthly rent reduction granted to both natural and legal persons for the tax year 2020 (subject to conditions)

VAT

- ▶ The VAT rate on hotel accommodation, restaurant services and certain passenger transport was reduced from 9% to 5% from 1 July 2020 to 10 January 2021.
- ▶ As from August 2020, the obligation to account for the domestic reverse charge on local construction services extends to where the supplier of the services is not a taxable person.
- ▶ Domestic reverse charge on electronic devices – as from October 2020 the supply of mobile phones, other devices operating in networks, microprocessors, central processing units, gaming consoles tablets and laptops is subject to local reverse charge; the purchaser will also need to account for VAT in accordance with the reverse – charge rules, with immediate right for input VAT recovery.
- ▶ VAT refund on credit balance (two important amendments):
 - ▶ The Tax Commissioner reserves the right to suspend the refund of a VAT credit balance together with the applicable interest in case the taxpayer has failed to comply with the obligation to submit income tax returns (i.e., IR4, IR1, IR7); the VAT refund is suspended until the taxpayer complies with the obligation to submit respective income tax returns
 - ▶ According to the amended law, the right to request refund of a VAT credit balance will be limited to six years from the end of the VAT period in which the refund arose; any VAT refund requests submitted after the six-year period will be examined at the discretion of the Tax Commissioner and only if certain conditions proving entitlement are fulfilled.

- ▶ As from July 2021, the failure of the reverse charge provisions application will result to the imposition of a €200 one-off penalty per VAT return but will not exceed the total penalty amount of €4000.
- ▶ Increase of VAT compliance penalties:
 - (a) As from August 2020, a one-off penalty of €100 per late submitted VAT return applies.
 - (b) With effect from 1 July 2021, the failure of the reverse charge provisions application will result to the imposition of €200 one-off penalty per VAT return but will not exceed the total penalty amount of €4000.
- ▶ Obligation for VAT registration of nonresident taxable persons – taxable persons not established in Cyprus engaged or expected to be engaged in VAT taxable activities in Cyprus in the course of furtherance of a business will have the obligation to register with the Cyprus VAT Registry, without a pre-requisite VAT registration threshold.
- ▶ Definition of the term “renovation” for application of 5% reduced VAT rate – the term “renovation” for the purpose of application of the 5% reduced VAT rate has been extended to also cover additions/extensions to a private house, provided that at least three years have passed since its first occupation.
- ▶ Passenger transportation services – according to the new law, it becomes clear that the Cyprus leg of international passenger transport services is subject to the 0% rate VAT.
- ▶ Write-off of VAT overdues – the Tax Commissioner will no longer have the right to write off overdue VAT and such cases will be handled only by the competent Technical Committee as provided in the Accounting, Financial Management and Financial Control Law.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Narrowing the scope of application of the Stamp Duty Law to a limited number of transactions
- ▶ Extending certain payroll-tax-related benefits
- ▶ Adoption of broader transfer pricing legislation on the basis of BEPS Action 13 recommendations

Consultations:

- ▶ Adoption of DAC 6/MDR law and issue of relevant guidelines

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Cypriot tax authorities perform different examinations for different reasons:
 - ▶ Routine audits for the so-called “large taxpayers”
 - ▶ Tax examinations on 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 spurred by refund requests
 - ▶ Sectoral examinations occasionally
- ▶ With respect to collection mechanisms, the Commissioner has certain powers which must be observed by taxpayers

3.2 Key enforcement developments seen in 2020

- ▶ None

3.3 Likely enforcement developments in 2021

- ▶ None

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax refunds	Taxpayer-initiated refund request exceeding a threshold entails an examination of all “open” tax years. The authorities will usually initiate a tax audit in the year the six-year statute of limitation expires in cases where a taxpayer is claiming a refund.
2	Indirect taxes (including customs/excise duties)	Taxpayer-initiated VAT refund request Credit balance long overdue with no refund request being filed
3	Interest deductions	Historically, the interest expense deduction has been one of the main areas of challenge since interest expense associated with the tax-exempt activities is not tax deductible. The challenges on interest expense deductibility are expected to be exacerbated due to the new interest limitation rules.
4	Transfer pricing – intercompany financing transactions	Cyprus has adopted TP documentation requirements in 2017 for certain intra-group financial transactions and is expected to adopt broader TP legislation in 2021. We expect the authorities to scrutinize and review in detail intra-group financing transactions.
5	Disallowance of deductions	The disallowance of deductions associated with tax-exempt activities and the challenge of expenditure has been one of the main focus areas of the authorities over the years. This trend is expected to continue.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Czech national museum in Prague

Czech Republic

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 8 January 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	19%	19%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Basic tax rate of 15% applied on “super-gross” salary (i.e., including social security and health insurance paid by the employer), leading to an effective tax rate of approximately 20% Solidarity surcharge of 7% levied on employment and business income exceeding approximately EUR 65,500 per year.	The concept of the super-gross wage and solidarity tax surcharge was abolished and two rates of income tax of individuals at 15% and 23% were introduced.	Approximately -15% of the effective tax rate
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	21%	21%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

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

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 ⁴ <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

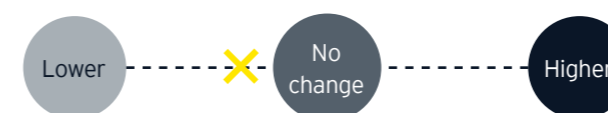
Czech Republic

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Certain changes in the tax depreciation of assets were adopted (abolition of the tax amortization of intangible assets, increase of a threshold for classification in the category of tangible assets and their technical improvement, extraordinary depreciation of assets in the first and second depreciation groups put into use between 1 January 2020 and 31 December 2021).
- ▶ Further, certain changes in the treatment of meals to employees were adopted (introduction of employer's cash contributions to employees' meals as an alternative to meal vouchers).
- ▶ The above mentioned changes are effective as of 1 January 2021.

Taxes on digital business activity

- ▶ The Ministry of Finance intends to submit a bill on the introduction of a digital tax, which is expected to take effect in mid-2021.
- ▶ The subject of the tax is expected to be a provision of the following taxable services:
 - ▶ Targeted ad campaign
 - ▶ Use of multilateral digital interface
 - ▶ Supply of user data
- ▶ The tax rate is expected to be 5% and the tax period is the calendar year.

Czech Republic

► It is expected that a tax obliged person will be a member entity of a group or a stand-alone entity that provides the taxable service if:

- Total revenues of the group or entity for the effective period are greater than € 750m.
- The amount corresponding to the sum of tax bases of partial taxes from the provision of taxable services rendered for this period by the group or entity attributable to the Czech Republic is higher than CZK 100m for this group.
- Amounts of remuneration for taxable digital services must exceed 10% of the group or entity's total revenues.

The bill regarding the new tax is undergoing change and the parameters and effective date of digital tax are not certain. Originally, the intention was that the law would take effect by mid-2020, then at the beginning of 2021 and now further postponement to mid-2021 is on the table.

Taxes related to climate change or sustainability

► No significant changes proposed for 2021.

VAT/GST or sales taxes

► No significant changes proposed for 2021.

Taxes on wages and employment

- Employees were taxed at the level of so-called "super-gross salary," whereby the gross salaries were grossed up by the part of social and health insurance paid by the employer on behalf of the employees. According to an adopted amendment, the employees shall be taxed on the level of standard gross salaries without the additional gross up.
- In addition, the amendment introduced progressive taxation of income of individuals. Now individuals will be taxed on their income at a rate of 15% or 23%, the solidarity tax surcharge is abolished.
- The tax rate of 15% would be applied to income up to 48 times the average wage (i.e., up to CZK 1,701,168 in 2021), a second tax rate of 23% would be applied to income above this limit.
- The amendment took effect as of 1 January 2021.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- In the Czech Republic, tax policy is governed centrally by the Cabinet, with the Ministry of Finance playing a key role and responsibility in this area.
- The Ministry drafts the majority of tax laws and initiates the legislative process.
- Since December 2013, a seemingly stable center-left Government is in power. As such, the legislation process has become rather smooth and quick.
- The next election should take place in October 2021, which might bring changes to the current agreements and coalitions.

2.8 Names of current tax policy and tax administration leaders

Tax policy leader

- Andrej Babis, Prime Minister
- Alena Schillerova, Minister of Finance
- Marie Bilkova, Deputy Minister of Finance

Tax administration leader

- Tatjana Richterova, Director General of the General Financial Directorate

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- There were no major changes in 2020.

2.10 Pending tax proposals or consultations

Proposals:

- Digital tax – please see above

Consultations:

- N/A – no major amendments are currently open for consultations

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The law on tax collection and tax enforcement is contained in the tax code.
- ▶ The tax code regulates the procedures for the enforcement of taxes, including separate tax adjustments, notions and procedural practices of the tax administrator as the executing body.
- ▶ The tax administrator can also secure enforcement of arrears through a court bailiff. Further, the tax authorities can initiate insolvency proceedings or organize a public auction.
- ▶ When selecting the method of enforcing tax arrears, the tax administrator chooses such a way that the amount of recovery costs that the taxpayer is obliged to pay is not in a clear disproportion to the amount of arrears.

3.2 Key enforcement developments seen in 2020

- ▶ There were no significant changes in 2020.

3.3 Likely enforcement developments in 2021

- ▶ For 2021, a more significant amendment of the tax code has been adopted – the main changes are the following:
 - ▶ Further computerization
 - ▶ Simplification of control procedures
 - ▶ Revision of the sanction system
 - ▶ Tax refunds

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax losses	Significant change in the tax liability due to large tax losses (CIT)
2	Transfer pricing	Most frequently: <ul style="list-style-type: none"> ▶ HQ and management services ▶ Limited-risk entity structures The tax administrators initiate tax audits focused on transfer pricing more commonly and are now better equipped and trained to be able to challenge the transfer pricing setups they find suspicious.
3	Disallowance of deductions	R&D deduction and investment incentives are frequently challenged. Tax administrators remain very focused on the documentation requirements and formal meeting of all requirements.
4	WHT	The tax administrators commonly require beneficial ownership declaration and other documents proving that the exemption requirements have been met.
5	Tax refunds	The tax administrators initiate tax audits when they suspect any tax fraud (carousel, chain, etc.).

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Denmark

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 25 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	22%	22%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	56.5%	56.5%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	25%	25%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Fight international tax avoidance
- Support transition to clean energy solutions
- Increase legal certainty for taxpayers

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Denmark

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Increased compliance due to new obligation to submit full TP-documentation every year no later than 60 days following tax return deadline
- ▶ Increased compliance due to new CFC rules
- ▶ 130% deduction for R&D expenses in 2020 and 2021
- ▶ A higher corporate income tax rate on the financial sector (banks, etc.) proposed to start in 2023, but a political agreement has not yet been reached

Taxes on digital business activity

- ▶ Amendments have been adopted to the definition of permanent establishment – a Danish rule stipulating no Danish permanent establishment for a foreign company with a Danish representative engaged only in so-called “distance sales” (e.g., electronic order uptake) is abolished.
- ▶ The definitions of permanent establishment enshrined in the OECD Model Tax Convention 2017 Official Commentary have been incorporated into Danish law, to bring the Danish rules in accordance with the most recent international standards.

Taxes related to climate change or sustainability

- ▶ Change has been proposed to achieve a sustainable transition of energy taxes.
- ▶ Accordingly, it will become more expensive to use fossil fuels as the source of heat, while it will become less expensive to use electricity derived from clean energy sources.

VAT/GST or sales taxes

- ▶ No major changes expected

Taxes on wages and employment

- ▶ No major changes expected
- ▶ Minor adjustments on the taxation of company cars, free phone, etc.

Denmark

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales

- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- The current center-left (social democratic) government has enjoyed dominant popularity during the COVID-19 crisis.
- As many as 25 different direct and indirect tax increases have been proposed, agreed or passed lately (and only four decreases), but each is quite small, and the aggregate quantitative impact is modest.

2.8 Names of current tax policy and tax administration leaders

- Morten Bødskov, Minister of Taxation

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- General tax policy agenda largely postponed due to the outbreak of COVID-19
- A large number of COVID-19 stimulus packages with tax impact, including a 130% deduction for R&D expenses, and deferrals of many tax payments

2.10 Pending tax proposals or consultations

Proposals:

- CFC taxation scheme in accordance with ATAD: the formulation of an agreement on new CFC rules has proven quite difficult; for two years in a row, the parliamentary season has ended with cancelled bills on CFC taxation
- Temporary increase of tax deductions for R&D expenses
- International taxation (permanent establishment, deductions of final losses in foreign subsidiaries and discretionary TP adjustments)

Consultations:

- N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- Most taxable revenues and deductible expenses of individuals are reported automatically to the tax authorities.
- The income statement of each individual taxpayer is provided electronically at the homepage of the tax authorities; therefore, individuals are usually not required to file a tax return, but they must report changes to the information reported automatically to the tax authorities, if any.
- Companies must also report their tax return electronically.
- Tax governance programs (enhanced relationships) have a limited use.

3.2 Key enforcement developments seen in 2020

- No new developments

3.3 Likely enforcement developments in 2021

- No new developments expected

Denmark

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Intellectual property-related issues, transfer pricing scrutiny of loss-making companies
2	Disallowance of deductions	A trend toward more detailed censorship of deductibility of a number of costs, with new lines of argument to deny deductibility being developed
3	Anti-avoidance	Anti-avoidance and countering aggressive tax planning is a pronounced element of the Danish tax agenda. The Danish General Anti-Avoidance Rule in its current form is still new, and administrative practice is being shaped.
4	Share-based remuneration	Reporting obligation for employers regarding acquisition price for employees for share based incentives
5	Correct salary reporting	Continued focus on salary-correct reporting from employers so that amendments of the automatically generated tax assessments for employees can be reduced

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Dominican Republic

[Return to Contents](#)

VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	18%	18%	–
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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 20 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	27%	27%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Annual scale	Rate	–
	Income up to RD\$416,220.00	Exempt	
	Income from RD\$416,220.01 to RD\$624,329.00	15% of the excess of RD\$416,220.01	
	Income from RD\$624,329.01	RD\$31,216.00 plus the 20% of the excess of RD\$624,329.01	
	Income from RD\$867,123.01 onward	RD\$79,776.00 plus the 25% of the excess of RD\$867,123.01	

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The economic situation of the Dominican Republic has been negatively impacted by the COVID-19 pandemic; in response, the Dominican Internal Revenue Agency is focusing on tax collection and tax revenue in 2021.
 - ▶ In 2020, the Dominican Republic had a change of government, bringing possible tax reform or changes to tax policy in 2021.
 - ▶ The Executive branch submitted the General State Budget for year 2021 for approval by the national Congress, which, among other things, establishes:
 1. Three-percent tax on the amount of transactions in foreign currency with credit, debit cards or any other equivalent payment method
 2. Charge of (50%) percent of VAT on raw materials, industrial machinery and capital goods of the tariff subheadings detailed in Article 24 of Law No. 557-05, of 13 December 2005
 3. Elimination of the exemption of income tax payment provided in Article 222 of the Labor Code in relation to the Christmas bonus
 4. Establishment of temporary contribution on entities subject to CIT, which will apply to the “extraordinary profits” obtained during the period of the pandemic as a result of COVID-19
 - 5. Suspension of the exonerated for the importation of gambling machinery
 - 6. Application of taxes to digital services that are used or contracted in the Dominican Republic regardless of the location of the server or the technological platform that supports them
 - 7. Implementation of the tax payment of one (1%) percent for the incorporation of companies to be paid jointly with the CIT
 - 8. Implementation of a 1% tax on net financial assets, at the close of fiscal year 2020, of financial intermediation entities
- ▶ However, due to social rejection of the new taxes, the Executive branch announced that it will reintroduce the bill to Congress without including new taxes.
- ▶ The Executive branch enacted Law No. 46-20 on transparency and asset revaluation, which establishes a special and transitory tax regime that allows taxpayers to regularize their tax obligations before the Dominican Internal Revenue Agency, including the possibility to declare or revalue assets by paying 2% of the value of the declared assets or over their revaluation; tax debt settlements facilities; and a tax amnesty program for fiscal periods 2017, 2018 and 2019.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
16. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
17. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
18. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

Dominican Republic

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- There are no tax changes expected for 2021.

Taxes on digital business activity

- With the draft Law of the General State Budget for fiscal year 2021 filed in the national Congress on 1 October 2020, the Executive branch proposed the application of taxes to digital services that are used or contracted in the Dominican Republic regardless of the location of the server or the technological platform that supports them.
- However, due to social rejection of the new taxes, the Executive branch reintroduced the bill to Congress without including new taxes.

Taxes related to climate change or sustainability

- There is no tax policy established regarding climate change and sustainability; nor are any tax changes expected for 2021.

VAT/GST or sales taxes

- There are no tax changes expected for 2021 related to the VAT/GST or sales taxes.

Taxes on wages and employment

- There are no tax changes expected for 2021 related to wages and employment.

Overall individual income tax responsibility



2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- In 2020, the Dominican Republic had a change of government, making tax reform or changes in tax policy possible in the next years.

2.8 Names of current tax policy and tax administration leaders

- Luis Valdez, General Director of the General Directorate of Internal Taxes
- Eduardo Sanz Lovaton, Director of the General Directorate of Customs

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- The Executive branch enacted Law No. 46-20 on transparency and asset revaluation, which establishes a special and transitory tax regime that allows taxpayers to regularize their tax obligations before the Dominican Internal Revenue Agency,

including the possibility to declare or revalue assets by paying 2% of the value of the declared assets or over their revaluation; tax debt settlements facilities; and a tax amnesty program for fiscal periods 2017, 2018 and 2019.

- Due to the COVID-19 pandemic, the Dominican Internal Revenue Agency established different measures to reduce the economic consequences, including: extension of the term of presentation and payment of taxes, temporary suspension of the application of taxes, exemption from the payment of income tax advances, and enabling installments corresponding to payment agreements, among others.
- The Dominican Internal Revenue Agency introduced the voluntary use of electronic tax receipt.

2.10 Pending tax proposals or consultations

- Proposals: N/A
- Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- As a consequence of the COVID-19 pandemic, the economic situation of the Dominican Republic has been negatively impacted; in that sense, it is our understanding that the Dominican Internal Revenue Agency will adopt an aggressive approach regarding tax revenues.
- However, there are no tax changes expected, nor the implementation on new taxes, for 2021.

3.2 Key enforcement developments seen in 2020

- The Dominican Internal Revenue Agency introduced the voluntary use of electronic tax invoices
- The Executive branch enacted Law No. 46-20 on transparency and asset revaluation, which establishes a special and transitory tax regime that allows taxpayers to regularize their tax

obligations before the Dominican Internal Revenue Agency, including the possibility to declare or reevaluate assets by paying 2% of the value of the declared assets or over their revaluation; tax debt settlements facilities; and a tax amnesty program for fiscal periods 2017, 2018 and 2019.

3.3 Likely enforcement developments in 2021

- In 2021, the Dominican Internal Revenue Agency is likely to focus on a massive collection of taxes/tax revenues and full compliance with tax regulations in order to reduce the current impacts of the COVID-19 pandemic and to support the economy.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Interest deductions	Focus on interest deductions, specifically in the verification of thin capitalization rules during audit processes
2	Withholding taxes	Focus on the correct compliance of withholding tax obligations
3	Disallowance of deductions	Focus on the correct implementation of disallowance of deductions, specifically for audit purposes; the tax authorities have adopted an aggressive approach in past years in the compliance verification of the conditions for expenses deduction.
4	Transfer pricing	Focus on intercompany financing transactions, specifically the correct application of the arm's length principle in intercompany financing transactions and limitation of deductibility of costs based on the Dominican Tax Code
5	Indirect taxes	Including customs/excise duties

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



El Salvador

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This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%	30%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%	30%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	13%	13%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Ensure the sustainability of public finances, complying with the fiscal rules and the goals proposed in the Medium – and Long-Term Fiscal Framework
- ▶ Consolidate a medium-term vision for public finances through multiyear planning of public spending
- ▶ Seek for greater efficiency and effectiveness in public spending
- ▶ Have efficiency and effectiveness in the public expenditure
- ▶ Increase the level of public investment, complying with fiscal rules and without neglecting the quality of investment

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

▸ There are no changes known to date.

Taxes on digital business activity

▸ There are no changes known to date.

Taxes related to climate change or sustainability

▸ There are no changes known to date.

VAT/GST/sales taxes

▸ There are no changes known to date.

Taxes on wages and employment

▸ There are no changes known to date.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Tax authorities have increased the tax audit procedures and activities related to the control of taxpayers' operations.
- ▶ The tax authorities created the Tax Evasion Repatriation Unit to be in charge of auditing individuals, companies or corporations that carry out operations with companies abroad, especially those located in tax havens.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders:

- ▶ Nayib Armando Bukele Ortez, President of the Republic of El Salvador
- ▶ Félix Augusto Antonio Ulloa Garay, Vice President of the Republic of El Salvador
- ▶ Alejandro Zelaya, Ministry of Treasury
- ▶ María Luisa Hayem Brevé, Ministry of Economy

Tax administration leaders:

- ▶ Alejandro Zelaya, Ministry of Treasury
- ▶ Rubén Ordoñez, Tax Administration Director
- ▶ Samadhy Martínez, Customs Administration Director

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The Special Contribution on Large Taxpayers for the Public Safety Plan is no longer in force, it was applicable to large taxpayers with earnings greater than USD 500,000 within a fiscal year through a special contribution of 5% over the total amount of said earnings.
- ▶ Large taxpayers will have to pay the Special Contribution corresponding to the period of fiscal year 2020, in which it was in force.

2.10 Pending tax proposals or consultations

- ▶ **Proposals:**
 - ▶ Tax authorities will implement the electronic invoicing in coming years:
 - ▶ A reduced number of large taxpayers were selected to participate in a pilot program.
 - ▶ Tax reforms related to the electronic invoicing will be proposed in order to include regulations of this system.
 - ▶ Due to the COVID-19 pandemic, the implementation of the system was suspended.
- ▶ **Consultations:** N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

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

3.2 Key enforcement developments seen in 2020

- ▶ Increase in tax audits
- ▶ Greater demands in the fulfillment of requirements

3.3 Likely enforcement developments in 2021

- ▶ Increase in tax audits
- ▶ Greater demands in the fulfillment of requirements

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Materialization of services rendered between related parties	The tax authority is objecting to the deductibility of expenses related to services rendered among related parties and questioning the documentation that supports the materialization of these services.
2	Adjustment of operations made with credit notes	The tax authority is 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 tax authority is objecting to the deductibility of expenses related to international transportation services included in the value of goods purchased under CIF incoterms, since they consider that 5% income tax withholding should be applied over the value of the services even though Salvadoran taxpayers have not directly contracted the transportation services.
4	Denial of tax refunds requested by non-domiciled entities	The tax authority is denying tax refunds requested by non-domiciled entities since they consider that tax withholdings applied should be considered as definitive.
5	Accounting records to support deductions	The tax authority is examining company accounting records regarding the deductibility of expenses.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Egypt

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 3 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	22.5%	22.5%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	14%	14%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Widening the tax base and capturing the underground economy
- ▶ Increasing the tax collection procedures and generate more tax revenue
- ▶ Egyptian Tax Authority (ETA) transforming and becoming more digital
- ▶ Compliance with international tax practices

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ ETA is heavily working on widening the tax base and capturing the underground economy by driving the digital agenda of the country.
- ▶ ETA implemented the e-filing system and is taking further steps to implement e-invoicing on business-to-business transactions, and is expecting to finalize it completely within 2021.
- ▶ Business-to-consumer and business-to-government will be the next phase of e-invoicing implementation.

- ▶ The above-mentioned projects will increase the tax base and accordingly increase the revenue collection target.
- ▶ The unified tax procedures law was introduced, which unifies tax procedures for the assessment and collection of tax amounts that will be applied for income tax, value-added tax, state development tax, stamp duty and any other similar taxes; the law aims to unify procedures for different tax categories of a similar nature and to establish the legal basis to transform tax procedures into the new tax e-system that aligns with the current dynamic digital economy.

Egypt

Taxes on digital business activity

- ▶ Currently, there are no tax laws addressing digital business.
- ▶ However, there are proposed changes being discussed in the VAT law related to e-commerce.

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST/sales taxes

- ▶ VAT law was introduced in September 2016, replacing the sales tax law.
- ▶ Currently, there are proposed changes to the existing law to enhance the implementation of this law and correcting some gaps.

Taxes on wages and employment

- ▶ There were some changes on the taxes on wages in mid-2020 that changed the salary tax brackets and the exemptions.
- ▶ There are no further changes expected on the taxes on wages in 2021.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.7 Political landscape

- ▶ President Al-Sisi was elected in 2014; he won a second four-year-term in March 2018.
- ▶ There are expected cabinet changes in Egypt.
- ▶ The parliament is the legislative body in Egypt, elections are currently running for the Egyptian parliament.

2.8 Names of current tax policy and tax administration leaders

- ▶ Mohamed Maait, Minister of Finance
- ▶ Reda Abdel Kader, Head of Tax Authority

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Several changes in the corporate tax, including GCT and dividends, to encourage investment in the Egyptian stock market were made.
- ▶ Egypt introduced an amnesty law regarding waiver of interest to encourage collection as well as the introduction of the dispute resolution committee.
- ▶ Egypt ratified the MLI as a BEPS-associated country.
- ▶ New customs law was introduced.

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Tax is approximately 80% of the Egyptian budget
- ▶ The ETA is working very hard to meet the target collection and the following are the key drivers:
 - ▶ TP
 - ▶ E-invoicing
 - ▶ Extensive tax audits

3.2 Key enforcement developments seen in 2020

- ▶ The ETA increased enforcement on transfer pricing.
- ▶ It also increased focus on tax treaty application.
- ▶ Due to limited resources and time, the ETA increased the number of deemed profit assessments.

3.3 Likely enforcement developments in 2021

- ▶ Continue the same trends as in 2020
- ▶ Increase the focus on risk profile analysis of taxpayers in Egypt as a result of the e-invoicing implementation

Egypt

3.4 Top tax audit issues in 2021

	Issue name	Description
1	PE issues	Challenging the existence of PE and the application of the WHT on payments to nonresident entities
2	Treaty benefit	Official ruling opinions from the research department at the ETA are required in order to approve any treaty application.
3	Transfer pricing	The ETA does not have a local database. Accordingly, they look for other countries to be able to benchmark the current activities.
4	Tax refunds	The ETA requires extreme document review in order to approve any tax refunds.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Estonia

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of January 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20%	20%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20%	20%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	VAT 20%	VAT 20%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- One of the goals of Estonian tax policy is to shift the tax responsibility from taxation of income to taxation of consumption and address the use of natural resources and pollution of the environment through partial tax orientation. At the same time the Estonian tax system is kept stable, simple and transparent, with as few exceptions and specifications as possible.
- In 2021, the level of tax is 32.7% of GDP, which is 1.1% lower than in 2020.
- In 2021, capital taxes are reduced in relation to a reduced corporate income tax rate of 14% upon regular dividend distribution.
- Both the level of personal income tax and consumption tax is growing more slowly than GDP.
- Estonia plans to develop existing tax and customs obligations services (income tax and social tax, personal income tax, taxation and interest service) and to introduce modern solutions (smart solutions, continuation of the transition to service-based architecture). In doing so, a customer focus is grown by providing as much data as possible to the taxpayer.
- An information system enabling EU member states to exchange information regarding the sale and turnover of goods and services purchased online is being implemented
- A system for the exchange of information on tax, resulting from EU Directive 2018/822/EU (DAC6) and enabling the exchange of information on tax schemes is being developed.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 ⁴ <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Estonia has a cash-based corporate income tax system (CIT paid once profit is distributed and no annual CIT). Thus, actual CIT responsibility depends on the decision of companies to distribute dividends. The level of corporate income tax during 2021 and 2024 will be affected by the end of the transition to a lower tax rate (14%) and the increase in dividends from state-owned enterprises from 2022.

Taxes on digital business activity

- ▶ A digital tax is currently not planned in Estonia.

Taxes related to climate change or sustainability

- ▶ Total relief from excise duty is provided for:
 - ▶ Packaging, to which the deposit has been assigned pursuant to the Packaging Act, except metallic beverage packaging, and whereof as of 1 January 2012, at least 85% of every class of packaging material shall be recovered
 - ▶ Metallic beverage packaging, whereof at least 50% is recovered
 - ▶ Other packaging recovered to the rate provided in section of 36 of the Packaging Act
- ▶ It is required to pay a road toll for all heavy goods vehicles that weigh more than 3.5 tons and are used on the public road network.
- ▶ Heavy goods vehicles are subject to taxation under certain criteria.

Estonia

- Environmental charges are not taxes in the Estonian tax system, but they affect companies in the same way as taxes. Environmental charges are divided into fees for the right of use of natural resources and pollution charges. The fee for the right to use natural resources shall be paid for the extraction of the mineral resources listed in the Environmental Charges Act, as well as for fishing and hunting. Pollution charges are for the discharge of pollutants into ambient air, water, groundwater or soil, as well as for the storage of waste.

VAT/GST or sales taxes

- The increase in VAT is influenced by increases in private consumption, government investment, intermediate government consumption and household investment, as well as tax changes and changes in the size of the VAT gap. In 2021, VAT revenue is expected to return to growth, supported by a further recovery in consumption and a low benchmark for the crisis year.

Taxes on wages and employment

- Employment income is subject to personal income tax (20%), social tax (33%), obligatory pension contributions (2%, for eligible persons only), unemployment insurance (1.6% employee part and 0.8% employer part).

- The tax-free amount as basic exemption applies up to €500 in a month and up to €6,000 in the year. The amount decreases depending on the total income amount. If total amount of all income is €25,200 in a year or more, there is no right to basic exemption.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Estonia currently has no plans for tax-related measures to increase state revenue in relation to COVID-19.

2.7 Political landscape

- On 13 January 2021, the Prime Minister resigned, and a new coalition will be formed.

2.8 Names of current tax policy and tax administration leaders

- Tax policy is developed by the Ministry of Finance (*Rahandusministeerium*) and implemented by the Tax and Customs Board (*Maksu – ja Tolliamet*).

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- There were no major tax policy changes in 2020.

2.10 Pending tax proposals or consultations

Proposals:

- N/A

Consultations:

- N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- According to the information provided on the webpage of the Estonian Tax and Customs Board, in case of a tax audit, the aim is to conduct the tax audit as easily, quickly and efficiently as possible. The keywords in interactions are cooperation and openness.

3.2 Key enforcement developments seen in 2020

- In 2020, the Estonian tax authorities implemented a new e-service called tax behavior ratings. A company will receive feedback and information about its tax behavior from the Estonian Tax and Customs Board (ETCB). The service is based on the analysis of data business operators submit to the ETCB and helps them keep their tax matters in order.

3.3 Likely enforcement developments in 2021

- There will be a new head of the ETCB from January 2021.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Intercompany financing transactions
2	Transfer pricing	Intercompany service fees
3	CIT	Major restructurings, artificial group structures or entities
4	Indirect taxes	Unreported supply and major asset transactions, always a high focus for VAT audits
5	Payroll taxes	Unreported payroll always a high focus

Estonia

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Finland

[Return to Contents](#)

EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 24 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20%	20%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	56.75%	56.75%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	24%	24%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Several COVID-19-related measures have been imposed, including:
 - ▶ Extra filing time for corporate income tax returns
 - ▶ Reduced interest rate for late payments
 - ▶ Reduced employer’s pension contributions
 - ▶ Postponed insurance contributions

The aim of these measures is to increase economic growth after the COVID-19 pandemic and to sustain the welfare state:

- ▶ The view of the Finnish government is that the digital and traditional economy should be taxed where the value is generated.
- ▶ This will provide revenue to the government and tax base in the future.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
9. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Several COVID-19-related measures have been imposed in 2020.
- ▶ Tax competition between countries continues; the Finnish government is following the situation, especially CIT rates in the Nordics.
- ▶ An R&D tax incentive scheme will be applied in 2021-2025.
- ▶ Accelerated depreciation is available for machinery and equipment in 2020-2023.

Taxes on digital business activity

- ▶ Currently, there is no specific digital-tax-related tax laws in place in Finland, but the Nordic countries, including Finland are generally at the forefront of the global battle against tax avoidance and have participated actively and constructively in the work of the OECD.
- ▶ The approach of the Finnish government in FY19 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 the OECD and that the digital tax proposals of the European Commission should be put on hold.

- ▶ Further stating, the EC's proposals would go against EU interests because these proposals would complicate international cooperation in the tax area and could trigger retaliation from the EU's partners.
- ▶ The Nordic countries, including Finland, will continue to participate actively and constructively in work of OECD and will support an acceleration of the OECD discussions on the digital taxation system.

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST or sales taxes

- ▶ E-commerce package to be implemented 1 July 2021, which will have an impact mainly on distance sellers of goods.
- ▶ Threshold for domestic small businesses exempted from VAT registration liability will increase from €10,000 to €15,000.

Taxes on wages and employment

- ▶ Overall, the level of taxation on wages and employment will remain approximately at the same level as it was in 2020.
- ▶ The national income tax scales remain at the same level as in 2020, but the applicable lower limits of all income tax brackets were raised by approximately 2.5%.

Finland

- ▶ The local tax rates for the municipalities for the year 2021 are not available yet; however, it is expected that on average the municipalities may be increasing their tax rates rather than decreasing their rates.
- ▶ There is pressure to increase both the employee and employer health insurance and unemployment insurance contribution rates for the year 2021.
- ▶ The total impact of adjusting the national income tax brackets on wages and increasing the employee health insurance and unemployment contributions in 2021 is that the employee net pay will decrease slightly from the year 2020 for all income earners.
- ▶ The basic deduction for municipal taxation will likely be increased slightly.
- ▶ The taxable value for full electric cars provided as car benefit will be reduced by €170 a month, and the employer-provided benefit for charging the electric cars, either on the employer premises or in public charge points, will be considered a tax-exempt benefit temporarily during the years 2021-2025.
- ▶ The employer provided bike benefit will be considered a non-taxable benefit up to €1,200 per year, and the maximum amount for tax exempt employer provided commuting benefit will likely be increased to €3,400 a year.
- ▶ The tax deduction for mortgage interest paid on the permanent home will be reduced, as of 1 January 2021 only 5% of the mortgage interest will be deductible (10% was deductible in 2020).

- ▶ The maximum period for temporary workplace relief will likely be extended to three and a half years from the current three years for the situations where the three-year threshold will be met during 2021.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Measure	Proposed	Enacted	Known to be under formal discussion
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The same parliament and government continue as in 2020.
- ▶ No major changes are expected in tax policy in 2021.
- ▶ The focus is on COVID-19 related measures in order to enable economic growth.

2.8 Names of current tax policy and tax administration leaders

- ▶ Markku Heikura, General Director of the Tax Administration
- ▶ Terhi Järvikare, Department Leader of Ministry of Finance

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ No significant changes

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Proposed tax incentive for R&D costs

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Finnish Tax Authority has made major investments toward real-time and self-assessment taxation and collaborations with both corporations and individual taxpayers.
- ▶ The investments comprise various digital services, and the trend is to relegate more responsibility of the correctness of tax filings to the taxpayer itself.
- ▶ Legislation has been updated regarding the tax procedure relating to more real-time processes and eliminating the excess bureaucracy within the processes.

3.2 Key enforcement developments seen in 2020

- ▶ The trend increased for the tax authorities to contact companies in order to have informal meetings instead of tax audits to discuss tax treatment transactions, etc., carried out by groups of companies.
- ▶ Due to the COVID-19 pandemic, e-audits have exceeded physical tax audits.

3.3 Likely enforcement developments in 2021

- ▶ The trend to engage in informal meetings is likely to increase.

Finland

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Debt pushdowns	The tax authorities scrutinize debt pushdowns closely, and especially group internal reorganizations are the subject of interest.
2	Transfer pricing	The tax authorities are interested in transfer pricing models and have a tendency to challenge TP models which could be regarded to lessen the tax revenue of the Finnish state.
3	Tax exempt disposals of shares	Tax exempt disposals of shares are susceptible to investigation by the tax authorities, especially if a family-owned company disposes of the shares in an operative company.
4	Exceptional VAT deductions	Exceptionally high volumes of VAT deductions, especially if these are not normal for the company in the past
5	VAT reporting	Reporting deficiencies and inconsistencies related to VAT reporting practices
6	Sector	Sector-specific "campaigns" according to high-risk profile industries as determined by the Finnish tax administration

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





France

[Return to Contents](#)

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Tax policy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	CA<250M€: 28% CA>250M€: 28%	CA<250M€: 26.5% CA>250M€: 27.5%	-5% -2%
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	<10.064€: 0% <25.659€: 11% <73.369€: 30% <158.122€: 41% >157.806€: 45%	<10.084€: 0% <25.710€: 11% <73.516€: 30% <158.122€: 41% >158.123€: 45%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	20%	20%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ In terms of corporate income tax, despite the COVID-19 pandemic, the Finance Law for 2021 maintains the corporate income tax rate reduction trajectory for 2021. As from 1 January 2021, the CIT rate is set at 26.5% for companies with annual turnover lower than €250 million and 27.5% for companies with minimum annual turnover of €250 million.
- ▶ As part of an economic recovery plan, the Government introduced a decrease in production taxes as well as tax measures to support French businesses in response to the COVID-19 pandemic.
- ▶ In terms of VAT, the Government clarified the rules concerning complex transactions and postponed the effective date of an EU directive on distance sales of goods and introduces a VAT group regime as from 1 January 2023.
- ▶ The Finance Law for 2021 marks the government's commitment to the ecological transition. The government will finance actions in favor of ecology to the tune of €18.4 billion: the environmental tax system strengthens incentives for renewable energies, the reduction of greenhouse gas emissions and the fight against soil artificialization.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The CIT rate reduction trajectory continues in 2021. The Finance Law for 2021 foresees that the reduced CIT rate of 15% on the first €38,200 of taxable income will be extended to companies whose annual turnover does not exceed €10 million (increased from €7.63 million).
- ▶ Following the change in the trajectory of the CIT rate reduction, the withholding tax rate that generally is aligned with the CIT rate has been adjusted by the Finance Law for 2020 on certain income received by nonresidents (in particular, dividends, capital gains on substantial participations or on real estate, or non-wage income). The new rate is 26.5% for 2021, regardless of the company's annual turnover.
- ▶ The government introduced a decrease in production taxes thanks to a halved reduction of the rate of the contribution on added value of enterprises from 1.5% to 0.75% and of the

taxable basis of the property tax on built properties of industrial facilities and a cap of 2% instead of 3% for the territorial economic contribution.

- ▶ Moreover, in order to support French businesses, the government provides a tax incentive to lessors that waived their receipt of rents on professional premises during the second lockdown and adopts preventive measures for the “most fragile” companies.
- ▶ The Finance Law for 2021 foresees the neutralization of tax consequences of a revaluation of fixed assets. In theory, capital gains that may arise from the revaluation of fixed assets are treated as an immediate taxable profit subject to corporate income tax. Due to the economic effects of COVID-19, the Finance Law for 2021 proposes an optional measure (for the first revaluation realized in fiscal years ending on or after 31 December 2020 and no later than 31 December 2022) to neutralize temporarily the tax consequences of asset revaluations.

France

Taxes on digital business activity

- ▶ In terms of permanent establishment, on 11 December 2020, the French Administrative Supreme Court ruled that an Irish tax resident entity performing digital marketing activities had a French permanent establishment, for corporate income tax purposes, through its French affiliate, whereas contracts with clients were not formerly concluded in France but the affiliate. This decision expands the definition of a dependent agent constitutive of a permanent establishment.

Taxes related to climate change or sustainability

- ▶ Companies can benefit from a tax credit for the energy renovation of buildings that they assign to the exercising of their industrial, commercial, craft, liberal or agricultural activity, between 1 October 2020 and 31 December 2021.

VAT/GST or sales taxes

- ▶ The Finance Law for 2021 implements into French law the principles set out by the European Court of Justice regarding complex/unique services, including several elements subject to different VAT regimes. The stated objective is to tackle optimization practices by operators providing composite offers to their clients.
- ▶ The Finance Law for 2021 provides for the implementation of the VAT group option provided to EU member states in article 11 of the EU VAT directive (Council Directive 2006/112/EC). Accordingly, entities established in France will have the option to set up a VAT group if, while legally independent, those entities are closely bound to one another by financial, economic, and organizational links. Companies included in the VAT group will then be treated as a single VAT taxable person.
- ▶ The government postponed the entry into force of the rules modifying the VAT regime for e-commerce to 1 July 2021. The law excludes certain deliveries (such as of second-hand goods, works of art, collectors' items, or antiques) subject to VAT on margin from the territoriality rules applicable to distance sales of goods inside the EU and distance sales of imported goods. It limits the application of the EUR 10,000 turnover threshold below which intra-EU distance sales are treated as domestic transactions to taxpayers established in a single EU member state.
- ▶ Vaccines against COVID-19 with national or European authorization, as well as COVID-19 diagnostic medical devices, are subject to 0% VAT.

Taxes on wages and employment

- ▶ Regarding individual income tax, there are no significant measures except with respect to nonresident employees. The withholding tax imposed on French-sourced wages and salaries that was repealed by the Finance Law for 2020 would be reintroduced: the specific nonresident withholding tax schedule with its three brackets of 0%, 12%, and 20% as well as the partially final nature of the withholding tax levied on the lower bands would ultimately remain in place.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other (please specify)

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ In August 2020, the Minister of Economy and Finance stated that "the government was not planning to raise taxes to finance the economic effects of COVID-19."
- ▶ Initially scheduled for March 2021, the next regional elections are expected to be postponed and held in June 2021 due to the COVID-19 epidemic.
- ▶ Last December, President Emmanuel Macron referred to the presidential election in 2022 during an interview and stated: "Maybe I won't be able to be a candidate, maybe I will have to do things, in the last year, in the last months, hard because circumstances will demand it, and which will make it impossible for me to be a candidate."

2.8 Names of current tax policy and tax administration leaders

- ▶ Bruno Le Maire, Minister of Economy and Finance
- ▶ Olivier Dussopt, Minister in charge of Public Accounts
- ▶ Jérôme Fournel, Director General of the General Directorate of Public Finances
- ▶ Christophe Pourreau, Director of Tax Legislation

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The Finance Law for 2020 implemented the ATAD 2 into domestic law. The ATAD 2, which aims to prevent multinational companies from using "hybrid" arrangements to limit the taxation of their profits, also applies to hybrid mismatches with non-EU countries, thereby extending the scope of the anti-hybrid provisions of the ATAD 1.
- ▶ The withholding tax rate on certain income received by nonresidents has been adjusted to 28% in 2020 instead of 31% in 2019.
- ▶ At the end of 2019, the EU introduced a directive on mandatory disclosure rules (MDR/DAC6) aimed at increasing transparency to detect potentially aggressive cross-border tax planning implemented as of 25 June 2018. The French Parliament voted an article that implements into French law a six-month deferral to the EU Directive. This provision follows the adoption on 24 June 2020 by the Council of the EU of amendments to the EU Directive 2011/16 allowing member states an option to defer, for up to six months, the time limits for the filing and exchange of information on cross-border arrangements under DAC6.

France

- ▶ Executives of large French corporations with annual turnover exceeding €250 million are deemed to perform their principal professional activities in France, subjecting these executives to French income tax. This establishes a link, for domestic law purposes, between those functions and the executives' French tax residence.
- ▶ The French tax authorities currently use innovative "data mining" techniques to detect tax fraud and target taxpayers for tax reassessment. As from 1 January 2020, a three-year pilot program was adopted allowing the tax authorities and customs administration to exploit data made public on online platforms (such as social media platforms).

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ For some years, the tax authorities have been developing a cooperative approach with companies: the aim is to improve the cooperation between the tax administration and the companies and promote the legal security of companies. In 2019, the tax authorities have also opened a regularization desk for companies to deal with spontaneous requests for compliance on all tax anomalies discovered by new business owners or buyers as well as on certain international tax issues. In return, the tax authorities applies a reduced penalty scale, known in advance and nonnegotiable.
- ▶ Conversely, the French law strengthened the tools given to criminal and tax law enforcement authorities in order to fight against tax fraud in France. In the last few years, the criminalization of taxation has developed: criminal proceedings have doubled and the penalties incurred have increased.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ None

Consultations:

- ▶ None

3.2 Key enforcement developments seen in 2020

- ▶ The tax authorities develops the use of data mining to improve the targeting of taxpayers for tax reassessments. The development of data mining illustrates the willingness of the tax authorities to rationalize tax reassessment and procedural deadlines.

3.3 Likely enforcement developments in 2021

- ▶ Tax audits may be more intense for taxpayers that have not borne adverse financial consequences during the COVID-19 pandemic and for taxpayers that benefited from public subsidies and that are not "exemplary taxpayers."

3.4 Top tax audit issues in 2021

	Issue name	Description
1	PE issues	Permanent establishment issues continue to be a significant source of litigation and could increase next year due to the recent decision in December 2020 of the French Administrative Supreme Court. The Court, meeting in plenary session, concluded that a French company, which habitually used its authority to decide on client transactions that were thereafter automatically ratified by the Irish entity, was legally binding the latter and was, therefore, a dependent agent constituting a permanent establishment, even though that French entity did not formally sign contracts with clients in the name of the Irish company. The decision, which is an important reversal of prior favorable recent court cases ((e.g., <i>France v. Google</i> decision 25 April 2019), seems to pave the way for a French systematic application of the broad OECD interpretation of the traditional concept of an "agent habitually exercising the authority to conclude contracts in the name of the enterprise," by extending it to situations where the agent plays the principal role, leading to the conclusion of contracts that are routinely concluded without material modification by the enterprise.
2	Transfer pricing	In terms of transfer pricing, among the reassessments analyzed, the interest deductibility issues are the main source of litigation with the royalty or commission rates. Moreover, the transfer pricing policy is being challenged by the tax authorities.
3	Tax losses	The deduction of a foreign subsidiary's losses in a member state is a major source of litigation since the <i>Marks & Spencer</i> decision. Last year, on June 2020, the Administrative Court of Appeal considered that in order to offset losses suffered by a foreign subsidiary against the overall results of a French consolidated tax group, the parent company must provide evidence of "the definitive nature" of these losses; the definitive nature of the losses does not result from the fact that the company has been liquidated.
4	Reorganizations/sales and acquisitions of other companies	
5	Tax fraud by using foreign entities	

France

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Berlin Spree River

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[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	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%) Trade tax (local): 7%-19.72% ⁴ Total average: ~30%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	45% (plus solidarity surcharge of 5.5%)	45% ⁵ (plus ⁶ solidarity surcharge of 5.5% ⁷)	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	1 January 2020–30 June 2020 19% (reduced rate of 7% applies in many areas) 1 July 2020–31 December 2020 Temporarily 16% 5% reduced rate for food service	19% (reduced rate of 7% applies in many areas) ⁸ Food service: reduced rate of 7% for 1 January–30 June 2021	– Temporary reduction ended except for food service

¹ Sec. 23, para. 1, KStG (Corporation Tax Act).

² The combined rate 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 rate 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 payers with low and middle income.

⁸ Sec. 12, para 1, UStG (VAT Act).

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

Tax policy in the light of the COVID-19 crisis

- ▶ Tax policy in the beginning of 2021 will most likely be guided by the economic consequences of the COVID-19 pandemic. As soon as the health crisis subsides, the next patient to heal will be the German economy. There will likely be discussions about further stimulus measures for the economy but also discussions on concepts to restructure public finances.
- ▶ The huge impact of the crisis on public budgets has significantly reduced leeway for major tax cuts in 2021. Furthermore, the international tax competition environment has changed to some extent, since some countries (e.g., France, the Netherlands, UK) have abandoned their plans to further reduce their CIT rate and the US is thinking about increasing its rate.
- ▶ Consequently, the pressure on the German Government for a comprehensive business tax reform is lower than in recent years.

Federal elections in 2021

- ▶ Federal elections will take place in autumn; some parties may choose tax policy issues for their election campaigns, such as CO2 tax, property tax, financial transaction tax, the income tax tariff or some business tax measures.

- ▶ Any new coalition will not be formed before November or December and will therefore not be able to apply their tax policy program before 2022.
- ▶ Since the Greens have significantly gained approval values since left federal elections, it seems pretty likely that they will form part of the next coalition.
- ▶ One realistic scenario could be the “Jamaica Coalition” comprising the Conservatives, the Liberal Democrats and the Greens or a combination of the Conservatives and the Greens (Schwarz-Grün); this would clearly indicate that such a coalition could create a new kind of political cooperation on the federal level, which would also mean a shift in tax policy.

Tax policy at the European/international level

- ▶ It can be expected that Germany will further support the ongoing OECD process and is playing a constructive and committed role in the BEPS 2.0 discussions in order to reach a final consensus by mid-2021.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021

Germany

Tax types	Likelihood of changes in 2021	Direction of change
1. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
4. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
7. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
9. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
14. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

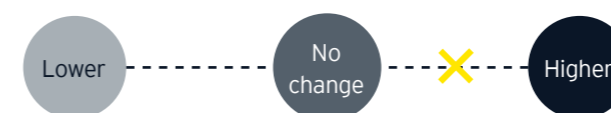
Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



Germany

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Germany is still deficient in EU ATAD implementation (especially anti-hybrid legislation); to avoid the current infringement procedure proceeding, Germany needs to implement the directive as soon as possible in 2021.
- For degressive depreciation a factor of 2.5 will apply for 2020 and 2021.
- Offsetting of tax losses, in particular expansion of the amount and the time of loss carrybacks may be subject to further improvements in 2021.

Taxes on digital business activity

- Germany supports efforts at the OECD/G20 level on finding a consensus solution for the taxation of multinationals under Action Point 1 of the OECD Program of Work (BEPS 2.0).
- Of the two working streams, so-called Pillar 1 (Unified Approach) and Pillar 2 (GloBE proposal), Germany particularly supports the effective minimum taxation (Pillar 2), which is based on a German-French proposal.
- Special depreciation for digital assets was agreed to by the coalition, but no proposal yet available.

Taxes related to climate change or sustainability

- The EU plans to implement (among other measures) a plastic levy as a new source of revenue for the EU as of 2021 that shall be levied on non-recycled plastic use in the member states (not a tax on businesses or consumers). The levy shall incentivize the member states to their create own “climate taxes” to reduce plastic usage. Therefore, the introduction of a German plastic tax or other environmental levy to pass the responsibility on to companies and consumers could be enacted but is currently not planned and not likely before the 2021 general election.

VAT/GST or sales taxes

- In 2020, the VAT rate was temporarily reduced to stimulate consumption behavior during the COVID-19 crisis. The regular VAT rate was lowered from 19% to 16%, and the reduced rate, which only applies to selected services, was lowered from 7% to 5%.
- As this was a pretty expensive measure (€20 billion), the original VAT rates (19% and 7%) will apply again in 2021 as planned.
- Additionally, the reduced tax rate was made applicable for the food service sector (which normally underlies the regular VAT rate) for the period of 1 July 2020 until 30 June 2021.

Evolution of VAT rates in 2020/2021			
Time period	Food service	Regular VAT rate	Reduced VAT rate
Before 1 July 2020	19%	19%	7%
1 July 2020 to 31 December 2020	5%	16%	5%

1 January 2021 to 30 June 2021	7%	19%	7%
After 1 July 2021	19%	19%	7%

Taxes on wages and employment

- Corona-bonus up to €1,500 tax free
- Tax-free top-up to 80% of plan-wage to the short-time work compensation
- Increase of the basic income-tax-free allowance for 2020 to €9,744
- Increase of the Solidarity Surcharge allowance from €972 PIT to €16,956 PIT, which leads to relief from the Solidarity Surcharge for 90% of taxpayers as of 2021
- Little discussion about the complete abolition of the Solidarity Surcharge for all taxpayers, but in the light of the crisis financing debate about higher top tax rates for high earners, possible for partial integration into the PIT rate
- Tax allowance for employee participations in startups and SMEs

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other If there is a left-wing Government after the general elections, a net wealth tax as well as an increase in the heritage and gift tax would be likely as of 2022

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- The political landscape is currently dominated by the COVID-19-crisis and its impacts on the health system as well as the overall economic and social situation.
- Finance Minister Olaf Scholz and Economy Minister Peter Altmaier are busy announcing more and more liquidity assistance for affected businesses. During high times of the pandemic, the administrative leaders have had a strong dominance over parliamentary decisions.
- A deadlocked situation has developed for other measures between the coalition partners, which has also influenced tax policy, since the two ministries, the socio-democratic-led Federal Ministry of Finance and the conservative-led Federal Ministry of Economy have gained significantly deviating positions in major policy fields.
- The next year is marked by the preparations for the parliamentary elections (line-up of the top candidates and election programs) in September 2021. The last half year of the governing coalition in 2021 will normally not see any ambitious tax policy initiatives. However, due to the massive delay of the ATAD implementation, there might be at least one important business tax bill in 2021.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- Dr. Angela Merkel (Christian Democratic Union of Germany (CDU)), Chancellor
- Helge Braun (CDU), Head of Chancellery
- Olaf Scholz (Social Democratic Party (SPD)), Finance Minister, Vice Chancellor
- Peter Altmaier (CDU), Federal Minister of Economic Affairs and Energy
- Rolf Bösinger (SPD), State Secretary in the Federal Ministry of Finance
- Sarah Ryglewski (SPD) Parliamentary State Secretary in the Federal Ministry of Finance
- Ralph Brinkhaus, Chairman of the CDU/Christian Social Union Parliamentary Group
- Achim Post (SPD), Deputy Chairman of the SPD Parliamentary Group
- Katja Hessel (Free Democratic Party), Chairman of the Bundestag Finance Committee
- The “Big 8” business associations and other representative bodies
- Finance policy speakers of the Bundestag Parliamentary Groups

Germany

Tax administration leaders

- ▶ Dr. Rolf Möhlenbröck, Head of the Tax Division of the Federal Ministry of Finance
- ▶ Martin Kreienbaum, Subdivision Head of International Taxation of the Federal Ministry of Finance
- ▶ 16 heads of tax departments at state level

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

COVID-19 tax policy measures:

- ▶ VAT rate deduction from 19% to 16% (respectively from 7% to 5% for certain goods plus application of reduced rate for food service)
- ▶ Reintroduction of degressive depreciation for movable fixed assets (rate 25%) for 2020 and 2021
- ▶ Doubling of the allowance for trade tax additions to €200,000 and increase of the credit factor for trade tax on the personal income tax from 3.8 to 4.0
- ▶ Improvements in the offsetting of tax losses, in particular expansion of the amount of loss carryback to 5 million

Other tax policy measures:

- ▶ Implementation of the EU VAT eCommerce Package (Annual Tax Act 2020)
- ▶ Implementation of the MLI (though not yet applicable as Germany needs to conduct a second domestic implementation step)
- ▶ Entry into force of the Mandatory Disclosure Regime (DAC6) as of 1 July 2020
- ▶ Modernization of the Insurance Tax Act

2.10 Pending tax proposals or consultations

Proposals:

- ▶ ATAD implementation, including new anti-hybrid legislation, renewed CFC rules and strengthened exit taxation for individuals.
- ▶ Corporate Income Tax Modernization Act (KöMoG) (includes option to be taxed as a corporation for partnerships) was announced as part of the COVID-19 stimulus package, but is actually an independent measure not related to the pandemic; although agreed by the coalition, the implementation of the act and even the release of a draft bill become increasingly unlikely.

- ▶ Draft bill concerning the modernization of withholding tax relief and extraterritorial taxation of IP contains the information and certification requirements for withholding tax agents are revised and the anti-treaty shopping rules are aligned with current decisions of the ECJ, it is also proposed to eliminate the nonresident taxation of royalty income and capital gains relating to rights solely because these rights are registered in a public German book or register.
- ▶ Financial transaction tax: the German Finance Minister undertook a foray for a European FTT and suggested a tax of 0.2% only on purchases of stocks from companies with a stock market value of €1 billion.
- ▶ Some local states (e.g. Baden-Württemberg, Sachsen) are proposing their own models for the land property tax, e.g., "area location model."
- ▶ Employee equity participation: the Ministry of Finance is intending to double the tax-free allowance for the free or reduced-price transfer of asset shares to employees from €360 to €720 (Sec. 3 no. 39 Income Tax Act).
- ▶ In addition, a new Section 19a Income Tax Act is to be introduced specifically for employees in startups, according to which the transfer of capital shares is not to be taxed as noncash benefits at the time of transfer to an employee.
- ▶ If the capital sharing is granted in addition to the salary already owed, the taxation should only take place at the time of the sale or in case of a change of employer, but at the latest after 10 years, applying the fifth rule.
- ▶ Relief is also to be provided in the turnover tax law by extending the turnover tax exemption for the management of investment funds under § 4 No. 8h UStG to so-called venture capital funds.
- ▶ However, the current draft leaves open how these are to be defined exactly.
- ▶ Real estate transfer tax: though in limbo since mid-2019, a potential compromise on a RETT Reform in early 2021 becomes more likely.
- ▶ Key aspects include a general decrease of the RETT, triggering threshold from 95% to 90% for share deals as well as an extension of some legal time limits/periods and an extension of the so-called "partnership transfer rule" to transfers of shares in a corporation.

Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Influenced by the ongoing discussions around BEPS, tax enforcement has become more assertive in Germany in recent years.
- ▶ An increasing focus on transfer pricing and sector-related specialties can be observed.
- ▶ While there are still differences in the way tax authorities in different states operate tax enforcement, increased information 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, such as to identify potential audit subjects and areas.

3.2 Key enforcement developments seen in 2020

- ▶ Besides the general tendencies described above, there have not been specific developments in 2020.

3.3 Likely enforcement developments in 2021

- ▶ Tax audits are expected to be further strengthened by the general tendency toward more integrated audits between different federal states and increasing focus on international topics (e.g., transfer pricing).
- ▶ An increasing involvement of specialized auditors and federal auditors is expected.
- ▶ German tax authorities are expanding the use of international information exchange prior to and during tax audits.

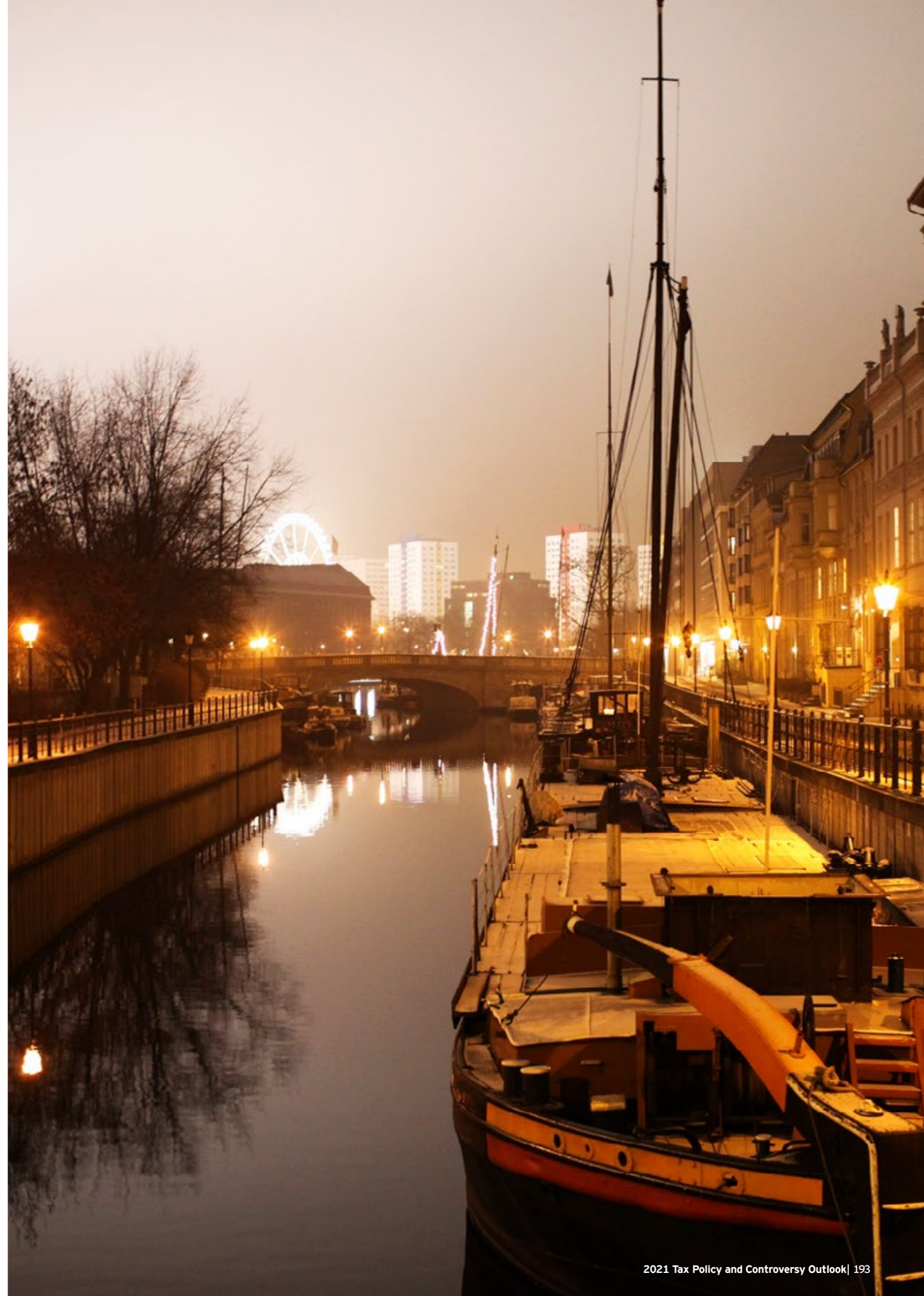
3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing: IP allocation, unilateral adjustments	Influenced by the ongoing BEPS discussions, tax authorities increasingly question the location of IP based on an analysis of the respective DEMPE functions of such IP.
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.
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 tax-exempt supplies, such as exports or intra-community supplies. In many cases, failure to meet these requirements leads to significant additional tax charges.
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 related to sector-specific knowledge of the tax auditors.

Germany

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





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Tax controversy:

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 4 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	24%	24%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	(PIT) top rate 44% > 40,001€ Solidarity tax 10% > 220,000€ WHT on dividends 5%	(PIT) top rate 44% > 40,001€ Solidarity tax 10% > 220,000€ (for FY 2021 the income earned by employees of the private sector is exempt from solidarity tax) WHT on dividends 5%	Temporary abolition of solidarity tax for employment income acquired in 2021

	2020	2021	% change
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	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.	VAT reduction for specific goods and services due to COVID-19 relief measures; specifically, from 1 June 2020 to 30 April 2021, the VAT rate of the below goods and services is reduced as follows: <ul style="list-style-type: none"> Nonalcoholic beverages, without addition of alcohol in any proportion (TARIC Code Classification 2202) and gaseous water (of TARIC Code Classification 2201): 13% Theatre, concert and cinema tickets: 6% Transportation of persons and their luggage: 13% Exploitation of cafes, confectioneries, restaurants, grills, wineries and other related businesses (except for entertainment businesses) with the exception of beverages containing alcohol in any proportion: 13% Protective masks and gloves: 6% Antiseptic products, wipes and relevant antiseptic products: 6% Soap and other products used for personal hygiene purposes: 6% Ethyl alcohol, which is used as raw material for the production of antiseptics, as well as ethyl alcohol in non-processed form sold bottled in retail for personal hygiene and protection purposes: 6%

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

The Greek Government continues the efforts to accelerate economic growth and in parallel to mitigate the adverse financial implications caused by the outbreak of the pandemic of COVID-19. Goals include:

- ▶ Enhance transparency and reduce tax evasion
- ▶ Digitalization of the tax administration
- ▶ Reduce the bureaucratic burden for tax administration and businesses
- ▶ Changes in the legal framework to simplify and expedite procedures in order to accelerate large investments
- ▶ Provision of tax incentives to individuals in order to reverse brain drain

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
10. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
16. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

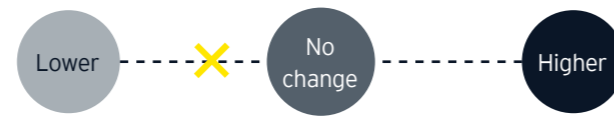
Tax types	Likelihood of changes in 2021	Direction of change
1. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
2. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ An exit tax has been introduced, by transposing the relevant provisions of the Directive 2016/1164/EU as amended by Directive 2017/952/EU into the Greek Income Tax Code. Please note that the new provisions on exit taxation shall apply for transfers of assets, business and tax residence taking place as of 1 January 2020 onwards.

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ Increased deduction/depreciation regarding specific expenses related to low-emission vehicles
 - ▶ For the leasing of a company car of zero pollutants, with a maximum RPBT up to EUR 40,000, the enterprise is entitled to deduct the relevant cost from its gross revenue, at the time of its realization, increased by 50% and by 25% for any additional amount. For cars with low emissions (i.e., up to 50 gr. CO2/km) the increased discount percentages amount to 30% and 15% for any additional amount, respectively.

- ▶ Regarding the cost of purchase, installation and operation of publicly accessible charging points for vehicles of zero or low emissions up to 50 gr. CO2/km, undertakings are entitled to deduct the said costs from their gross revenue, as defined by the current legislation, at the time of their realization, increased by 50%.
- ▶ For the purchase of a light utility electric vehicle (category N1 up to 3.5 tons gross weight) of zero pollutants, enterprises may be granted an increased 50% deduction from their gross revenue at the time of its realization. The respective increased deduction percentage for the purchase cost of low-emission vehicles up to 50 gr. CO2/km amounts to 30%.
- ▶ For the purchase of L-type vehicles, motorcycles, as well as any other small vehicle with three or four wheels, with zero or low emissions up to 50 gr. CO2/km, enterprises may be granted with an increased 50% deduction from their gross revenue. This deduction takes place at the time of the realization of the respective cost.
- ▶ Enterprises may also deduct from their gross revenue, the depreciation cost of a company car of zero pollutants (with a maximum RPBT up to EUR 40,000), increased by 50% and by 25% respectively for any excess amount. The corresponding percentages for cars with low emissions up to 50 gr. CO2/km is 30% and 15%, respectively.

VAT/GST or sales taxes

- ▶ Introduction of VAT Quick Fixes 2020 in the Greek legislation
- ▶ VAT reduction for specific goods and services due to measures to reduce the financial impact of the COVID-19 pandemic; specifically, from 1 June 2020 up to 30 April 2021, the VAT rate of the below goods and services is reduced as follows:
 - ▶ Nonalcoholic beverages, without addition of alcohol in any proportion (TARIC Code Classification 2202) and gaseous water (of TARIC Code Classification 2201): 13%
 - ▶ Theatre, concert and cinema tickets: 6%
 - ▶ Transportation of persons and their luggage: 13%
 - ▶ Exploitation of cafes, confectioneries, restaurants, grills, wineries and other related businesses (except for entertainment businesses), with the exception of beverages containing alcohol in any proportion: 13%
 - ▶ Protective masks and gloves: 6%
 - ▶ Antiseptic products, wipes and relevant antiseptic products: 6%
 - ▶ Soap and other products used for personal hygiene purposes: 6%
 - ▶ Ethyl alcohol, which is used as raw material for the production of antiseptics, as well as ethyl alcohol in non-processed form sold bottled in retail for personal hygiene and protection purposes: 6%

Taxes on wages and employment

- ▶ For tax year 2021, the employment income earned by employees of the private sector is exempt from solidarity tax.
- ▶ For tax year 2020, income from all other sources other than employment and pension income (e.g., capital gains, dividends, interest, royalties) is exempt from solidarity tax.

- ▶ A new beneficial tax treatment for stock options and stock awards (as benefits in kind) was introduced, effective for income earned as of 1 January 2020.
- ▶ In an attempt to reverse brain drain, income tax incentives have been introduced, effective as of 1 January 2021, to individuals opting to transfer their tax residence to Greece.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Stable political landscape
- ▶ Government goals are:
 - ▶ Establishment of a solid and trusted tax administration, through continuing its efforts to boost tax compliance and enforcement in order to improve the investment climate and economic growth
 - ▶ Combat tax evasion
 - ▶ Support businesses and employees with measures to overturn the financial crisis caused by the COVID-19 pandemic

2.8 Names of current tax policy and tax administration leaders

- ▶ George Pitsilis, Governor of the Independent Authority for Public Revenue

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Directive 2016/1164/EU, as amended by Directive 2017/952/EU, regarding exit taxation was transposed into the Greek Income Tax Code. The new provisions on exit taxation shall apply for transfers of assets, business and tax residence taking place as of 1 January 2020 onwards.
- ▶ Directive 2016/1164/EU, as amended by Directive 2017/952/EU, regarding hybrid mismatches was transposed into the Greek Income Tax Code. The new provisions apply as of 1 January 2020 onwards.
- ▶ E-books maintenance was introduced with a new e-platform called "My Digital Accounting and Tax Application" (myDATA) and online cash registers. E-books' data transmission commenced on an optional basis as of 1 October 2020 and on a full basis as of 1 January 2021.

- ▶ E-invoicing through licensed providers was implemented, including the provision of tax incentives (e.g., reduction of statutory limitation period for enterprises opting for e-invoicing through licensed providers).
- ▶ The possibility of retroactive effect of bilateral or multilateral advance pricing agreements (APAs) upon certain conditions was implemented.
- ▶ EU Directives 2018/822 and 2020/876, which provide for the mandatory reporting of information on reportable cross-border arrangements (MDR) and the six-month deferral of deadlines for such disclosure, respectively, were transposed into national law.
- ▶ An amendment to stock-options taxation, by virtue of which beneficial taxation is granted for stock option benefits granted to employees was introduced. The beneficial taxation is effective from 1 January 2020 onward.
- ▶ Beneficial taxation of stock awards granted to employees was introduced. The beneficial taxation is effective from 1 January 2020 onward.
- ▶ Significant tax incentives in relation to the taxation of private individuals were introduced, including:
 - ▶ Alternate tax regime of income arising outside Greece for individuals earning pension income from abroad who transfer their tax residence in Greece with effect for tax years starting as of 1 January 2020 onward.
- ▶ Tax incentives to "angel investors," i.e., individuals who contribute capital to a duly registered start-up company, granting the right to deduct an amount equal to 50% of the amount of their contribution from their taxable income in the tax year in which this contribution was effected.
- ▶ Tax incentives for R&D expenditure were increased (increased deductions for R&D expenditure are applicable as of 1 September 2020).
- ▶ Two new tax dispute resolution mechanisms were introduced:
 - ▶ An Out-of-Court Tax Dispute Resolution Committee has been established, with limited application and time scope.
 - ▶ The EU Directive 2017/1852 on tax dispute resolution mechanisms in the European Union (MAP) has been transposed into Greek legislation. The dispute resolution mechanism applies to any complaint submitted from 31 July 2020 onward, on disputes concerning income or capital acquired in tax years starting from 1 January 2018 onward (with the possibility of retroactive application, upon agreement of the member states).

2.10 Pending tax proposals or consultations

Proposals:

- ▶ N/A

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ There are efforts by the Greek tax authorities to increase electronic compliance, audit systems sophistication and to promote the digitalization of the tax administration.

3.2 Key enforcement developments seen in 2020

- ▶ Penalties for late submission or non-submission or inaccurate/incomplete submission of CbC reports are included in the Tax Procedure Code.

- ▶ Penalties for non-maintenance of accounting data, non-preservation of electronic tax mechanisms (ETMs) and tax memories and data created by ETMs, infringements relevant to violation or falsification or interference with the operation of ETMs as well as for the issuance of retail receipts through ETMs operating based on non-approved specifications.

3.3 Likely enforcement developments in 2021

- ▶ N/A

3.4 Top tax audit issues in 2021

	Issue name	Description
1	VAT refund claim	A taxpayer may claim the refund of input VAT on a monthly basis via their periodic VAT return instead of carrying forward the VAT credit balance to the following fiscal period.
2	Statute of limitation for tax year 2015	The tax assessment statute of limitations is five years from the end of the year a tax return is due. Therefore, tax audits of 2015 must take place by the end of 2021.
3	Stamp duty issues	Stamp duty is generally imposed on documents drafted or issued by private individuals or legal entities. Stamp duty has been an area of rising dispute between tax authorities and taxpayers during the course of tax audits, especially in relation to loan agreements and cash pooling agreements. However, there are recent juridical developments in this area with regard to the imposition of stamp duty on interest bearing loans, which seem to be in favor of the taxpayers.
4	Income tax issues	Income tax audits are often spurred by the submission of a claim for the refund of income tax. Income tax audits are also traditionally conducted by the tax authorities in the normal course of tax audits.
5	Transfer pricing	Intercompany transactions are often the focus of the tax authorities.
6	Withholding tax issues	Withholding tax audits are often spurred by the submission of a claim for the refund of withholding tax.
7	Tax certificate under reservation	The "Annual Tax Certificate" refers to companies whose annual financial statements are audited by statutory auditors. If any tax issues are identified in the course of the tax audit by the statutory auditors, the Annual Tax Certificate is issued under reservation and a tax audit by the tax authorities may occur.
8	Corporate transformations	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 or targeted anti-avoidance rule provisions.
9	PE issues	Tax audits may focus on the basis of the dependent agent notion and the negotiation/conclusion of offshore contracts.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited) EY Greece: no indications in this respect	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments EY Greece: no indications in this respect	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Antigua City at Sunrise

Guatemala

[Return to Contents](#)

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This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	7%	7%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	12%	12%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Increase tax collection
- ▶ Increase tax fraud detection
- ▶ Move toward an electronic tax system (accounting records, invoicing, and reporting)

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Guatemala

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The tax administration is working hard on tax collection policies and their capability of using tax intelligence to detect tax avoidance in a more efficient manner.

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST/sales taxes

- ▶ The tax administration is moving forward with electronic invoicing in order to detect tax avoidance in a more efficient manner.

Taxes on wages and employment

- ▶ N/A

Guatemala

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Due to the COVID-19 crisis, the recently elected (January 2020) central government has had no time to execute its proposed government plan.
- ▶ Instead, it has received much criticism for the way the COVID-19 crisis was managed (closure of the economy for several months), resulting in a general sense of instability.
- ▶ In recent days and due to the approval of the General Budget for year 2021, the instability and protests reached its highest point, forcing the private and public sector to maintain a dialogue in order to work in the approval of the budget before the end of 2020.

2.8 Names of current tax policy and tax administration leaders

- ▶ Marco Livio Díaz Reyes, Superintendent of Tax Administration

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ N/A

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The tax administration has taken a very strong approach with taxpayers.

3.2 Key enforcement developments seen in 2020

- ▶ N/A

3.3 Likely enforcement developments in 2021

- ▶ N/A

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax refunds	Any tax refund request implies a tax audit and, most of the time, a tax assessment even higher than the amount requested for refund.
2	Transfer pricing	Transfer pricing audits are the rule for all multinational companies.
3	Disallowance of deductions	Without a description of or proof of deductible expenses, the tax administration will readily disallow expense deductions.
4	Indirect taxes	Tax assessment on import duties and taxes due to formal errors in certificates of origin of goods, and/or classifications

Guatemala

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Aerial View, downtown Tegucigalpa Honduras

Honduras

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020			2021			% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%			25%			–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Annual taxable income tax			Annual taxable income tax			–
	Exceeding	Not exceeding	Tax rate	Exceeding	Not exceeding	Tax rate	
	HNL	HNL	%	HNL	HNL	%	
	0.01	165,482.06	0	0.01	172,117.89	0	
	165,482.07	252,330.80	15	172,117.89	262,330.80	15	
	252,330.81	586,815.84	20	262,330.80	610,347.16	20	
586,815.84	–	25	610,347.1	–	25		

VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	15%	15%	–
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Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Strengthening the sustainability and credibility of fiscal policy
- ▶ Making public expenses more predictable
- ▶ Reduce the expense of the government and improve its efficiency
- ▶ Do not increase taxes or create new taxes

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Honduras

Tax types	Likelihood of changes in 2021	Direction of change
1. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
4. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
5. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
7. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
8. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
9. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
13. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
14. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
15. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



Honduras

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Companies will pay a fee of 25% of the total net taxable income.

Taxes on digital business activity

- To be confirmed by the tax authority in 2021

Taxes related to climate change or sustainability

- N/A

VAT/GST or sales taxes

- To be confirmed by the tax authority on 2021

Taxes on wages and employment

- No change to rates, only to income bands

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- Upcoming Political elections in 2021

2.8 Names of current tax policy and tax administration leaders

- Miriam Guzman, Director of the Servicio de Administración de Rentas (SAR), the Honduran tax authority

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- Suspended due to the COVID-19 pandemic: all tax legal terms
- Fiscal benefits to companies that comply with their tax obligations during the COVID-19 pandemic

2.10 Pending tax proposals or consultations

- Proposals: N/A
- Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- N/A

3.2 Key enforcement developments seen in 2020

- Suspended due to the COVID-19 pandemic: all legal terms for taxpayers to comply with their tax obligations
- Fiscal benefits to companies that comply with their tax obligations during the COVID-19 pandemic

3.3 Likely enforcement developments in 2021

- To be confirmed by the tax authority in 2021

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Digital taxes	Focus on interest deductions, specifically in the verification of thin capitalization rules during audit processes
2	Withholding taxes	Severe tax implications for foreign companies when they provide services in national territory
3	Tax losses	Focus on the correct implementation of disallowance of deductions, specifically for audit purposes; the tax authorities have adopted an aggressive approach in past years in the compliance verification of the conditions for expenses deduction.

Honduras

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Aerial scene of Hong Kong

Hong Kong

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 4 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	16.5%	16.5%	–
		Hong Kong has a two-tiered profits tax rates regime under which the rate of tax for the first HK\$2m of profits of corporations will be reduced by half to 8.25% (7.5% for unincorporated businesses). 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.	

	2020	2021	% change
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	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 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 of 2%, 6%, 10%, 14% and 17% applying to net chargeable income.	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	N/A	N/A	N/A

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The Hong Kong Special Administrative Region (Hong Kong) Government’s objective continues to be to maintain a simple and low tax regime.
- ▶ To encourage more private equity funds to domicile and operate in Hong Kong, the Limited Partnership Fund Ordinance (Cap. 637) established a new limited partnership fund regime, commencing operation on 31 August 2020, to enable private funds to be registered in the form of limited partnerships in Hong Kong.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
6. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
7. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
10. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
11. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
16. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



Hong Kong

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No change expected

Taxes on digital business activity

- ▶ The Hong Kong Government has appointed an Advisory Panel on BEPS 2.0 to study the impacts of BEPS 2.0 and advise the Hong Kong Government on strategies in response to the project. As the Hong Kong Government would need to amend its domestic tax law to implement any consensus-based solutions, taxes for the year 2021 are not expected to deviate much from the year 2020. However, there would be significant impacts on the taxes of in-scope taxpayers once the relevant changes are implemented.

Taxes related to climate change or sustainability

- ▶ No change expected

VAT/GST/sales taxes

- ▶ N/A

Taxes on wages and employment

- ▶ No change expected

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Ms. Carrie Lam was elected as Hong Kong's Chief Executive in March 2017 and began her five-year term on 1 July 2017.
- ▶ She promised to set a new, proactive style of governance, as well as a new fiscal philosophy to manage Hong Kong's public finances wisely.
- ▶ Due to the COVID-19 outbreak, the term of the current legislative council will be extended by at least one year from 30 September 2020 to provide the regular governance and operations of Hong Kong.

2.8 Names of current tax policy and tax administration leaders

Tax policy:

- ▶ Mr. Paul Chan Mo-po, Financial Secretary

Tax administration:

- ▶ Mr. Tam, Tai Pang, Commissioner of Inland Revenue

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Bill 2020 was enacted in June 2020 to give profits tax concessions to qualifying ship lessors (at a 0% profits tax rate) and qualifying ship leasing managers (generally at an 8.25% profits tax rate).
- ▶ The Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 was enacted in July 2020 to reduce the profits tax rate by 50% (8.25 percentage points) for all general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business.

2.10 Pending tax proposals or consultations

- ▶ Proposals:
 - ▶ Financial Secretary Paul Chan Mo-po first proposed a tax concession for carried interest in Hong Kong's 2020/21 Budget in February 2020.
 - ▶ In August 2020, the Hong Kong Government released its proposal to provide a tax concession for carried interest for industry consultation.
 - ▶ A legislative bill is expected to be introduced to the Legislative Council in the next couple of months.
- ▶ Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Hong Kong tax authority's assessment process is automated by the "Assess-First-Audit Later" (AFAL) system, which screens out returns that meet pre-set criteria for automated assessment.
- ▶ Under the AFAL system, a customized computer-assisted case selection program distributes cases to assessing officers to conduct a "desk audit," to field auditors to conduct a "field audit" or to investigators to conduct an in-depth "investigation."
- ▶ The audit trilogy has enhanced identification of high-risk cases for audit and investigation.

3.2 Key enforcement developments seen in 2020

- ▶ Due to the OECD BEPS initiatives regarding whether policies and practices may be seen by other tax jurisdictions as tax base erosion or as encouraging multinational companies to arrange

transactions subject to double non-taxation, the tax authority of Hong Kong may be more stringent in scrutinizing offshore claims.

- ▶ As such, the tax authority of Hong Kong will likely be more stringent in scrutinizing offshore claims.

3.3 Likely enforcement developments in 2021

- ▶ It is expected that the focuses of the tax authority in Hong Kong will continue to be offshore claims and transfer pricing.
- ▶ The OECD BEPS initiatives have prompted the government to review tax practices in Hong Kong.
- ▶ The OECD's three-tiered documentation requirements (codified by Hong Kong in 2018) will provide the tax authority with more information and facilitate its assessment of whether Hong Kong taxpayers are transacting with their associated entities at arm's length.

Hong Kong

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Related-party transactions will likely be subject to more stringent scrutiny.
2	Offshore claim	Taxpayers lodging an offshore claim and not subject to tax overseas will likely be required to explain the purposes and roles of their Hong Kong establishments.
3	Capital gain claim	Capital gain is not taxable in Hong Kong; the determination of capital and revenue as well as the nature of gain/income are usually contention matters.
4	Offshore companies	The use of offshore companies in business operations
5	Residence status	The application of a comprehensive double tax agreement and the qualification as Hong Kong tax resident

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Hungary

[Return to Contents](#)

EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 10 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	9%	9%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	15%	15%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	27%	27%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Simplifying the taxation system (expecting a decrease in the number of tax types)
- ▶ Shifting toward digitalization
- ▶ Prioritizing taxes on consumption over taxes on labor
- ▶ Putting emphasis on sectoral levies

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Implementation of certain rules under EU ATAD and ATAD 2 Directives are expected, such as stricter rules for CFCs. The corporate income tax base adjustment on dividends and capital withdrawals related to CFCs will be supplemented in order to exempt from taxation the part of the dividend and capital gain that is related to genuine arrangements (if any). Thus, for a CFC that has both a genuine and a non-genuine arrangement, only the dividend from the non-genuine arrangement is not an item that can reduce pretax profit.
- Based on the recent decisions of the European Court of Justice, taxpayers are entitled to reclaim paid VAT if their receivables qualify as likely to be irrecoverable. Hungarian regulation allows for this possibility. However, the Hungarian rules are stricter than the conditions set forth in the ECJ case law.

Taxes on digital business activity

- Hungarian regulations must follow the EU principles (e.g., VAT Directive); therefore, we do not expect further digitalization developments from the regulator's side other than implementing the EU Directives.

Taxes related to climate change or sustainability

- N/A

VAT/GST or sales taxes

- Subsequent deduction of the tax base for an uncollectible receivable is possible if the customer of the transaction on which the uncollectible receivable is based (purchaser of a product, recipient of a service), i.e., the debtor is not subject to VAT.

Hungary

- ▶ In the case of intra-community distance sales, the supply of goods shall be taxable in the member state of the destination of the product. Where a product is sold by distance selling as an import consignment from a third country, the product is taxable under two provisions, the importation of goods and the distance selling of import consignments.
- ▶ The Act on Value Added Tax will comprise the provisions concerning the MOSS system. The scope of the MOSS system will be broader. It will cover all services provided to non-taxable persons in a member state of the community and to the obligation to prepare a tax return and pay tax on intra-community distance sales.

Taxes on wages and employment

- ▶ In general, no material changes are expected.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.7 Political landscape

- ▶ Hungary has a stable Government, which has not changed in the last 10 years.
- ▶ Taxation is stable – changes are introduced mainly because of harmonization of laws within the EU or as a result of memberships in international organizations (such as the OECD).

2.8 Names of current tax policy and tax administration leaders

- ▶ Mihály Varga, Minister of Finance
- ▶ Dr. László Sors, Secretary of State leading the National Tax and Customs Administration
- ▶ Csilla Tamásné Czinege, Deputy Secretary of State for Taxation

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Digitalization (e.g., online account information transmission obligations qualify as a cornerstone of digitalization, VAT and law enforcement), decreased tax revenues, increasing tax audits
- ▶ Reducing the applicability of small taxpayer's lump sum tax in order to avoid fraudulent employing
- ▶ Introducing retail tax to increase the role of consumption and sales taxes in the tax system
- ▶ Opening the possibility for taxpayers to reduce the pretax profit with regard to any part of the debt of the affiliated company that was declared irrecoverable, if supplying information in the corporate tax return about the affiliated company affected and concerning the economic reality underlying the transaction

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Noncompliance with tax obligations are sanctioned by law either as itemized or proportionate penalties (late payment, default or tax). Penalties, upon request and if justified, may be reduced. A conditional tax penalty is also available, provided that taxpayers give up their right to appeal against the assessment of a tax audit.
- ▶ To avoid challenges during tax audits, taxpayers can request rulings on corporate income tax, local business tax and individual income tax, as well as for APAs on transfer pricing. Authorities pay special attention to genuine, valid business and commercial reasons when issuing such resolutions. General guidelines can also be sought, but as opposed to ruling and APAs, these do not have necessarily binding force during tax audits.

- ▶ Corporate income tax: implementation of certain rules under the EU ATAD Directive, such as GAAR, CFC rules (option B), interest limitation rules (replacing thin capitalization rules); introduction of group taxation for corporate income tax purposes
- ▶ Taxes on wages and employment: decrease of employer social security contribution rate from 17.5% to 15.5%; limitation of the scope of fringe benefits; revocation of exemption of certain benefits; increase of value of family allowance for personal income tax purposes; introduction of personal income tax allowance for mothers of four or more
- ▶ VAT: increase in threshold for personal exemption from HUF 8m to HUF 12m; introduction of a right to deduction when supply takes place prior to VAT registration; ease in administrative burdens; qualification of single-purpose vouchers as supply of goods/services; introduction of new rules on the location of supply of remote services related to telecommunication, media and electronic services

2.10 Pending tax proposals or consultations

Proposals:

- ▶ The Parliament accepted the pending tax proposals for 2021 on 17 November 2020.

Consultations: N/A

- ▶ Tax audits are initiated randomly, based on risk assessments performed by the authorities and in certain cases automatically. The tax authorities rely on wide data analysis when selecting subjects to audit. The burden of proof on the wrongful application of tax benefits lies with the taxpayer. The number of tax audits slightly grew in the past year compared to previous years.

Hungary

3.2 Key enforcement developments seen in 2020

- ▶ The GDP decrease that was due to the COVID-19 pandemic was followed by higher activity from the tax authorities. Audits now put bigger emphasis on discovering tax fraud and collecting penalties.
- ▶ The interest rate for late payments increased from double the Hungarian National Bank's base rate (1.8) to the base rate plus 5 percentage points (5.9).
- ▶ Procedural rules on the creation, operation and termination of corporate income tax groups were introduced.
- ▶ Rules on the EU dispute resolution mechanism related to tax matters was introduced.

3.3 Likely enforcement developments in 2021

- ▶ The authorities are shifting toward digitalization, relying more on data analysis when selecting subjects to audit.
- ▶ Tax authorities are more accurate and efficient in discovering and identifying fraudulent companies.
- ▶ The starting date of the 15-day period to submit an objection to enforcement is from the time it became known.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Mismatch in VAT data reported	Mismatch in the reported VAT data from taxpayer and from supplier will likely cause a thorough investigation, which would intend to discover fraudulent elements in the supply chain.
2	Complex risk management	Tax audits are consciously selected, based on risk assessment performed by the authorities that rely on a broad data analysis when selecting subjects to audit.
3	TP – CbCR from foreign countries	The authorities are closely investigating the TP and CbCR cases when foreign countries are involved.
4	Electronic Trade and Transport Control System	Transport related data (name and quantity of goods, consignee, consignor, registration number of vehicles, etc.) have to be registered in a central electronic system before starting the transport, and in order to spot tax evaders, tax authorities would strictly investigate the data.
5	Intra-community transactions	Intra-community transactions are a priority for tax authorities. Therefore, a higher proportion of these transactions are selected for tax audit than purely domestic ones.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



India

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Tax policy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	<p>The following rates are now applicable to companies:</p> <ul style="list-style-type: none"> ▶ (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 2023 – 17.16%² ▶ (C) Domestic company that does not opt for lower tax rate and chooses to avail current incentives and deductions: <ul style="list-style-type: none"> ▶ Companies having total turnover or gross receipts in FY 2017-2018 ≤ INR 4,000 million <ul style="list-style-type: none"> ▶ Income < INR 10 million – 26%³ ▶ Income > INR 10 million, but < INR 100 million – 27.82%⁴ ▶ Income > INR 100 million – 29.12%⁵ ▶ Other companies claiming incentives and having total turnover or gross receipts in FY 2017-2018 more than INR 4,000 million <ul style="list-style-type: none"> ▶ Income < INR 10 million – 31.20%⁶ ▶ Income > INR 10 million, but < INR 100 million – 33.38%⁷ ▶ Income > INR 100 million – 34.94%⁸ 	<p>The following rates are now applicable to companies:</p> <ul style="list-style-type: none"> ▶ (A) Domestic company that opts for lower tax rate without claiming any incentives – 25.17%⁹ ▶ (B) For new manufacturing companies set up/registered on or after 1 October 2019 and that commence manufacturing upto 31 March 2023 – 17.16%¹⁰ ▶ (C) Domestic company that does not opt for lower tax rate and chooses to avail current incentives and deductions: <ul style="list-style-type: none"> ▶ Companies having total turnover or gross receipts in FY 2017-2018 ≤ INR 4,000 million <ul style="list-style-type: none"> ▶ Income < INR 10 million – 26%¹¹ ▶ Income > INR 10 million, but < INR 100 million – 27.82%¹² ▶ Income > INR 100 million – 29.12%¹³ ▶ Other companies claiming incentives and having total turnover or gross receipts in FY 2017-2018 more than INR 4,000 million <ul style="list-style-type: none"> ▶ Income < INR 10 million – 31.20%¹⁴ ▶ Income > 10 million, but < INR 100 million – 33.38%¹⁵ ▶ Income > 100 million – 34.94%¹⁶ 	–

Individual income tax – top rate
(Please list top national rate, and if local rates apply, an average of the top local rates)

Budget 2020 reduced personal income tax rates if individuals did not avail themselves of any tax incentives or deductions:

Personal income tax slab rates

Income slab	2020	2021
Upto INR. 250,000	Nil	Nil
INR 250,001-500,000	5%	5%
INR. 500,001-750,000	20%	10%
INR. 750,000-1,000,000	20%	15%
INR. 1,000,000-1,250,000	30%	20%
INR. 1,250,000-1,500,000	30%	25%
Above 1,500,000	30%	30%

The above slab rates are subject to additional surcharge and cess as follows:

Income slab	Surcharge rate
INR 5 million-10 million	10%
INR 10 million-20 million	15%
INR 20 million-50 million	25%
Income exceeding INR 50 million	37%

Decrease varies for lower brackets, top rate unchanged

VAT, GST or sales tax – standard rate
(Please list standard national rate, and if local rates apply, an average of the standard local rates)

GST rates of 5%, 12%, 18% and 28% are applicable to 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 Government has set up a constitutional body, i.e., GST Council for making recommendations to the Union and State Government on issues related to GST.

The Council regularly meets and makes recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, GST rates (including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.).

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%.

⁹ Inclusive of applicable surcharges and cesses. Base rate is 22%

¹⁰ Inclusive of applicable surcharges and cesses. Base rate is 15%.

¹¹ Inclusive of applicable cess. Base rate is 25%.

¹² Inclusive of applicable surcharge @7% and cess. Base rates is 25%.

¹³ Inclusive of applicable surcharge @12% and cess. Base rate is 25%.

¹⁴ Inclusive of applicable cess. Base rate is 30%.

¹⁵ Inclusive of applicable surcharge @7% and cess. Base rate is 30%.

¹⁶ Inclusive of applicable surcharge @12% and cess. Base rate is 30%.

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Reviving economic growth, stimulating demand and investments
- ▶ Incentivizing manufacturing in India
- ▶ Making tax administration simpler, more transparent, accountable and technology savvy
- ▶ Improving ease of doing business for taxpayers
- ▶ Expansion of the tax base
- ▶ Incentivizing micro, small and medium entrepreneurs, and providing relief to the middle and low-income taxpayers

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 ⁴ <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
15. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
16. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
17. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The Government has significantly reduced the corporate tax rates, and the focus now will be on bringing simplicity and certainty in law and expanding tax base.

Taxes on digital business activity

- ▶ With effect from 1 April 2020, the Government has expanded the scope of the Equalization Levy at 2% on consideration received/receivable by nonresident e-commerce operators for providing or facilitating “ecommerce supply or services” to certain specified persons.
- ▶ The Government deferred the “significant economic presence” provisions until tax year 2022-2023 as discussion on this issue is still going on in the G20-OECD BEPS project.
- ▶ Finance Act 2020 inserted new withholding tax provisions (i.e., Sec 194-O under Chapter XVII-B of Income-tax Act, 1961) to cover e-commerce operators making payment to e-commerce participants (being residents).

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST or sales taxes

- ▶ Some rate rationalization may happen (e.g., to correct inverted duty structure). However, no major changes in rates are expected.
- ▶ Some newer cesses may be imposed for augmenting revenue.

- ▶ The Government will continue to take steps to bring in more taxpayers in the tax base.

Taxes on wages and employment

- ▶ The Government has been following a policy of imposing a higher level of tax on higher net worth individuals while providing a respite to middle and lower income taxpayers.

2.5 In 2021, what do you believe your jurisdiction’s primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other (please specify) – Government has done additional borrowing to manage resources required for tackling the impact of COVID-19.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ General elections were held in India in April to May 2019. The The National Democratic Alliance, led by the Bharatiya Janata Party, won the elections with a clear majority.
- ▶ In 2020, legislative assembly elections were held in the States of Delhi and Bihar. Delhi elections were held in February 2020 and were won by Aam Aadmi Party. Bihar held its elections in November and the National Democratic Alliance has formed the new Government.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- ▶ Nirmala Sitharaman, Finance Minister
- ▶ Anurag Singh Thakur, Minister of State for Finance
- ▶ Ajay Bhushan Pandey, Finance Secretary and Revenue Secretary

Tax administration leaders

- ▶ Pramod Chandra Mody, Chairman, Central Board of Direct Taxes
- ▶ M. Ajit Kumar, Chairperson, Central Board of Indirect Taxes and Customs

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Government introduced a platform called “Transparent Taxation – Honoring the Honest.” Within this platform, faceless assessment and faceless appeals schemes have been introduced. Government also brought in a Taxpayers’ Charter specifying roles and responsibilities of both taxpayer and tax department.
- ▶ The main objective of these tax policy changes is to bring in efficiency, transparency and accountability in tax administration.

India

- ▶ The customs authorities recently introduced, Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 (CAROTAR 2020). The rules seek to address long-standing infractions relating to import of goods under preferential trade agreements (PTA) where the preferential tariff is claimed subject to the fulfilment of “originating criteria” laid out in the respective PTA.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Prior to the COVID-19 pandemic, the Direct Tax Department had been aggressively undertaking several search/survey actions to tap illegal activities and unearth undisclosed income.
- ▶ Transfer pricing has been a key area of enforcement, and pinpointing is also done in connection with the maintenance of documentation.
- ▶ However, in wake of the pandemic, the department has not been taking any adverse actions on taxpayers (e.g., initiating recoveries of demand, raising fresh demands, penalties).

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	Challenge the claim of tax incentives provided to taxpayers for undertaking activities of particular nature/in particular operation zones and definition of activities provided under each of the tax incentive provisions
2	Treaty benefits	Denial of treaty benefit to taxpayer in absence of valid tax residency certificate or based on interpretation of treaty provisions due to difference in language between domestic tax provisions and treaty provisions
3	Transfer pricing	High-value services transactions and headquarter and management services transactions – means of lowering tax base and profit shifting from India – disallow such charges and four tests: need, evidence, benefit and quantification to be established
4	Transfer pricing	DEMPE issues, including location of people and intellectual property
5	Tax losses and tax refund	High claims of tax losses and tax refunds

2.10 Pending tax proposals or consultations

Consultations:

- ▶ Stakeholder consultation on blueprint of OECD Pillar 1 and Pillar 2 report
- ▶ Pre-budget 2021 consultation with industry

3.2 Key enforcement developments seen in 2020

- ▶ Faceless assessment and faceless appeals schemes were introduced with the objective to minimize face-to-face interaction between tax authorities and taxpayers.
- ▶ On the indirect taxes front, the Government made e-invoicing mandatory from 1 October 2020 for certain classes of registered persons (in case aggregate turnover of the person in any of the preceding financial years from FY 2017-2018 onward exceeds INR 5 billion).
- ▶ A faceless assessment scheme has been introduced for customs as well.

3.3 Likely enforcement developments in 2021

- ▶ E-invoicing may be extended to all companies (even those below the current threshold of INR 5 billion).

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>

Appendix

Personal income tax slab rates

Income slab	Concessional tax rate	Old tax rate
Up to INR 250,000	Nil	Nil
INR 250,001-500,000	5%	5%
INR 500,001-750,000	10%	20%
INR 750,000-1,000,000	15%	20%
INR 1,000,000-1,250,000	20%	30%
INR 1,250,000-1,500,000	25%	30%
Above 1,500,000	30%	30%

The above slab rates are subject to additional surcharge and cess as follows:

Income slab	Surcharge rate
INR 5 million-10 million	10%
INR 10 million-20 million	15%
INR 20 million-50 million	25%
Income exceeding INR 50 million	37%



Jakarta by Night, Indonesia

Indonesia

[Return to Contents](#)

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	22% ¹	22% ¹	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30% ²	30% ²	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	10% for domestic deliveries and 0% for export of goods and for export of certain services ³	10% for domestic deliveries and 0% for export of goods and for export of certain services ³	–

¹ Article 5 (1a) of Law Number 2 Year 2020

² Article 17 (1a) of Indonesian Income Tax Law Number 36 Year 2008

³ Article 7 of Indonesian Value-Added Taxes Law Number 42 Year 2009

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Enactment of Omnibus Law on Job Creation (Job Creation Law); expected to attract foreign investors to Indonesia and provide significant improvement in terms of ease of doing business in Indonesia and legal certainty
- ▶ Imposition of electronic transaction tax to on foreign entities who conduct trading through electronic system with Indonesian customers and satisfy the conditions of having a significant economic presence in Indonesia
- ▶ Impact of the COVID-19 pandemic that will drive the Government to provide stimulus packages
- ▶ Desire to implement tax policy that will incentivize the growth of micro-, small – and medium-scale of business sectors

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
10. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Reduction of corporate income tax in responses to the COVID-19 crisis

Taxpayer	Before	2020 and 2021	2022 onward
Corporate and permanent establishment	25%	22%	20%
Listed entities – minimum of 40% of its shares traded in the IDX and fulfilled certain requirements	20%	19%	17%

Taxes on digital business activity

- Value-added taxes
 - Utilization of intangible taxable goods or taxable services from outside the Customs Area through the PMSE (trading through electronic system) is subject to 10% VAT. Offshore sellers, offshore service providers, offshore PMSE and/or local PPMSE (providers of the electronic communication facilities), can be appointed by the Minister as VAT collectors.
- Electronic Transaction Tax (ETT)
 - ETT is imposed on the sale of goods and/or services from outside of Indonesia through PMSE. Offshore sellers, offshore service providers and offshore PMSE meeting the significant economic presence criteria will be subjected to the ETT in Indonesia.
 - The above parties can appoint an agent or representative in Indonesia to fulfil the income tax or ETT obligations.
 - Significant economic presence criteria (the implementing regulation is yet to be issued) includes:

- Consolidated gross revenue of the group up to certain amount
- Sales in Indonesia up to certain amount
- A certain number of active users in Indonesia

Taxes related to climate change or sustainability

- No changes are currently expected.

VAT/GST or sales taxes

- Accelerated VAT refunds (preliminary refund without audit) are available as an incentive. With the Omnibus Law, the right to credit input VAT has somewhat been relaxed.

Taxes on wages and employment

- No changes are currently expected.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- At this stage, the Government is focused on overcoming the impact of the COVID-19 crisis for the people at large. Simultaneous regional elections were complete by early December 2020.

2.8 Names of current tax policy and tax administration leaders

- Sri Mulyani, Minister of Finance
- Suryo Utomo, Director General of Taxes

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

Tax stimulus in response to the COVID-19 crisis

- The Indonesian Government has issued various measures in response to the COVID-19 pandemic, which largely aim to support the Indonesian economy. Among the stimulus measures, a key revenue raising initiative enables the Indonesian Tax Authority to commence the collection of tax revenue from foreign businesses operating in the digital economy in Indonesia.

- Business tax
 - A CIT rate reduction from 25% to 22% for tax years 2020 and 2021 and to 20% for tax year 2022 and onward. Qualifying listed Indonesian companies are entitled to an additional three-percentage-point reduction (CIT rate of 19% for tax years 2020 and 2021 and 17% for tax years 2022 onward).
- VAT
 - Advance VAT refunds of up to IDR 5 billion (US \$330,000) are available, without causing an automatic tax audit, for the certain tax period for the following entities:
 - Companies registered under certain business sector codes
 - Companies registered as KITE status
 - Certain qualified bonded zone organizers or enterprises
 - To receive this benefit, the taxpayer is required to elect the refund option in its monthly VAT return.
- General tax provisions and procedures
 - Extension of time for tax objection submissions, and completion of tax refund, tax objection and administrative penalty waiver/relief applications for any due date which falls within the “force majeure” period

Indonesia

- ▶ Digital taxes
 - ▶ ETT is imposed on the sale of goods and/or services from outside of Indonesia through PMSE. Offshore sellers, offshore service providers and offshore PMSE meeting the significant economic presence criteria will be deemed subject to the ETT.
- ▶ VAT on digital goods and services
 - ▶ Utilization of intangible taxable goods and/or taxable services from outside the customs area through the PMSE is subject to 10% VAT.
- ▶ Job Creation Law
 - ▶ The Indonesian President signed the Job Creation Law on 2 November 2020, which revises more than 70 laws impacting investment and industry, taxation, health, land, limited liability companies, environment and human resources. Implementing regulations are expected to be issued within three months and should provide more clarification of the changes. On tax matters, the law governs, among other things, the following:
 - ▶ Income tax exemptions for foreign-sourced income earned by qualifying expatriate tax residents
 - ▶ Income tax exemptions for dividends and certain foreign-sourced income derived by tax resident
 - ▶ Interest WHT reduction
 - ▶ The interest WHT rate reduced from the current statutory rate of 20%; implementing regulations will provide the new rate
 - ▶ New VAT treatment for certain goods
 - ▶ Goods under consignment arrangements and in-kind contributions made in exchange for shares are no longer subject to VAT at 10%.
 - ▶ Coal mining products are now subject to VAT at 10%.
 - ▶ Broadened ability to claim input VAT
- ▶ Relaxation for input VAT to be creditable, provided certain conditions are satisfied
- ▶ Penalties for tax liabilities and interest for tax overpayments restructured
 - ▶ The Job Creation Law introduces (i) reduced and streamlined tax penalties and (ii) an interest reward for tax overpayments to promote voluntary compliance, where the interest is no longer flat of 2% per month but will be floated.
- ▶ Tax holiday incentive and provides guidance for 300% R&D super deduction
 - ▶ Indonesia issued new regulations for the tax holiday incentive on 18 September 2020, and on 9 October 2020 implemented the 300% super deduction incentive for R&D activities. The regulations are effective from 8 October and 9 October 2020, respectively.
- ▶ New Stamp Duty Law
 - ▶ A new Stamp Duty Law No. 10 Year 2020 has been issued in response to, among other things, technology and communications developments as well as for the needs of the digital era, effective 1 January 2021. The amount of stamp duty is now IDR 10,000, up from the previous duties of IDR 3,000 or IDR 6,000.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Implementing regulations for Job Creation Law and Stamp Duty Law

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Directorate General of Taxes will take an aggressive approach toward the counseling process 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 conducting a tax audit, if the response from the taxpayer is considered unsatisfactory.

3.2 Key enforcement developments seen in 2020

- ▶ Transfer pricing
- ▶ Usage of big data owned by the tax authority
- ▶ Tax on digital goods and services
- ▶ VAT compliance and administration

3.3 Likely enforcement developments in 2021

- ▶ Tax on digital economy

3.4 Top tax audit issues in 2021

	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 loss compensation	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	Digital tax	Aggressively pursuing tax revenue by the tax office, effective 1 July 2020
5	SP2DK	Finding potential additional tax collection from taxpayers through counseling mechanism

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify): We have seen a renewed focus on certain types of expenditures; for example, legal fees and financing fees, as well as the calculation of available subscribed capital.	<input type="checkbox"/>	<input type="checkbox"/>



Iraq

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 25 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35% for oil and gas sector	35% for oil and gas sector	–
	15% for all other sectors	15% for all other sectors	
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	15% – top rate	15% – top rate	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	N/A (only applicable on very limited services)	N/A (only applicable on very limited services)	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Attracting foreign investments
- ▶ Government budget
- ▶ Collecting tax revenue
- ▶ Compliance and policy reform

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
4. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
6. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
7. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
10. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- No significant changes are expected.

Taxes on digital business activity

- No significant changes are expected.

Taxes related to climate change or sustainability

- No significant changes are expected.

VAT/GST or sales taxes

- No significant changes are expected.

Taxes on wages and employment

- No significant changes are expected.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- There are currently no expected changes to the existing laws.

2.8 Names of current tax policy and tax administration leaders

- Shakir Mahmoud Al-Zubaidy, Director General of the General Tax Authority

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- Introduction of tax decisions and instructions regarding the tax audit process and PIT regulations
- Extension of tax filing deadlines

2.10 Pending tax proposals or consultations

Proposals:

- N/A

Consultations:

- N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- Extension of tax filing deadlines

3.3 Likely enforcement developments in 2021

- None confirmed

3.2 Key enforcement developments seen in 2020

- None confirmed

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	
2	Tax losses	
3	Tax refunds	
4	Interest deductions	
5	Indirect taxes	

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Ireland

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 11 January 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	12.5%	12.5%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	55% (self-employed workers)	55% (self-employed workers)	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	23%	21% (until 28 February 2021)	-8.7% (temporary reduction – COVID-19 measure)

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Introduction of measures to support businesses affected by the COVID-19 pandemic
- ▶ Continuation of measures to support businesses in respect of BREXIT
- ▶ Continuation of climate and environmental measures, such as the increase in carbon tax, to meet the climate action targets by 2030
- ▶ Introduction of anti-avoidance measures as required by the EU ATAD, specifically an amendment to exit tax legislation – it is expected that EU ATAD compliant interest limitation rules will be introduced in 2021 and applicable from 1 January 2022

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No changes in the corporation tax rate of 12.5% are expected,

Taxes on digital business activity

- ▶ Work will take place in 2021 on the development of a tax credit for the digital gaming sector, with a view toward supporting qualifying activity from January 2022 onward.

Taxes related to climate change or sustainability

- ▶ Further changes are likely in order to meet the climate action targets by 2030.

VAT/GST or sales taxes

- ▶ VAT rate for hospitality sector has been temporarily reduced from 13.5% to 9% until 31 December 2021.
- ▶ The reduction for the VAT standard rate from 23% to 21% in effect until 28 February 2021.

Taxes on wages and employment

- ▶ No changes are expected.

Ireland

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

None that we are aware of for now.

2.7 Political landscape

- ▶ Ireland's headline GDP for 2020 is on course to grow by 4% or more, which would make Ireland the fastest growing economy in the world.
- ▶ The Government has borrowed a vast amount of money very cheaply during the COVID-19 pandemic to finance support measures.
- ▶ The Central Bank has reported that families' savings have increased.
- ▶ The COVID-19 crisis and the management of the health service will dominate the agenda for the next year.
- ▶ BREXIT will still be an important factor of future political decisions.

2.8 Names of current tax policy and tax administration leaders

- ▶ Mr. Paschal Donohoe TD, Minister for Finance
- ▶ Mr. Michael McGrath TD, Minister for Public Expenditure and Reform
- ▶ Mr. Niall Cody, Revenue Chairman

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Increase revenue by promoting voluntary compliance backed up by audits.
- ▶ An assessment is raised if the Revenue believes tax has been underreported.
- ▶ Significant interest charges and penalties can apply to underpayments.
- ▶ Criminal sanctions are pursued where tax fraud is believed to have occurred.
- ▶ A cooperative compliance framework is in place for large companies.

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Increased carbon tax
- ▶ Modernization of Irish transfer pricing provisions in line with OECD standards
- ▶ Introduction of EU Mandatory Disclosure Regime
- ▶ Introduction of anti-hybrid mismatch rules

2.10 Pending tax proposals or consultations

Proposals:

- ▶ N/A

Consultations:

- ▶ ATAD Implementation Article 4 Interest Limitation

3.2 Key enforcement developments seen in 2020

- ▶ Source: Revenue Headline Results for 2020
- ▶ 599,530 – Audit and compliance interventions completed
- ▶ 426 – Cases published with court-imposed fines or penalties
- ▶ 122 – Settlements/determinations published
- ▶ 21 – Serious evasion and fraud convictions
- ▶ 420 – Summary convictions (including non-filers)
- ▶ 25,312 – Cases of debt enforcement
- ▶ 22,981 – Customs/excise detections/seizures
- ▶ 104 – Avoidance cases settled

3.3 Likely enforcement developments in 2021

- ▶ Likely to be similar to 2020

Ireland

3.4 Top tax audit issues in 2021

	Issue name	Description
1	COVID-19 support payments	
2	BREXIT-related custom duties	
3	Transfer pricing	

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Jerusalem Old City at Night, Israel

Israel

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 3 March 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	23%	23%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	According to annual income: <ul style="list-style-type: none"> ▶ Up to ILS 75,480 - 10% ▶ ILS 75,480 - ILS 108,360 - 14% ▶ ILS 108,361 - ILS 173,880 - 20% ▶ ILS 173,881 - ILS 241,680 - 31% ▶ ILS 241,681 - ILS 502,920 - 35% ▶ ILS 502,921 - ILS 647,640 - 47% ▶ ILS 647,641 and above - 50% 	According to annual income: <ul style="list-style-type: none"> ▶ Up to ILS 75,480 - 10% ▶ ILS 75,480 - ILS 108,360 - 14% ▶ ILS 108,361 - ILS 173,880 - 20% ▶ ILS 173,881 - ILS 241,680 - 31% ▶ ILS 241,681 - ILS 502,920 - 35% ▶ ILS 502,921 - ILS 647,640 - 47% ▶ ILS 647,641 and above - 50% 	–

	2020	2021	% change
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	17%	17%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ COVID-19

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
4. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
7. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
9. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
14. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



Israel

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No change expected

Taxes on digital business activity

- ▶ No change expected

Taxes related to climate change or sustainability

- ▶ The Israel Tax Authority issued a draft of the transfer pricing report based on the BEPS. The main issues discussed in the draft are: local file, master file, and inter-state report. It should be noted that this is only a draft circular.

VAT/GST/sales taxes

- ▶ No change expected

Taxes on wages and employment

- ▶ No change expected

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ On 31 March 2021, there will be an election to the 24th parliament. This will be the fourth election in the last two years.

2.8 Names of current tax policy and tax administration leaders

- ▶ Mr. Eran Yaakov, Israel Tax Authority Director

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Grants were given to companies and individuals in accordance with meeting certain conditions, such as returning employees to work, and financial support was provided for the self-employed.
- ▶ There is a temporary provision allowing a deduction for tax purposes for double depreciation under any law in respect of equipment purchased between 1 September 2020 and 30 June 2021.

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ In general, the Israel Tax Authority is willing to charge taxes in a balanced manner.
- ▶ The tax assessors usually conduct professional discussions during the tax audit. However, in certain cases, they can use their authority to levy a fine on taxpayers and even threaten or use criminal sanctions.

3.2 Key enforcement developments seen in 2020

- ▶ N/A

3.3 Likely enforcement developments in 2021

- ▶ N/A

3.4 Top tax audit issues in 2021

	Issue name	Description
1	DEMPE	The Israel Tax Authority often focuses on DEMPE issues, including location of people and IP.
2	Transfer pricing - costs	Two recent Supreme Court rulings determined that companies that are remunerated on a cost-plus basis should include in their income calculation the costs related to stock-based compensation.

Israel

3	Transfer pricing methodology	The Israel Tax Authority challenges taxpayers with respect to their chosen TP 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. The Israel Tax Authority is expected to perform higher scrutiny regarding the profit split model. In addition, the Israel Tax Authority has published two tax circulars regarding appropriate TP methods for distribution, marketing, and sales activities by MNEs in the Israeli market, as well as specific profitability ranges for certain transactions.
4	Change in business model	It is common for multinational companies to change the business model of the Israeli subs after completing the purchase of an Israeli startup – this usually includes transfer of the IP outside of Israel (including FAR – function, assets and risks).
5	Transfer pricing – IP migration	Exposures from post-acquisition IP migrations: Almost any post-acquisition restructuring that involves a change to the existing IP or business model is often targeted by the Israel Tax Authority with specific focus on capital gains and IP valuation.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Italy

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 29 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	24% (except for banks and other financial entities subject to higher 3.5% tax rates) According to 2020 budget law, companies operating under a public concession in certain business (motorways, railways, airports, port terminals) are subject to a 3.5% higher rate for FY 2019, 2020 and 2021	24% (except for banks and other financial entities subject to higher 3.5% tax rates) According to 2020 budget law, companies operating under a public concession in certain business (motorways, railways, airports, port terminals) are subject to a 3.5% higher rate for FY 2019, 2020 and 2021	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	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 declared	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 declared	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	22% (standard VAT rate)	22% (standard VAT rate)	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Introduction of stimulus measures aimed at increasing the liquidity available to enterprises impacted by the COVID-19 crisis through recognition of tax credits, incentives for equity injection and relief for business integration
- ▶ Extension of tax measures aimed at supporting the country's economic growth through allowance of tax credits up to 110% of expenses incurred for the energy requalification works on immovable properties
- ▶ Extension and increase 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
- ▶ Entry in force (running from FY 2020) of unilateral digital service tax
- ▶ Implementation of EU Directive 2018/822 (DAC 6)

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization (No specific thin capitalization rules, but incentives for equity injections)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate Note: deferral of sugar tax and plastic tax	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base Note: deferral of sugar tax and plastic tax	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

The most relevant corporate tax measures contained in the 2021 Budget Law relate to:

- ▶ Extension to 31 December 2022 of a 110% tax credit on certain expenses incurred for the energy requalification works on immovable properties
- ▶ Extension of the tax credit for the purchase of new tangible assets, with increased benefit for high-tech assets

- ▶ Extension to 2022 and substantial increase of tax credit for R&D expenses and innovation and design activities; increased benefits for enterprises located in the southern Italy regions
- ▶ Revamping of a special regime to step-up business assets by paying a 3% substitute tax on stepped-up amounts
- ▶ Possibility to convert DTA derived from tax losses and Notional Interest Deduction into tax credits, in the contexts of business combination transactions, through the payment of a commission equal to 25% of DTA to be converted

Italy

Taxes on digital business activity

- ▶ The 2020 Budget Law introduced a tax applicable to the provision of digital services (Italian digital services tax) effective as of 1 January 2020.
- ▶ Although the payment of the DST for FY 2020 is due in February 2021, Italian tax authorities have not yet enacted official provisions for the payment and filing; a draft regulation is currently under public consultation for comments by taxpayers and operators.
- ▶ The Italian DST is a 3% charge to be applied to the revenues resulting from the (non-intragroup) 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 standalone or at group level – meeting both of the following conditions:
 - ▶ The total amount of worldwide revenues for the relevant financial year is at least €750m.
 - ▶ 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 €5.5m.
- ▶ A set of specific exclusions are set forth, in accordance with the proposed DST EU Directive (i.e., services connected to making a multisided digital platform available to users, which are not deemed “intermediation services”).

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

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 2021 Budget Law has postponed the application of the new tax to 1 July 2021.
- ▶ The tax is levied on products, fully or partially made in plastic, aimed to be utilized for a single-use packaging, without the possibility to be reutilized in their commercial life.
- ▶ The plastic tax amounts to €0.45 per Kilo of plastic and is due when the products are introduced in the Italian market.

VAT/GST/sales taxes

- ▶ The increase of VAT rate expected under the 2020 Budget Law in the lack of substitutive financial resources (standard rate to 25% and reduced to 12% starting from 2021) has been abolished under COVID-19 measures.
- ▶ The sale of vaccines and other medical devices to be used against COVID-19 are exempted up to 31 December 2022.

Sugar tax

- ▶ The 2020 Budget Law had 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 per the 2021 Budget law the application is postponed to 1 January 2022.

Taxes on wages and employment

- ▶ None

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ In August 2019, the Government led by Mr. Giuseppe Conte and supported in the Parliament by the Parties Lega and 5 Stelle resigned.
- ▶ A new Government under the majority Italian Labor Party (Partito Democratico) and 5 Stelle Party was elected under the same leadership of Mr. Giuseppe Conte.

2.8 Names of current tax policy and tax administration leaders

- ▶ Giuseppe Conte, Prime Minister
- ▶ Roberto Gualtieri, Minister of Economy
- ▶ Ernesto Maria Ruffini, Head of the Italian Revenue Agency

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Introduction of unilateral digital service tax
- ▶ Introduction of stimulus measures aimed at increasing the liquidity available to enterprises impacted by the COVID-19 crisis through recognition of tax credits, incentives for equity injection and relief for business integration
- ▶ Introduction of tax measures aimed at supporting energy requalification works on immovable properties
- ▶ Revamping of tax credits for companies investing in R&D, digitalization, design and high-tech assets

2.10 Pending tax proposals or consultations

- ▶ **Proposals:** N/A
- ▶ **Consultations:** A public consultation on the implementation measures of digital service tax is currently ongoing

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The approach to tax enforcement may vary depending on the tax office in charge of the taxpayer relationship.
- ▶ The approach in tax audit can become more aggressive, especially when the investigation is conducted by Italian tax police.
- ▶ In order to improve the relationship between corporations and tax authorities, the tax system is looking for a wider implementation of a cooperative compliance regime, currently available only for taxpayers with a turnover higher than €1 billion or under specific circumstances.

3.2 Key enforcement developments seen in 2020

- ▶ The tax audit activities have been very limited in 2020 due to the COVID-19 environment.

3.3 Likely enforcement developments in 2021

- ▶ In 2021, an increase is expected in tax audit activities and an increasing use of digital audits, also due to the cross-information deriving from the mandatory e-invoicing system and from the data available in the electronic registers.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	R&D tax credit and other stimulus measures	Italian tax authorities will check the existence of the subjective and objective conditions related to the R&D tax credit and other stimulus measures introduced during the COVID-19 emergency.
2	Transfer pricing	Tax audits will focus on related-party cross-border transactions .
3	Permanent establishment	The tax authorities will focus on determining the existence of a PE.
4	WHT	The tax auditors will challenge the beneficial ownership clause for the Interest and Royalties Directive and for double tax treaty relief, as well as the correct application of the Parent-Subsidiary Directive.
5	Leverage transactions	Italian tax audit may focus on transactions leading to a debt pushdown at the level of the Italian subsidiary.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Japan

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	29.74% ¹ (Regular effective corporate income tax rate, including local corporate income taxes)	29.74% (Regular effective corporate income tax rate, including local corporate income taxes)	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	45% ² (In addition, local individual income tax of 10% is levied)	45% (In addition, local individual income tax of 10% is levied)	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	10% (8%) (The national rate of 7.8% and local rate of 2.2%)	10% (8%) (The national rate of 7.8% and local rate of 2.2%)	–

¹ The top national marginal tax rate is 23.2%.

² This is the top national marginal tax rate.

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Enhance corporate investment toward digital transformation and carbon neutral with a view to achieve the transformation of economic structure and favorable business cycle
- ▶ Enhance the business restructuring of small – and medium – sized enterprises via the aggregation of business management resources
- ▶ Support the economy and demand of households

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Enhance investment toward digital transformation and becoming carbon neutral
- ▶ The ceiling of NOL credits to increase up to 100% for a company with a business plan approved by the Government
- ▶ Enhance the business restructuring of small – and medium-sized enterprises via the aggregation of business management resources; reserves for merger-and-acquisitions losses tax deductible

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ Tax measures to enhance investment toward carbon neutrality
- ▶ Investment for carbon neutrality according to a business plan approved by the Government can be subject to special depreciation or tax credits

VAT/GST or sales taxes

- ▶ None

Taxes on wages and employment

- ▶ Extension of tax credits for housing mortgages
- ▶ Increase tax responsibility on severance income for employment with a duration of less than five years

Japan

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The ruling parties announced the outline of a 2021 tax policy agenda in December 2020.

2.8 Names of current tax policy and tax administration leaders

- ▶ Taro Aso, Ministry of Finance
- ▶ Tetsuo Kabe, Commissioner of the National Tax Agency

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Enhance 'open innovation': up to 25% of investment in innovative enterprises treated as deductible expenses

- ▶ Revise consolidated filing system: shift from the current consolidated filing system to a new group aggregation system in 2022
- ▶ Restriction on a tax avoidance scheme combining dividend payments from a subsidiary and the disposal of the shares of the subsidiary

2.10 Pending tax proposals or consultations

Proposals:

- ▶ N/A

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ New tax audits halted between April and September 2020; in October 2020, the National Tax Agency (NTA) resumed tax audit activities.
- ▶ The NTA focuses on restricting cross-border tax avoidance and high net worth individuals.
- ▶ At the same time, the NTA enhanced tax corporate governance via a cooperative approach toward large enterprises.

3.2 Key enforcement developments seen in 2020

- ▶ Previously, ordinary corporate tax audits and TP audits were conducted separately.
- ▶ However, the NTA has combined these audit programs and consequently, TP audits are now conducted as part of the corporate tax audit.
- ▶ As a result, more taxpayers may be subject to a TP audit.

3.3 Likely enforcement developments in 2021

- ▶ For on-site audit activities, the NTA will take into account the circumstances of taxpayers.
- ▶ The NTA will increasingly target high-risk taxpayers, including those undertaking e-commerce or cross-border transactions with aggressive tax position.

Japan

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	Always top target for tax audits
2	CFC issues	New CFC rules applicable for business years starting after April 2018.
3	Indirect taxes	General consumption tax rate increased to 10% in October 2019.
4	CBC reports and DAC6 reports	Depending on the data that will be exchanged and certain risk detection parameters, these reports can spur scrutiny.
5	TP headquarter and management services transactions	Apart from TP rules, there is a tax provision that a donation to an overseas associated enterprise is not deductible.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Ancient Jerash ruins, Jordan

Jordan

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 25 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35% on the banking sector 24% of financial insurance and intermediary services sector; and 20% on all other sectors Industrial sector: 16% Additional national contribution tax is applicable	35% on the banking sector; 24% of financial insurance and intermediary services sector; and 20% on all other sectors Industrial sector: 17% Additional national contribution tax is applicable at varying rates, as follows: ▶ 7% of income generated by mining companies ▶ 4% of income generated by finance, financial leasing and financial brokerage companies ▶ 3% of income generated by banks and electricity generation and distribution companies ▶ 2% of income generated by telecommunication, insurance and reinsurance companies ▶ 1% of income generated by all other types of entities	–

	2020	2021	% change
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30% on amounts exceeding JOD 1m	30% on amounts exceeding JOD 1m	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	16%	16%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Attracting foreign investments
- ▶ Government budget
- ▶ Fight against tax fraud and tax evasion
- ▶ Modernizing local laws
- ▶ Influence of international regulations, such the CRS, BEPS, BEPS 2.0 and double tax treaties

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
6. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
7. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
8. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.,	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
11. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
16. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No significant changes are expected.

Taxes on digital business activity

- ▶ No significant changes are expected.

Taxes related to climate change or sustainability

- ▶ No significant changes are expected.

VAT/GST or sales taxes

- ▶ No significant changes are expected.

Taxes on wages and employment

- ▶ No significant changes are expected.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ There are no current expected changes to the existing laws. However, this may change.

2.8 Names of current tax policy and tax administration leaders

- ▶ Hussam Abu Ali, Director General of the Income and Sales Tax Department

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Introduction of tax decisions and instructions to explain and support the income tax law

- ▶ Extension of tax filing deadlines and easing of the tax filing process

2.10 Pending tax proposals or consultations

- Proposals:**
- ▶ N/A
- Consultations:**
- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ 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 Key enforcement developments seen in 2020

- ▶ More efficient implementation and application of digital technology to support taxpayers with annual corporate and income tax filings and other relevant requests

3.3 Likely enforcement developments in 2021

- ▶ No developments have been confirmed so far.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	
2	Treaty benefits	
3	Tax refunds	
4	Digital taxes	Onshore vs. offshore
5	Transfer pricing	

Jordan

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Kazakhstan

[Return to Contents](#)

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This information is current as of November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20%	20%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	(a) 10% – for tax residents and nonresidents on employment income taxed by local tax agent if employee's monthly income is more than 25 times the monthly calculation index* (MCI) (approximately US\$160 for 2020) If monthly employment income does not exceed 25 MCI then effectively PIT will be 1% of taxable income (b) 20% for tax nonresidents (non-employees) on Kazakh source income	(a) 10% – for tax residents and nonresidents on employment income taxed by local tax agent if employee's monthly income is more than 25 times the MCI* (approximately US\$160 for 2020) If monthly employment income does not exceed 25 MCI then effectively PIT will be 1% of taxable income (b) 20% for tax nonresidents' non-employment Kazakh source income	Effectively, the PIT % will be changed only for employees with monthly employment income less than 25 MCI

	2020	2021	% change
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	12%	12%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Government seeking to increase revenues and attract foreign investments to Kazakhstan
- ▶ Improvement of current tax legislation
- ▶ Digitalization of tax administration in Kazakhstan

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Generally corporate income tax rate is the same as in previous year.
- Income recognition and deductions will also remain the same.

Taxes on digital business activity

- No change foreseen for 2021

Taxes related to climate change or sustainability

- N/A

VAT/GST/sales taxes

- No changes

Taxes on wages and employment

- Due to COVID-19, a “0” tax rate adjustment coefficient for payroll taxes has been established for certain categories of taxpayers from 1 April 2020 until 1 January 2021.
- Implementation of Obligatory Pension Fund Contributions at 5%, paid by employer in addition to what is paid now by employees only, was moved from 1 January 2021 to 1 January 2023.
- Starting from 1 January 2021, the tax rate of obligatory social medical insurance contribution to be paid by employees has been increased from 1% to 2%.
- Starting from 2021, gradual implementation of the universal declaring will come into force, which will oblige individuals to disclose the detailed information on income and assets in the personal declaration.
- This will not increase the tax responsibility for individuals per se but is aimed at finding potential taxable income derived from the reportable assets.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ No significant changes
- ▶ Political stability

Tax administration:

- ▶ Mr. Marat Sultangaziev, Head of State Revenue Committee of the Ministry of Finance

2.8 Names of current tax policy and tax administration leaders

Tax policy:

- ▶ Mr. Ruslan Dalenov, Minister of National Economy

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ No changes

2.10 Pending tax proposals or consultations

Proposals:

- ▶ None currently known

Consultations:

- ▶ Consultations on new tax legislation are available via:
 - ▶ The Ministry of Finance publishes draft tax legislation on its website.

- ▶ Public discussions of the draft tax legislation are organized by relevant state authorities with the National Chamber of Entrepreneurs "Atameken."

- ▶ Based on the publicly available information as of the date above, we are not aware of any draft tax policy suggestions or legislation.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

Certain measures envisaged by tax law, which can be viewed as enhanced tax enforcement practices, are:

- ▶ Risk-based approach for selection of taxpayers for tax audits
- ▶ Simplified VAT refund procedures for certain categories of taxpayers
- ▶ Introduction of horizontal monitoring
- ▶ Expected introduction of e-audit 2022
- ▶ Tax law rules, such as:
 - ▶ An administrative fine and late payment interest should not be assessed upon consideration of an appeal against tax assessment as a result of a 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 reissued.
 - ▶ Any ambiguities and outstanding issues in tax legislation should be interpreted in favor of the taxpayer in case of appeal.
- ▶ The principle in tax law that 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, which votes tax cases in the pre-judicial stage of tax appeals, to provide a fair appeal consideration process with the participation of the representatives of the national business association and allowing minimization of a conflict of interest (as opposed to the historical approach to the pre-court tax appeal at the level of the tax administration state authority)

Notwithstanding the above measures, there are some tax enforcement practices and regulations in Kazakhstan that may require further enhancement:

- ▶ Tax audits tend to use full documentary coverage method and can be lengthy and burdensome, especially for large taxpayers.

- ▶ Code on Administrative Violations envisages significant administrative fines on tax assessments as a result of tax audits.
- ▶ Tax Code envisages significant late payment interest on additional tax assessments.
- ▶ Kazakhstan Criminal Code currently envisages criminal liability for a person responsible for tax filings (e.g., general director, chief accountant) for tax avoidance above a certain threshold amount (the challenge being that in practice the potential criminal proceedings may be initiated to check whether there was a fact of avoidance).
- ▶ Significant state duty for court appeals – the cost can be prohibitive for some taxpayers.
- ▶ Non-favorable practice of tax appeals in courts – there are no specialized tax courts in Kazakhstan.
- ▶ The freezing of bank account(s) has been used as a forced tax collection measure.

3.2 Key enforcement developments seen in 2020

- ▶ E-invoicing, virtual warehouse and "VAT account" for VAT purposes

3.3 Likely enforcement developments in 2021

- ▶ From July 2020, Kazakhstan introduced a pilot project on horizontal monitoring of taxpayers.
- ▶ Horizontal monitoring is a tax control regime that provides for the exchange of information and documents between the authorized body and the taxpayer, which is based on the principles of cooperation, justified trust, legality, transparency and expanded information interaction.

Kazakhstan

3.4 Top tax audit issues in 2021

	Issue name	Description
1	VAT refunds	Generally, VAT refund audits are conducted prior to refund to the taxpayer filing the application for refund in the quarterly VAT return.
2	Transfer pricing	Kazakhstan transfer pricing legislation differs from OECD Guidelines, with heavy reliance on certain specified price sources and documentary support. Multiple cases of tax assessment as a result of TP adjustment are observed.
3	Invalid transactions qualifications	We've recently observed cases of the tax authorities making tax assessments as a result of certain transactions qualified as invalid.
4	Ambiguities in tax law	Generally, Kazakhstan tax legislation may contain ambiguities and unclear rules, which contribute to the majority of the tax audit assessments for taxpayers acting in good faith.
5	Disallowance of deduction	Challenging deductions for purchase of goods, works, services from suppliers absent at the place of registration, recognized as false enterprises or bankrupt, registration recognized as invalid

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





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South Korea

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EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020		2021		% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Tax base of corporate income		Tax rate		–
	200 million won or less		10% of tax base		
	200 million–20 billion won		20 million won + 20% of the excess over 200 million won		
	20 billion–300 billion won		3.98 billion won + 22% of the excess over 20 billion won		
	Over 300 billion won		65.58 billion won + 25% of the excess over 300 billion won		
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Taxable income	Tax rate	Taxable income	Tax rate	7% increase for taxable income over 500 million
	12 million won or less	6% of tax base	12 million won or less	6% of tax base	
	1,246–million won	0.72million won + 15% of the excess over 12million won	12–46 million won	0.72 million won + 15% of the excess over 12million won	
	46–88 million won	5.82 million won + 24% of excess over 46 million won	46–88 million won	5.82 million won + 24% of excess over 46 million won	
	88–150 million won	15.90 million won + 35% of the excess over 88 million won	88–150 million won	15.90 million won + 35% of the excess over 88 million won	

	150-300 million won	37.6 million won + 38% of the excess over 150 million won	150-300 million won	37.6 million won + 38% of the excess over 150 million won	
	300-500 million won	94.6 million won + 40% of the excess over 150 million won	300-500 million won	94.6 million won + 40% of the excess over 150 million won	
	Over 500 million	174.6 million won + 42% of the excess over 500 million won	500 million–1 billion won	174.6 million won + 42% of the excess over 500 million won	
			Over 1 billion won	384.6 million won + 45% of the excess over 1 billion won	
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	VAT rate is 10%				–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The Ministry of Economy and Finance has decided to expand tax benefits for local businesses to revitalize the economy amid the ongoing COVID-19 crisis; in particular, it plans to provide tax deductions for companies making investments to refurbish their facilities to encourage more capital spending and new hiring.
- ▶ A tax revision proposal announced and confirmed in July 2020 aims to achieve the followings goals:
 - ▶ Coping with COVID-19 and economic recovery and support: activating investment and consumption
 - ▶ Increasing the inclusiveness and fairness of economic society: providing job opportunity and support for people
 - ▶ Reasonably change the tax system and expand the taxation base: providing protection for taxpayers' rights and building a reasonable tax system

2.2 Tax changes in 2021

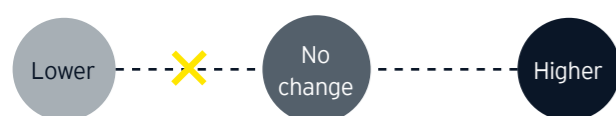
Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Top marginal individual income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
2. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
3. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ In order to promote investment, the following changes were announced:
 - ▶ Redesign the nine facilities investment tax incentives into one consolidated tax incentive
 - ▶ Adopt a “negative approach” to corporate investment tax incentives (an all-inclusive system with certain exceptions)
 - ▶ Give extra tax incentives according to the investment growth from the investment average for the last three years
 - ▶ Offer higher tax deduction for investments in new growth engines, including those in the Korean New Deal
 - ▶ Allow investment tax credits to be carried over for 10 years, an increase from five years
- ▶ Increase R&D support: provide tax credits for SMEs’ R&D of intellectual property
- ▶ Allow tax deduction for losses to be carried over for 15 years, an increase from 10 years
- ▶ Revise tax regulations on trustees: allow specified trustees to be responsible for corporate tax

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ The government proposed that new kinds of technology underlying the government’s digital and green new deal project would be added to the existing list of 223 kinds of technology in 12 different categories eligible for the investment tax credit.
- ▶ The government announced in December 2020 that it will achieve carbon neutrality by 2050 by realigning the carbon emission tax scheme and nurturing ecofriendly automobile industries.
- ▶ However, when it comes to the introduction of new carbon tax rules, immediate action is still premature.

VAT/GST or sales taxes

- ▶ Revise tax regulations on trustees: make trustees responsible for VAT (while making property owners responsible for the comprehensive real estate holding tax)

- ▶ Expand simplified VAT: allow small businesses of which the revenues are 800 million won or less a year to pay simplified VAT, an increase from 480 million won a year and around 230,000 businesses to benefit from it, and give a VAT exemption to businesses of which the revenues are 480 million won or less a year, an increase from 300 million won a year and around 340,000 businesses to benefit from it
- ▶ Lower security transaction tax by 0.02 percentage points in 2021 and again by 0.08 percentage points in 2023

Taxes on wages and employment

- ▶ Introduce a new income tax rate for over 1 billion won and impose 45% on the income exceeding that amount
- ▶ Redesign the tax incentive provided to foreign engineers (50% income tax exemption for five years) by expanding qualified institutions and applying stricter qualification standards
- ▶ Introduce a tax on consolidated gains from financial investment in 2023

2.5 In 2021, what do you believe your jurisdiction’s primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other (please specify): the government sold deficit-covering bonds to finance supplementary budgets

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Ongoing consolidated fiscal deficit and country's debt has been enlarged due to the COVID-19 pandemic; the country's debt-to-GDP ratio has risen due to aggressive fiscal spending in response to the pandemic, but a rise in the debt ratio is a global trend.
- ▶ The country's debt is likely to reach a record 846.9 trillion won (\$765.4 billion) this year as the government sold deficit-covering bonds to finance four supplementary budgets.
- ▶ The nation's debt-to-GDP ratio reached an all-time high of 43.9% in 2020, up 6.2 percentage points from the end of 2019. It is expected to reach 51.2% in 2022, 55% in 2023 and 58.6% in 2024, according to the Ministry of Economy and Finance.
- ▶ Due to ongoing controversies and criticism on financial risk management, the Korean Government introduced the so-called "fiscal soundness rules" to bolster fiscal soundness and impose risk management limits to the nation's fiscal spending.
- ▶ The new rules announced in October 2020 aim to make sure the country's mid-term fiscal soundness by keeping the fiscal spending within a designated percentage of gross domestic product – sovereign debt will have to remain at 60% or less of GDP while the consolidated fiscal balance would have to remain above minus 3% in 2025.

- ▶ Should the fiscal deficit exceed the given limit, the government will be obligated to draw up measures to provide fiscal soundness

2.8 Names of current tax policy and tax administration leaders

- ▶ Jae-Hyun Lim, Head of Tax Policy Bureau

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Reduction of securities transaction tax: 0.5% securities transaction tax rate will be reduced to 0.45% for over-the-counter and unlisted security transactions.
- ▶ Transparency of nonprofit charity organizations to establish a health donation culture was strengthened.
- ▶ Tax benefit for firms who invest in R&D in the government-designated 173 future growth technologies: the government will give up to a 40% tax deduction for SMEs' R&D expenditure.

2.10 Pending tax proposals or consultations

- ▶ None – tax revision proposal announced and confirmed on 22 July 2020

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ High-income and high-net-worth individual taxpayers are frequently the focus of tax enforcement efforts.

3.2 Key enforcement developments seen in 2020

- ▶ Seoul's government has already twice revised the Enforcement Decree of the Restriction of Special Taxation Act during the first half of the year to revive stalled consumption and to shore up small businesses.
- ▶ The measures included a tax reduction of up to 50% for landlords who voluntarily lowered rental fees and the exemption of value-added tax for businesses with yearly sales of 80 million won (\$67,000) or less.
- ▶ National Tax Service (NTS) reinforced its investigation on unfair real estate transactions, including gift transactions among related parties.

3.3 Likely enforcement developments in 2021

- ▶ Delaying tax audits of small and mid-sized enterprises as a support measure has been announced by the NTS.
- ▶ Measures to root out tax evasion by rich individuals and businesses is expected; to that end, the NTS division that investigates evidence of tax evasion by rich taxpayers will be reinforced.
- ▶ The tax authority will also actively make use of its financial and digital infrastructure to collect taxes from delinquent taxpayers.
- ▶ The NTS will keep monitoring irregular asset transactions among local residents and Korean citizens living abroad and take strict measures.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax evasion scheme	Taxpayers who are suspected to be involved in a tax evasion scheme
2	Extraordinary overseas payments	Taxpayers who have made extraordinary and significant overseas payments or asset transfer to overseas
3	Transfer pricing	Related transactions involving transfer pricing issues, including IP-related issues, high-value services transactions, intercompany financing transactions, etc.
4	DEMPE	DEMPE issues, including location of people and IP
5	Treaty benefits	Inappropriate application of treaty benefits

South Korea

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Kuwait

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	<ul style="list-style-type: none"> Corporate income tax on foreign companies – 15% Zakat – 1% National Labor Support Tax – 2.5% 	<ul style="list-style-type: none"> Corporate income tax on foreign companies – 15% Zakat – 1% National Labor Support Tax – 2.5% 	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A (no personal income tax in Kuwait)	N/A (no personal income tax in Kuwait)	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	N/A (no VAT, GST, sale tax being currently applicable in Kuwait)	N/A (no VAT, GST, sale tax being currently applicable in Kuwait)	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The key driver for the changes in tax policy is an increase in tax revenue to fund increased government expenditure.
- ▶ In order to increase tax revenues, the government is considering the introduction of new taxes like the VAT in the long term.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No major change is expected in 2021.
- ▶ New Executive Regulations (ERs) are expected to be issued in 2021 – the following Executive Rules, Executive Rule no. 27 (work in progress) and Executive Rule no. 28 (subcontract cost) – have resulted in some controversy in the recent past, and therefore, it is expected that the new ERs may also clarify these Executive Rules further:
 - ▶ **Executive Rule No. 27 (ER 27)** provides for the deferral of revenue and expenses to the subsequent year(s) if there is a significant mismatch between revenue and expenses in a particular year
 - ▶ *Expected change* – The Kuwait Tax Authority (KTA) has recently taken a position in some cases that the deferral of revenue and expenses is allowed only for the first year of a contract; it is expected that the KTA may issue further guidance around this in 2021.
 - ▶ **Executive Rule No. 28 (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.

- ▶ *Expected change* – There has been substantial controversy in the recent past regarding the application of this ER, it is expected that the KTA may clarify these rules further in early 2021.

Taxes on digital business activity

- ▶ N/A (no separate taxes on digital business activity)

Taxes related to climate change or sustainability

- ▶ N/A (no separate taxes on climate change or sustainability)

VAT/GST/sales taxes

- ▶ N/A (no VAT/GST/sales taxes in Kuwait; the Government is considering introducing new VAT-like taxes in the long term)

Taxes on wages and employment

- ▶ There are no personal income taxes in Kuwait.
- ▶ The Government has proposed to introduce taxes on remittance by non-Kuwaiti individuals.
- ▶ However, this is still under negotiation and is at a very preliminary stage of debate and discussion.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
- ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Recently, the Emir of Kuwait passed away and a new Emir was appointed.
- ▶ Parliamentary elections are about to be held to appoint members to the Parliament.

2.8 Names of current tax policy and tax administration leaders

- ▶ Aseel Al-Saad Al-Munifi, Undersecretary to the Ministry of Finance

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ No tax policy changes were implemented in Kuwait in 2020.

2.10 Pending tax proposals or consultations

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The KTA inspects 100% of returns.
- ▶ Tax inspection and scrutiny is documents-based.
- ▶ The KTA makes adjustments to the revenue and expenses if it is not satisfied with the documents presented

- ▶ Taxpayer responsibility for taxes and penalties due from subcontractors

▶ Agency/distributorship arrangements:

- ▶ The KTA examines the nature of the relationship between agent and principal to see whether principal may be taxable in Kuwait.

3.2 Key enforcement developments seen in 2020

- ▶ **5% Tax Retention:**
 - ▶ The KTA insists on complying with 5% retention provisions as prescribed by Kuwait tax law and Executive Regulations, the consequences of non-retention are:
 - ▶ Disallowance of entire expense in books of taxpayer

3.3 Likely enforcement developments in 2021

- ▶ The above rules will continue to be the key enforcement developments in 2021.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	N/A since the Kuwait Tax Authority inspects or scrutinizes all the companies for each year (i.e., 100% tax inspection/scrutiny).	

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Luxembourg

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 23 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	24.94% ¹	24.94%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	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 <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	17% ⁴	17%	–

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 for companies located in Luxembourg City. Furthermore, CIT is levied at a reduced rate for taxable profits up to €200,000.

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 Article 39 of the law of 12 February 1979 on value tax added, as amended.

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

According to public statements made by the Prime Minister in the context of the Speech on the State of the Nation and by the Minister of Finance in relation to the 2021 Draft Budget Law, key tax policy objectives for 2021 are:

▶ Achieve solidarity and sustainable recovery

- ▶ No general tax increases
- ▶ Focus on employee retention
- ▶ Encourage sustainable investments

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Luxembourg

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

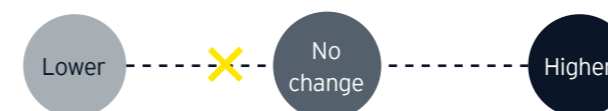
Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Introduction of a 20% real estate levy due by certain exhaustively listed investment vehicles receiving or realizing income from real estate located in Luxembourg
- ▶ Denial of deduction of interest and royalties owed by Luxembourg corporate taxpayers to associated enterprises that are corporations established in a country listed on the European Union list of noncooperative jurisdictions for tax purposes

Taxes on digital business activity

- ▶ No intention expressed so far to take any unilateral domestic measures; a global solution, negotiated and implemented at the OECD level is favored

Taxes related to climate change or sustainability

- ▶ Introduction of a carbon tax

- ▶ Reduced subscription tax rates for collective investment funds or individual compartments that invest a specific portion of their net asset value in determined sustainable economic activities

VAT/GST/sales taxes

- ▶ Annual turnover threshold to benefit from VAT franchise regime is increased from €30,000 to €35,000.

Taxes on wages and employment

- ▶ Introduction of a new profit-sharing regime, under which employers will be allowed to allocate profit-sharing bonuses to selected employees
 - ▶ These profit-sharing bonuses will, if certain conditions are met, benefit from a 50% exemption.
- ▶ Revamp of the expatriate tax regime
- ▶ Increase of professional income tax credits

Luxembourg

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate

- Individual
- VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- The Luxembourg Government is composed of three parties, the DP (Liberal Democrats), LSAP (Labor Party) and Déi Gréng (Green Party).
- Next legislative elections are scheduled for October 2023.

- Pierre Gramegna, Minister of Finance, Treasury and Budget
- Carlo Fassbinder, Director of Taxation at the Ministry of Finance

Tax administration:

- Pascale Toussing, Director of the Direct Tax Administration
- Romain Heinen, Director of the Administration in charge of registration tax, VAT and inheritance tax
- Alain Bellot, Director of the Customs & Excise Administration

2.8 Names of current tax policy and tax administration leaders

Tax policy:

- Xavier Bettel, Prime Minister

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- For financial years starting on or after 1 January 2020, the provisions of the Council Directive (EU) 2017/952 of 29 May 2017 amending Directive (EU) 2016/1164 (ATAD) as regards hybrid mismatches with third countries (ATAD 2) entered into force.
- Broadly speaking, the new provisions aim to make so that the same payments, expenses or losses are not:
 - Deducted both in the country of the payer and of the payee (double deduction)
 - Deducted in the payer's country without a corresponding inclusion for tax purposes in the recipient's country
 - Claimed by more than one of the parties involved in the transaction, in the case of relief for tax withheld at source
- The amended exit taxation regime, as introduced by the law of 21 December 2018 transposing ATAD, applied for the first time to accounting years starting on or after 1 January 2020.
- The law implementing the EU Directive on the mandatory disclosure and exchange of information on cross-border tax arrangements (DAC6) was adopted.

- Under DAC6, taxpayers and intermediaries are required to report cross-border reportable arrangements from 1 July 2020 (the reporting deadline started on 1 January 2021).
- Reports will retrospectively cover arrangements where the first step was implemented between 25 June 2018 and 1 July 2020 (the transitional period).
- The deadline for the first reporting for the transitional period, initially foreseen to be 31 August 2020, was subsequently postponed to 28 February 2021.

2.10 Pending tax proposals or consultations

Proposals:

- A draft law aimed at disallowing, under certain circumstances, the deduction of interest and royalties paid or owed by Luxembourg corporate taxpayers to associated enterprises that are corporations established in a country listed on the European Union list of noncooperative jurisdictions for tax purposes is currently being processed by Luxembourg Parliament

Consultations:

- N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- The mandatory e-filing procedure for corporate income taxes and VAT, the country-by-country notifications and reports on the cross-border exchange of information in tax matters, are some elements that allow tax authorities to assess a taxpayer's compliance with existing laws and regulations, and to improve and pursue tax enforcement measures and activities.

- There was also an increase of tax audits and tax controversy in 2020.
- Regarding VAT, the authorities progressively increased requests for the standard e-audit file called (Fichier Audit Informatisé AED, FAIA) within the scope of VAT audits.
- The same e-audit file is also increasingly requested for corporate tax audits.

3.2 Key enforcement developments seen in 2020

- Penalties are being applied more systematically by tax authorities, e.g., in case of non-filing of tax returns within a given deadline.
- It also appears that tax authorities increasingly involve directors or managers in personal liability in case of failure for a company to pay its outstanding tax debts.

3.3 Likely enforcement developments in 2021

- With the exchange of information on cross-border tax arrangements taking place in 2021, tax authorities will be provided with additional information allowing them to pursue tax enforcement measures and activities.
- The trend of increased tax audits and tax controversy is likely to continue in 2021.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Transfer pricing aspects
2	VAT deduction methods	VAT deduction methods (direct allocation vs. prorata method)
3	Deduction of expenses	Provisions disallowing deduction of payments or expenses (under interest limitation rules, anti-hybrid mismatch rules and forthcoming legislation on transactions with countries on the EU list of noncooperative jurisdictions)
4	Permanent establishments	Reinforcing controls on the existence or not of foreign permanent establishments of resident taxpayers
5	Substance	Verify if the substance of Luxembourg entities is adequate to the activities performed

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Malaysia

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 16 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	24%	24%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%	30%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	Sales tax – 5%, 10% or a specific rate for petroleum product, unless otherwise exempted Service tax – 6%, except for credit card services, which are subject to a service tax of RM25 annually	Sales tax – 5%, 10% or a specific rate for petroleum product, unless otherwise exempted Service tax – 6%, except for credit services, which are subject to a service tax of RM25 annually	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ To achieve business continuity, policy is expected to focus on accelerating investments, strengthening strategic sectors and improving access to financing.
- ▶ To drive investments to Malaysia, focus is expected to be on key sectors to make Malaysia a destination for high-value service activities (e.g., principal hub and global trading centre), improving the business environment, developing science and technology and encouraging the production of locally manufactured products.
- ▶ To achieve economic growth so all Malaysians can participate meaningfully, policy is expected to enhance job opportunities for Malaysians, modernize the labor market and invest in education and talent.
- ▶ To create a united, inclusive and equitable society, policy is expected to enhance efforts to reduce income inequality in the country, gain access to quality health care for all, enhance the transportation ecosystem, promote access to housing and promote environmental sustainability.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Malaysia

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



Malaysia

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ **Enforcement of transfer pricing rules**
 - ▶ A penalty for failure to furnish contemporaneous transfer pricing documentation was introduced.
 - ▶ The Director General of Inland Revenue (DGIR) has the power to disregard a structure in a related-party transaction.
 - ▶ DGIR has the power adjust the structure of the transaction to reflect the structure that would have been adopted by an independent person dealing at arm's length and taking into consideration the economic and commercial reality.
 - ▶ The imposition and collection of surcharges not more than 5% on total TP adjustments, on all cases whether taxable or not, was introduced.
- ▶ **New incentive scheme**
 - ▶ The Approved Incentive Scheme (AIS) is an incentive scheme for a qualifying activity prescribed by the Minister, including high-technology activity in manufacturing and service sector and any other activities that have economic benefit to Malaysia. It has been indicated that incentives proposed in the Budget 2021, such as principal hub, global trading centre, companies manufacturing pharmaceutical products and companies relocating to Malaysia, will fall under the AIS.
- ▶ From 1 January 2021, any proceedings against the government or the tax authorities by the taxpayers under any other written law shall not relieve any person from payment of any tax or any debt or other sum, for which they are or may be liable to pay.

Taxes on digital business activity

- ▶ It is proposed that the application for the remission of service tax, surcharge accrued, penalty, fee or other money payable under the Service Tax Act 2018 to be extended to a foreign registered person for service tax on digital services purposes.
- ▶ To be consistent with the treatment for bookings made directly with registered accommodation premise operators, with effect from 1 July 2021, the tourism tax will be imposed on accommodations booked via online platform operators.

Taxes related to climate change or sustainability

- ▶ Not applicable

VAT/GST/sales taxes

- ▶ As of now, there is no indication that there would be any change in the sales tax and service tax rates in Malaysia.

Taxes on wages and employment

- ▶ Extension of tax incentives for the employment of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependents

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other (please specify)
 - ▶ The Ministry of Finance, in early November 2020, set up a committee to study various revenue enhancing measures – including the possibility of re-introducing the GST regime (which was in place from 1 April 2015 to 31 August 2018) in Malaysia.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ A new government was formed in early 2020 and is now led by Tan Sri Dato' Haji Muhyiddin bin Haji Mohd. Yassin.
- ▶ Budget 2021 announced on 6 November 2020 was passed in the Parliament.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- ▶ Tan Sri Dato' Haji Muhyiddin bin Haji Mohd. Yassin, Prime Minister
- ▶ Tengku Datuk Seri Zafrul Tengku Abdul Aziz, Minister of Finance
- ▶ Mr. MA. Sivanesan, Secretary, Tax Division, Ministry of Finance

Tax administration leaders

- ▶ Dato' Sri Dr. Sabin bin Samitah, Chief Executive Officer, Inland Revenue Board (IRB)
- ▶ Dato' Sri Abdul Latif bin Abdul Kadir, Director General of the Royal Malaysian Customs Department

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The top marginal tax rate to increase to 30% on the portion of chargeable income in excess of RM2 million
- ▶ Review and revamp of the existing tax incentive framework as part of Malaysia's commitment to BEPS Action 5
- ▶ Implementation of service tax on digital services, or also known as digital service tax, in Malaysia effective 1 January 2020

Malaysia

- Various COVID-19 measures introduced to help businesses with cash flow issues, including: extension of deadlines for indirect tax returns, remission of penalty (full or 50%, depending on taxable period), sales tax exemption on the sale of passenger cars (100% on locally assembled cars or 50% on imported cars), 100% export duty exemption of the exportation of commodities (e.g., crude palm oil, crude palm kernel oil, refined bleached deodorized palm kernel oil), and service tax exemption on accommodation services

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- The IRB has a well-developed, sophisticated electronic compliance and risk analysis system. Advanced tools like big data analytics tools are used to analyze information to assist with decision-making and make sure that appropriate action plans are taken. As tax returns are submitted electronically, detection of noncompliance is almost on a real-time basis, leading to timely issuance of best judgment assessments by the IRB as well.
- The IRB continues to embark on various measures and task forces to various categories of taxpayers to enhance tax recovery and collections.

3.2 Key enforcement developments seen in 2020

- There are continuous efforts to strengthen and enhance voluntary compliance, including penalties arising from audit and investigation cases.

2.10 Pending tax proposals or consultations

- Yes, mainly proposals announced in the 2021 National Budget

- The Royal Malaysian Customs Department implemented the “refund first, audit later” approach wherein, outstanding GST refunds were processed and credited starting 22 June 2020.

3.3 Likely enforcement developments in 2021

- It is expected that enforcement activities will intensify in 2021 considering the increase in the direct tax revenue from RM115.1 billion to RM131.9 billion (i.e., US \$28.5 billion to US \$32.5 billion) in 2021.
- Increased and focused audits by the Royal Malaysian Customs Department on the sales and service tax (SST) matters, specifically on the area of imported taxable services.
- If GST were to be re-instated in Malaysia, it is anticipated for the Royal Malaysian Customs Department to conduct sales tax and service tax closure audits.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Failure to self-account for service tax on imported taxable services	The tax authorities perform audits to make sure that businesses in Malaysia (regardless whether registered for SST purposes in Malaysia or not) self-account, declare and remit 6% service tax with respect to the acquisition of imported taxable services since 1 January 2019.
2	Noncompliance with SST exemption conditions	The tax authorities perform audits so that the conditions of the various SST exemptions (e.g., Schedule C-1 sales tax exemption, intra-group exemption) are strictly adhered to. Otherwise, the relevant sales tax or service tax which were initially exempted are required to be paid back to the tax authorities.
3	Large tax refund or a shift from large tax payable position to loss position	Business taxpayers with large tax refunds or a shift from large tax payable position to loss position are likely to be selected for tax audit by the tax authorities
4	Significant related-party transactions	Business taxpayers with significant related-party transactions are likely to be selected for tax audit by the tax authorities
5	Operating at low profit or loss for an extended period	The tax authorities also focus on business taxpayers that are operating at low profit or loss for an extended period as compared to other industry players or operating at low or irregular profit margins.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Mexico

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 4 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%	30%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35%	35%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	16% for general acquisitions, leasing, render of services, and services and goods import 11% cross-border locations 8% fiscal stimulus north border region 0% for diverse services and acquisition of goods	16% for general acquisitions, leasing, render of services, and services and goods import 11% cross-border locations 8% fiscal stimulus north border region 0% for diverse services and acquisition of goods	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Administrative simplification and legal security: to simplify compliance with tax provisions and obligations
- ▶ Modernization: use of technological tools to configure a modern tax administration
- ▶ Tax management: assistance, control and monitoring of the powers of verification
- ▶ Collection efficiency: improving the efficiency of the tax cycle
- ▶ Fighting corruption and impunity: establishing rules of transparency that discourage irregular practices
- ▶ Tax evasion and tax avoidance: strengthen surveillance over certain transactions that constitute tax evasion and avoidance

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Lower in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input checked="" type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Maquila requirements – elimination of the option to obtain and keep the transfer pricing documentation (transfer pricing analysis) in which the method of transaction profit margins of operation is applied, as provided in Article 180, section VI of the Mexican Income Tax Law without being necessary to also obtain a particular resolution in terms of Article 34-A of the Federal Tax Code (APA)
- ▶ Change to company spin-off/demergers – allows that the spin-off/demerger of companies will be considered as a transfer, when the spin-off/demerger of companies results in the creation of accounting concepts or items that did not exist before the spin-off to the spin-off companies

- ▶ Joint liability in the spin-off of companies and permanent establishment – modification of joint liability contained in section XII of Article 26 of the Federal Trade Commission (FTC), as a consequence of the proposed amendment in the case of spin-off established in Article 14-B of the same Code
- ▶ Presumption of undue transfer of the right to reduce tax losses
 - ▶ Article 69-B Bis of the FTC to be changed to specify that what is transferred is the right to the reduction of tax losses, which does not alter the scope of application of a presumption, and the amendment to the second paragraph, of section VI, of said precept in order to not limit the form of payment to credit titles

Mexico

- ▶ Modification in order to not limit the taxpayer to challenge only negative facts, but also positive facts, which will allow clarifying that we are facing a “*iuris tantum*” presumption
- ▶ The amendment to provide that the undue transmission of the right to reduce tax losses for criminal purposes to be considered a simulated act under the FTC
- ▶ Conclusive agreement
 - ▶ Amendment to the amount of time in which a conclusive agreement can be filed, to within 20 business days from the day the findings letter is notified
 - ▶ Outlines situations in which the conclusive agreement request will be dismissed
- ▶ Penalties related to transfer pricing tax provisions and term adjustment
 - ▶ Tax reform established that the noncompliance of transfer pricing provisions will be considered as an aggravating factor for the calculation of the applicable penalties; which would result in a higher penalty amount compared to previous fiscal years.
 - ▶ Additionally, the 50% reduction in penalties for transfer pricing infractions is eliminated.
- ▶ The intermediary platform would then also be required to issue the invoice upon the user’s request.
- ▶ Intermediaries involved in the sale of used goods will be required to comply with all of the VAT obligations.
- ▶ Within the scope of these provisions, transport services, housing services and online sales are included.
- ▶ The VAT establishes that if nonresident digital service providers fail to comply with their tax obligations in Mexico, the tax authority may require that such taxpayers are blocked from using the telecommunications networks in Mexico.

Taxes on wages and employment

- ▶ The Executive branch proposed an amendment to the Federal Labor Law, Income Tax Law, Value-Added Tax Law, and Federal Tax code.
- ▶ According to the explanatory notes, the bill seeks to strengthen employment and abolish practices that harm labor rights and reduce the obligations of employers in Mexico.
- ▶ It would prohibit individuals and entities from outsourcing services; specifically, they could not provide their own employees for the benefit of another.
- ▶ By prohibiting the outsourcing of services and establishing precise rules, it would only allow individuals and entities to hire entities to provide services of a specialized nature or to perform specialized work.
- ▶ Currently, these amendments have not been discussed by the Union Congress, therefore changes could still be made.

2.5 In 2021, what do you believe your jurisdiction’s primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Taxes on digital business activity

- ▶ The withholding CIT applicable to digital businesses was modified from having a rate depending on the amount to a fixed rate depending on the type of service as follows:
 - ▶ Provision of land transport services for passengers and delivery of goods: 2.10%
 - ▶ Hosting/housing services: 4%
 - ▶ Sale of goods and services: 1%
- ▶ The withholding of 100% of the VAT collected, when intermediation services to foreign residents without a PE in Mexico are rendered, whether individuals or legal entities, who provide digital services to persons located in the country, to whom they process payments

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST or sales taxes

- ▶ Digital services VAT
 - ▶ A nonresident digital service provider that serves as an intermediary for the purchase of goods and services over its platform must collect VAT on goods and services paid for through the platform.
 - ▶ The VAT collected on these transactions must be withheld and remitted to the tax authorities if the seller is a Mexican resident individual or if the seller is a nonresident.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ 2021 is a mid-term election year in which the Chamber of Deputies will be renewed, as well as 13 Governor’s offices and 27 State legislatures.
- ▶ The election outcomes will affect the nations policy in the last three years of this administration.
- ▶ A tax collection increase is likely, especially with large taxpayers.
- ▶ An increase in enforcement activities is likely, including in self-correction letters and criminal charges.
- ▶ A focus will be on initiating tax audits for large taxpayers.
- ▶ There will be an increase in tax collection in order to support COVID-19 expenses.

2.8 Names of current tax policy and tax administration leaders

- ▶ Raquel Buenrostro Sanchez, Head of the Tax Administration Service
- ▶ Antonio Martínez Dagnino, Large Taxpayers General Administrator
- ▶ Luis Abel Romero López, Collection General Administrator
- ▶ Guadalupe Araceli García Martínez, Legal Affairs General Administrator
- ▶ Horacio Duarte Olivares, Customs General Administrator
- ▶ Claudia Rivera Arrieta, Services to Taxpayers General Administrator
- ▶ Erik Jiménez, International Tax Audit Central Administrator
- ▶ Ricardo Carrasco, International Normativity and Normativity Central Administrator
- ▶ José Martín García, Diverse Taxpayers Central Administrator
- ▶ Armando Ramírez, Consolidated Groups Central Administrator
- ▶ Carlos González Gamero, Transfer Pricing Central Administrator

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The economic package for 2021, compared to 2020, addresses more administrative and enforcement types of tax issues with fewer cross-border tax implications and does not include tax increases or new taxes. The main amendments are the following:
 - ▶ Federal Fiscal Code: general anti-avoidance rule that does not impede a criminal investigation or charges/spin-off as a taxable transfer/joint liability/adjustments to the refund procedures/elimination of the reduced fines in transfer-pricing matters/canceling and reactivating digital seal certificates/use of technological tools by the tax authorities/modifications to the conclusive agreement procedure, among others

- ▶ Income Tax Law: Maquila Regime amendments/nonprofit entities limitations/transfer pricing changes regarding maquila services and changes in transfer pricing penalties
- ▶ Value-Added Tax Law: digital services

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Outsourcing proposal is still pending to be confirmed by Congress.

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The tax authority is currently focusing on auditing large taxpayers whom the tax authority claims have been using aggressive tax positions in the prior years.
- ▶ The tax authority is increasing the use of criminal sanctions.
- ▶ Audits in tax refund requests have increased, also, said audits and info requirements have increased in their complexity, both for VAT and CIT.

3.2 Key enforcement developments seen in 2020

- ▶ During 2020, we observed a focus on certain types of taxpayers, especially large taxpayers.
- ▶ The tax authority has publicly announced that it will continue heavy audit trends toward large taxpayers depending on their industry.

3.3 Likely enforcement developments in 2021

- ▶ We anticipate that the tax authority's position during audits will remain the same during FY2021, if not even stronger.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	<ul style="list-style-type: none"> ▶ Methodology (margin) ▶ Support documentation
2	Disallowance of deductions	<ul style="list-style-type: none"> ▶ Formal requirements
3	Tax losses	<ul style="list-style-type: none"> ▶ Origin and formal requirements
4	Withholding taxes	<ul style="list-style-type: none"> ▶ Applicable rate ▶ Beneficial ownership (in royalties and interest cases) ▶ Treaty requirements
5	Tax refunds	<ul style="list-style-type: none"> ▶ Origin ▶ Supporting documentation ▶ Formal requirements ▶ Extensive information requirements

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



The Netherlands

[Return to Contents](#)

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Tax policy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25% ¹	25% ¹	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	49.5% ²	49.5% ²	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	21% ³	21% ³	–

¹ Article 22 Dutch CIT act. Taxable amount up to €200,000 is taxed against 16.5% in 2020; taxable amount up to €245,000 is taxed against 15% in 2021

² Article 2.10 Dutch IIT act. Applicable at a taxable income from €68,507 and up

³ Article 9 Dutch VAT act. Reduced VAT rate is 9% in 2020 and 2021

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The Ministry of Finance indicated it is continuing its reforms, including measures to create a better, fairer and greener tax system.
- ▶ The 2021 Tax Plan package includes extra measures to stimulate economic growth during the COVID-19 crisis while also working to provide prospects for the period thereafter; the included tax agenda outlines expected legislative measures for the coming periods:
 - ▶ Limitation on downward transfer pricing – a transfer pricing adjustment that results in a reduction of Dutch taxable profit is only allowed to the extent the corresponding income is included in taxable income at the recipient level.
 - ▶ Research into a more equal taxation of equity and debt – the Dutch Government is currently conducting research to introduce a taxable deduction on equity (NID), combined with a further limitation on the deduction of interest through an amendment of the existing earnings-stripping rule.
 - ▶ Amendment of the credit for certain withholding taxes against Dutch CIT for certain investors – this limits the availability for a refund of dividend withholding tax (and gambling tax) for Dutch corporate taxpayers, pursuant to the Sofina court case of the European Court of Justice (C-575/17).
- ▶ Introduction of a conditional withholding tax on dividends – this is related to payments of dividends to shareholders resident in low-tax jurisdictions or in jurisdictions included on the EU's list of noncooperative jurisdictions or in certain perceived abusive situations; the applicable tax rate will equal the headline CIT rate.
- ▶ Fiscal unity regime – an internet consultation was held in 2019 on the future of the Netherlands fiscal unity regime following certain EU court cases; any changes to the fiscal regime will be left to the discretion of the new Government (general elections will be in March 2021).
- ▶ A goal is to have regulations by 2022 that provide for an exchange of information with foreign countries for flow-through companies (flow-through of dividends) that do not have sufficient substance.
- ▶ Due to COVID-19, the Dutch Government has decided to implement a series of economic and tax measures designed to protect people's jobs and livelihoods and to minimize the impact on self-employed people, small – and medium-sized enterprises and major companies.
- ▶ The tax measures contain, for example, deferral of tax payments, reduction of tax and collection interest, the possibility of forming a COVID-19-loss reserve that can be taken into account in fiscal year 2019 and the introduction of a so-called job-related investment tax credit (BIK) that allows companies that make qualifying investments in business assets to take a tax credit against their payroll taxes.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

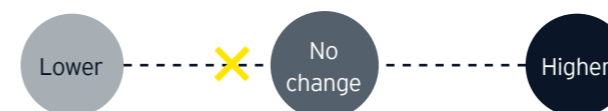
The Netherlands

Tax types	Likelihood of changes in 2021	Direction of change
1. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
3. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
4. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
5. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
7. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
8. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input checked="" type="checkbox"/> Reduced incentives in 2021
9. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
13. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
14. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
15. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



The Netherlands

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ CIT rate: as per fiscal year (FY) 2021, the Dutch CIT rate in the first bracket will be reduced to 15% and the amount of taxable income to which this applies will increase from €200,000 to €245,000 (FY 2022: €395,000); the top Dutch corporate income tax rate will remain at 25%.
- ▶ Innovation box regime: the effective applicable tax rate in the innovation box regime will increase from 7% to 9%.
- ▶ Introduction of a Job-Related Investment Discount (BIK): the BIK provides for a payroll tax reduction for companies investing in employment and is set to enter into force by 1 January 2021 with a budgetary allocation of €2 billion.
- ▶ COVID-19 measures: several COVID-19 tax measures previously taken by the Dutch Government have been set forth in the legislative proposal, including, among other things, the possibility for Dutch taxpayers to have their "corona-related losses" from FY 2020 settled against their profit of FY 2019 by introducing a "corona reserve" (instead of waiting for FY 2020's tax loss to carry back to FY 2019).
- ▶ New loss compensation rules: under the current rules, a loss can be carried back one year and carried forward six years; it is proposed that losses may be carried back one year and carried forward indefinitely.
 - ▶ However, the offset of losses will be limited in a given year against the first €1 million of taxable profit; for taxable profit in excess of this amount, losses may only be offset up to 50% of this excess; the measure is set to enter into force by 1 January 2022.
- ▶ Interest deduction limitations: further guidance is proposed to address certain overlapping situations of the Dutch anti-hybrid rules, other interest deduction limitation rules and amendments to existing anti-base erosion rules.
- ▶ Under the liquidation loss rules, a Dutch taxpayer can – under certain conditions – deduct losses resulting from ceasing foreign businesses or liquidating subsidiaries; to the extent these losses exceed €5 million, these will be restricted to subsidiaries or permanent establishments in a European Union (EU)/European Economic Area country and only if the interest in the subsidiary/permanent establishment is more than 50% instead of at least 5%.
- ▶ DAC 6: Implementation of the EU mandatory disclosure rules (DAC 6) covers an exchange of cross-border tax arrangements.
- ▶ Withholding tax: the Dutch Government introduced a conditional withholding tax on intercompany interest and royalty payments from Dutch taxpayers to low-tax jurisdictions or jurisdictions included on the EU Blacklist and in abusive situations; this withholding tax entered into force on 1 January 2021.
- ▶ On 10 July 2020, an opposition party (GroenLinks) submitted a private member's bill (i.e., a bill not initiated by the executive branch) to the Dutch House of Representatives introducing a conditional exit tax as part of the Dutch dividend withholding tax regime in the case of certain cross-border reorganizations.

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ A carbon emissions tax will be introduced at a rate of €30 per ton in 2021, increasing to €125 per ton in 2030; this levy is to be introduced alongside the existing system for the pricing of CO at EU levels (EU Emissions Trading System).
- ▶ In addition to the carbon tax, the 2021 budget proposals also include changes to the energy tax/sustainable energy surcharge.

VAT/GST/sales taxes

- ▶ The new European VAT regulations regarding e-commerce have been postponed until 1 July 2021
- ▶ The RETT rate for all investors will increase from 2%/6% to 8% as of 1 January 2021:
 - ▶ The increased real estate transfer tax (RETT) rate will apply to both nonresidential and residential immovable property in the Netherlands.
 - ▶ For acquired residential property (other than newly developed residential properties), a reduced 2% RETT rate may still be applied by the purchaser if the property will be used as their main residence.
- ▶ A full RETT exemption will apply to starters (i.e., purchasers between 18 and 35 years of age) who purchase their first dwelling (only for immovable property below €400,000) and who will use the property as their main residence.

Taxes on wages and employment

- ▶ The 2021 Tax Plan package includes several measures to reduce income tax and make work more financially rewarding.
- ▶ In 2021, the rate for the "new" first tax bracket (up to €68,507) will be reduced by 0.25 percentage points to 37.1%; the top rate will remain at 49.5%
- ▶ The employment tax credit and the general tax credit will be raised further.
- ▶ As of 1 January 2021, 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.
- ▶ The personal income tax rate on substantial shareholding (box 2) will increase from 26.25% in 2020 to 26.9% in 2021.
- ▶ The legislative proposal on excessive borrowing from one's own company (Wet excessief lenen bij eigen vennootschap) will be postponed for one year until 1 January 2023; the proposal regards the taxation of the debts of an individual business owner owed to their own company that are higher than €500,000 (excluding qualifying owner-occupied home debt).
- ▶ The tax allowance for savings and investments (box 3) is being raised from €31,000 to €50,000 per person, but the tax rate will be raised slightly, from 30% to 31%; a discussion to modify box 3 is still ongoing.

- ▶ Employers can grant a tax-free general employment cost compensation based on the total fiscal salary of all employees:
 - ▶ On the first €400,000 of the total fiscal salary of all employees, the percentage is 1.7% (3% for 2020 in light of the COVID-19 pandemic), and on the amount above that, the percentage is 1.2%.

- ▶ The Tax Plan 2021 proposes that this latter percentage be reduced to 1.18%.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Netherlands

2.7 Political landscape

- ▶ The four-party coalition Government (People's Party for Freedom and Democracy (VVD), Christian Democratic Appeal (CDA), Democrats 66 (D66) and Christian Union (CU)) was formed following extensive negotiations after the 2017 elections.
- ▶ The current Prime Minister is Drs. M. (Mark) Rutte.
- ▶ The next election for the Dutch Lower House will be held in March 2021.
- ▶ After the election in the Upper House in May 2019, the coalition does not hold a majority in the Dutch Upper House.
- ▶ The next election for the Dutch Upper House will be held in May/June 2023.

2.8 Names of current tax policy and tax administration leaders

- ▶ Xavier Bettel, Prime Minister
- ▶ Pierre Gramegna, Minister of Finance, Treasury and Budget
- ▶ Carlo Fassbinder, Director of Taxation at the Ministry of Finance

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Dutch tax authorities have a well-developed, sophisticated electronic compliance and audit system.
- ▶ The Dutch tax administration is known for its reliability, approachability and customer service.

3.2 Key enforcement developments seen in 2020

- ▶ Top priorities for the Netherlands are to remain an attractive jurisdiction for foreign investors with substance, while being compliant with the implementation of certain anti-tax avoidance measures in line with the OECD and EU recommendations for abusive situations.

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ In addition to tax changes introduced in the tax reform 2020, economic and tax measures in response to COVID-19 and the 2021 tax plan package, there are some ongoing discussions about different tax subjects, such as tax avoidance by multinationals and fair taxation of the digital economy.

2.10 Pending tax proposals or consultations

- ▶ Excessive borrowing from an individual's own company (Wet excessief lenen bij eigen vennootschap)
- ▶ Implement the e-Commerce Directive
- ▶ Conditional exit tax as part of the Dutch dividend withholding tax regime in the case of certain cross-border reorganizations
- ▶ Aviation tax
- ▶ Legal privilege (wetsvoorstel aanpassing fiscaal verschoningsrecht) from 23 July 2020 till 23 October 2020
- ▶ The list of low-tax jurisdictions for 2021 from 9 October 2020 to 6 November 2020

3.3 Likely enforcement developments in 2021

- ▶ It is not expected that the tax authorities shift their audit focus onto new or different issues in 2021.
- ▶ 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 focus on tax fraud and prevention of tax avoidance and tax evasion.
- ▶ It is likely that the administrative responsibilities for taxpayers will increase in 2021 because of implementation of DAC6 and the introduction of the withholding tax on interest and royalty.

3.4 Top tax audit issues in 2021

	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 will focus on tax fraud and prevention of tax avoidance and tax evasion.
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 prices and the economic substance of a transaction.
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	INE payments from Brazil	The Dutch State Secretary of Finance published a decree on 28 August 2020 that interest on net equity (INE) payments from a Brazilian subsidiary to a Dutch holding company qualify as interest payments for the application of the treaty between Brazil and the Netherlands for which a tax credit of 20% applies (instead of 25% in case of dividends, which is claimed in already filed CIT returns).
5	Withholding taxes	The Netherlands has implemented the principal purposes test (PPT) in the Dutch dividend withholding tax act effective 1 January 2018 and in the Dutch interest and royalty withholding tax that enters 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.

The Netherlands

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Cardboard cathedral in Christchurch, New Zealand

New Zealand

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	28%	28%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	33% on income over NZ\$70,000	39% on income over NZ\$180,000	18% increase for income earners over NZ\$180,000 (expected to be less than 2% of the population)
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	15% GST	15% GST	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The current Government has just won reelection on a promise of “no surprises” for tax. Other than the increase to the top personal tax rate to 39%, no new major changes are expected in the short term.
- ▶ The Government intends to continue with targeted COVID-19 relief measures, including tax loss carryback measures (to allow for effective refunding of prior year taxes paid) and cash-flow relief for smaller business (including through Government loans).
- ▶ A digital services tax is still under consideration and may be introduced if the OECD multilateral solution does not progress well.
- ▶ Increased house price pressure will likely result in additional adjustments to the rules that apply to tax certain land sales (noting that New Zealand does not have a broad capital gains tax). We are also likely to see more active enforcement of the existing rules.
- ▶ We may see greater reliance on charges and levies as a means of encouraging a move to more sustainable economy, as the current Minister for Revenue is also the Minister for the Environment and Oceans and Fisheries portfolios. A government review of the tax system made several environmental tax recommendations, which we may see progress.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

New Zealand

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
10. Top marginal individual income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
11. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



New Zealand

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The 28% corporate tax rate is not proposed to change and has not been considered by the Government for review in 2021.
- ▶ Loss carryforward (shareholder continuity test) rules are expected to be changed retrospectively to 1 April 2020. The new test will increase the likelihood that businesses can retain loss balances following a shareholding change. The Government proposes to introduce a test similar to the UK “major change” test, with elements of the Australian “same or similar business” test.
- ▶ Loss carryback rules, which allow a business to exchange current period losses for refunds of prior year taxes paid, are expected to be announced in April 2021, but policy design is still in progress.

Taxes on digital business activity

- ▶ The Government continues to support the OECD in finding a multilateral solution to digital service taxation but is becoming critical of the progress. The potential for a unilateral solution (digital services tax) is still under consideration and could be introduced mid to late 2021.

Taxes related to climate change or sustainability

- ▶ No related taxes announced. There is some possibility for increased levies or charges to be applied in limited cases (for example, waste levies or traffic congestion charging).

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

VAT/GST or sales taxes

- ▶ No major changes are expected.

Taxes on wages and employment

- ▶ Remedial changes only, to incorporate new 39% personal income tax rate

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ New Zealand's general election was held on 17 October 2020, with the New Zealand Labour Party gaining sufficient support to govern alone (a rare occurrence under New Zealand's Parliamentary model). This gives the Government a clear mandate to progress change.
- ▶ The New Zealand Labour Party was in a coalition government in the previous term and was heavily criticized for under-achieving on set promises. There is, therefore, likely going to be a focus on implementing action quickly across the next term (three years).
- ▶ Primary political concerns are the ongoing effects of the COVID-19 crisis, rising housing prices and child poverty, reducing the impact of New Zealand's agricultural and primary industries sectors on the environment and supporting measures to reduce the climate change impacts. There is ongoing consultation by the Government on these issues, but specific policy proposals are not yet public knowledge.
- ▶ Wholesale tax system reforms are unlikely but some changes to existing settings to address political concerns, specifically raising house prices for example, may be seen. The Prime Minister has, however, ruled out both capital gains taxes and wealth taxes.

2.8 Names of current tax policy and tax administration leaders

- ▶ David Parker, Minister of Revenue
- ▶ Naomi Fergusson, Commissioner of Inland Revenue
- ▶ David Carrigan, Deputy Commissioner Policy, Inland Revenue

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

COVID-19 Response (Taxation and Social Assistance Urgent Measures) Bill:

- ▶ Reintroduction of depreciation on commercial buildings
- ▶ Increased provisional tax threshold (which triggers a requirement to pre-pay business taxes), meaning fewer people have to pre-pay provisional taxes on income from untaxed sources
- ▶ Interest remission for late-paid taxes
- ▶ Temporary increase in the threshold that allows asset write-off (accelerating the deduction)
- ▶ Acceleration in the broad refundability of R&D tax credits to ease cash flow

COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill:

- ▶ Limited tax loss carryback for businesses, allowing businesses to offset losses from the 2020 year back to 2019 and secure refunds of taxes paid in 2019, and similarly from the 2021 year back into 2020
- ▶ New discretion for Commissioner of Inland Revenue to make minor administrative changes to alleviate compliance hurdles (for example, change filing due dates)
- ▶ Taxation (Income Tax Rates and Other Amendments) Act to increase the top personal tax rate to 39% (previously 33%) for individuals, to make associated consequential amendments across the income tax laws, to increase the required disclosures for New Zealand settled trusts, which will need to provide additional information to Inland Revenue from the 2021-2022 income year onward
- ▶ Earlier enacted investment income reporting rules (which came into force from 1 April 2020) requiring payers of investment income (e.g., interest, dividends) to provide Inland Revenue with additional information on the payee and the payment made; no additional tax responsibility imposed

New Zealand

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Potential to introduce a digital services tax, pending progress at the OECD
- ▶ Changes to allow businesses to carry forward tax losses despite a change in shareholding by introducing a test similar to the UK “major change” test, with elements of the Australian “same or similar business” test
- ▶ Several amendments under the Taxation (Annual Rates for 2020-2021, Feasibility Expenditure, and Remedial Matters) Bill; expected to be enacted early in 2021, changes include:
 - ▶ Broader deductibility for feasibility expenditure incurred in the development of an asset that is later abandoned

- ▶ Requirements to align purchase price allocation across different assets between a vendor and a purchaser in the sale of a business, to ensure consistent tax treatments
- ▶ Strengthening of the rules that apply to tax certain land sale profits for taxpayers who habitually buy and sell land
- ▶ An ability for taxpayers to adopt more closely aligned tax and accounting treatment for certain leases subject to IFRS 16, as well as other remedial amendments

Consultations:

- ▶ Rules to more permanently allow for tax losses to be carried back to obtain refunds of prior year taxes paid; in place of the currently enacted temporary measures

- ▶ These questionnaires promote taxpayer openness, giving taxpayers a chance to conduct a review of their own tax affairs and to voluntarily disclose any errors that may have occurred.
- ▶ As a result of COVID-19, Inland Revenue has been more flexible in allowing taxpayers to enter into payment plans to pay outstanding taxes and has been remitting interest and penalties when a taxpayer has paid tax late due to COVID-19.

3.3 Likely enforcement developments in 2021

- ▶ Inland Revenue has indicated that taxpayers in receipt of the wage subsidy will be audited. The audits will aim to make sure that taxpayers were eligible for the subsidy, have treated the subsidy correctly for tax purposes, and that any profits associated with the wage subsidy remain in New Zealand.
- ▶ With the recent increase to the top personal tax rate, we expect Inland Revenue will audit arrangements that take advantage of any tax arbitrage through structuring (for example, using trusts that would have a lower tax rate).
- ▶ Inland Revenue is set to complete their system upgrades by October 2021. Following these changes, it will be in a better position to identify discrepancies and conduct data analytics across the tax and social policy systems.
- ▶ Inland Revenue is using its information-gathering powers to gather information in bulk from certain industries, including transaction data. Inland Revenue will then perform data analytics to assist in detecting noncompliance.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Inland Revenue has a good relationship with tax agents and advisors and is generally cooperative in resolving disputes. Inland Revenue looks to encourage constant dialogue and transparency.
- ▶ Inland Revenue uses technology to make compliance simpler for taxpayers and to process large volumes of data and obtain insights through analytics to better target audit and enforcement activity.
- ▶ Inland Revenue aims to stop noncompliance before it occurs with getting it right from the start. It also uses close monitoring, advance pricing agreements, and practical guidance to allow multinationals to better self-manage their financing and transfer pricing risks.
- ▶ Inland Revenue uses questionnaires to gather information about both large companies generally, and specific industries.
- ▶ Improved use of technology, analytics, and better collection and processing of information digitally all enable Inland Revenue to better match data across systems to identify discrepancies. This allows Inland Revenue to both discover errors in real time and enable assessments and refunds to be stopped where there is a high likelihood that they are wrong or fraudulent.

3.2 Key enforcement developments seen in 2020

- ▶ Generally, Inland Revenue has not changed its approach to tax enforcement and has continued its wide use of questionnaires with a particular focus on international businesses (asking about, for example, financing information, royalties and the nature of wholesaler/distributor arrangements).

3.5 Top tax audit issues in 2021

	Issue name	Description
1	PE Issues	Inland Revenue continues to investigate multinationals operating in New Zealand under certain structures to determine whether a PE arises, either under the relevant double tax agreement or the domestic PE avoidance rule. Inland Revenue has taken a strict approach to the application of the domestic PE avoidance.
2	Intercompany agreements	Inland Revenue continues to audit multinationals in respect of financing agreements and service payments under intercompany agreements. These audits may relate to the new restricted transfer pricing rule on related-party loans, or the amended debt/equity rule (thin capitalization), both of which were added as part of the BEPS reforms in 2018. Often these audits arise out of the responses provided to Inland Revenue's questionnaires (refer to point 3.3 above), with Inland Revenue often asking follow-up questions if it suspects the pricing of intercompany agreements are not arm's length. Additionally, in the 2019 Multinational Compliance Focus Document, Inland Revenue set out three related-party financing risks that it is monitoring: <ul style="list-style-type: none"> ▶ Cash pooling arrangements ▶ Guarantees and cross-guarantees ▶ Derivatives
3	CFC issues	As noted above, Inland Revenue set out 10 factors in their 2019 Multinational Compliance Focus Document that it considers are risk indicators that may invite further inquiries. These factors are: <ul style="list-style-type: none"> ▶ Two consecutive years of tax losses ▶ Negative EBIT ▶ >5% cost plus margin on service charges ▶ <3% distributor EBITE ▶ <5% retailer EBITE ▶ <7% manufacturer EBITE ▶ Royalties >33% EBITE ▶ Interest >20% EBITDA ▶ Debt >40% (assets – non-debt liabilities) ▶ Purchases and other operating expenses >\$20m involving jurisdictions with company tax rate of less than 15% Inland Revenue has begun sending information requests to companies that have the above factors seeking an explanation.
4	Hybrid and branch mismatches	The 2018 BEPS reforms introduced hybrid and branch mismatch rules. To assist with enforcement of these rules, additional disclosure forms are required to be filed alongside company tax returns disclosing hybrid and branch mismatches. Under these rules, taxpayers will need to make sure they understand how payments made to or by them are treated by their related counterparty for tax purposes. We expect that Inland Revenue will audit compliance with the new regime.

New Zealand

5	Tax corporate governance	There is a renewed emphasis on tax corporate governance as set out in the 2019 Multinational Compliance Focus Document that provides a 10-point “checklist” for boards regarding their tax compliance strategy. The high-level checklist, while it does not provide much practical guidance on what strategies or controls should be adopted, does highlight what Inland Revenue sees as standards of responsible business conduct for multinationals. Taxpayers who use trusted advisors (external) to test their payroll and GST returns as part of their tax control framework can significantly reduce the scope of audits.
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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?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	✗	<input type="checkbox"/>
Changes to transfer pricing enforcement	✗	<input type="checkbox"/>
More audits of MNC groups	✗	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited): Refer to 3.3 above.	<input type="checkbox"/>	✗
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	✗
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	✗	<input type="checkbox"/>
Other (please specify): We have seen a renewed focus on certain types of expenditure; for example, legal fees and financing fees, as well as the calculation of available subscribed capital.	✗	<input type="checkbox"/>





Nicaragua

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	The higher amount that result to compare: <ul style="list-style-type: none"> Annual income tax: 30% of net taxable income Advance income tax payment: 1%, 2% or 3% of gross taxable income <p>The 1%, 2% or 3% applies on dependence of the taxpayer classification regimen</p>	The higher amount that result to compare: <ul style="list-style-type: none"> Annual income tax: 30% of net taxable income Advance income tax payment: 1%, 2% or 3% of gross taxable income <p>The 1%, 2% or 3% applies pn dependence of the taxpayer classification regimen</p>	–

	2020	2021	% change
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	The Law No. 822, Nicaragua Taxation Law (NTL), establishes a progressive rate ¹ to liquidate personal (work) income tax in accordance with strata of annual net income of the taxpayer	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	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	<ul style="list-style-type: none"> General rate: 15% Special rate: 0% export of goods of national production and export of services 	<ul style="list-style-type: none"> General rate: 15% Special rate: 0% export of goods of national production and export of services 	–

¹ Progressive rate – income tax on labor income

Annual taxable income NIO	Base tax	Applicable %	About the excess
0.01	100,000.00	0%	
100,000.01	200,000.00	15%	100,000.00
200,000.01	350,000.00	20%	200,000.00
350,000.01	500,000.00	25%	350,000.00
500,000.01	More than	30%	500,000.00

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Reduce the tax exemption and tax holidays
- ▶ Establish controls in the tax administration system to reduce tax evasion and expand the tax base
- ▶ Modernize and improve tax administration, and simplify the payment of taxes by improving the virtual tax platform to carry out procedures and payments of tax

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
16. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
17. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
18. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall VAT/GST/sales tax responsibility



Overall individual income tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The tax administration has been revising its audits and inspections plan to review the compliance and filing of:
 - ▶ Annual income tax
 - ▶ Monthly advance income tax
- ▶ It is increasing its controls of tax evasion.
- ▶ It is reviewing transactions between related companies to confirm that they are actual transactions and operations necessary to generate income from economic activity in the country and are not a strategy to reduce the income tax base.

Taxes on digital business activity

- ▶ Payment of services done from Nicaragua to a nonresident is taxable with a unique withholding tax of 20%. This withholding tax will apply even if the services are provided abroad.
- ▶ If the services are provided by a resident, the withholding rate of 2% applies if the services are part of the taxpayer's economic activity.
- ▶ If not a part of its economic activity, a unique withholding rate of 15% applies.
- ▶ Sale of tangible and intangible goods made through electronic operations, including sales by internet, is taxable with a 15% VAT.

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST/sales taxes

- ▶ As of now, there is no indication that there would be any change in the sales tax and service tax rates in Malaysia.

Taxes on wages and employment

- ▶ No modifications of taxes on wages and employment have been implemented since December 2014.
- ▶ An increase of the social security contribution was approved in February 2019.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ 2021 is an election year.

2.8 Names of current tax policy and tax administration leaders

- ▶ Martin Rivas, Nicaragua General Director of Revenues
- ▶ Eddy Medrano, Nicaragua General Director of Customs
- ▶ Ivan Acosta, Nicaragua Finance Minister

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ In 2020, Nicaragua had no changes to its tax policy.

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A



Norway

[Return to Contents](#)

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	22%	22%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	46%, 4%	46%, 4%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	25% 15% for foodstuffs	25% 15% for foodstuffs	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Correct amount of tax
- ▶ Correct tax information
- ▶ Timely tax information

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Norway

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

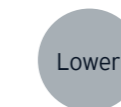
Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No significant changes
- ▶ Withholding tax on interests and royalty proposed implemented
- ▶ Cash flow tax on hydropower plants proposed implemented

Taxes on digital business activity

- ▶ No significant changes

Taxes related to climate change or sustainability

- ▶ No significant changes

VAT/GST or sales taxes

- ▶ No significant changes

Taxes on wages and employment

- ▶ No significant changes

Norway

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual

- ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Hottest topic is wealth taxation in relation to inheritance tax, as this might be re-implemented after the new parliament election in 2021.

2.8 Names of current tax policy and tax administration leaders

- ▶ Nina Schanke Funnemark, Director General of the Norwegian Tax Administration

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ No major changes

2.10 Pending tax proposals or consultations

Proposals:

- ▶ None

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Usually quite understanding, but challenging in some areas

3.2 Key enforcement developments seen in 2020

- ▶ No significant developments

3.3 Likely enforcement developments in 2021

- ▶ No significant development is expected.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transaction costs	Deductibility of transaction costs
2	Interest limitation	New rules on interest limitation implemented in 2019, which will be scrutinized in the upcoming years
3	Anti-avoidance rule	Frequent focus area
4	Paid-in capital	Frequent focus area

Norway

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Oman

[Return to Contents](#)

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 23 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	15%	15%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A	N/A	N/A
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	N/A	5% VAT w.e.f. April 2021	100%

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ A decline in oil prices, which has resulted in a fall in government revenue amplified by the global and regional slowdown as a consequence of the COVID-19 pandemic, has prompted the government to place increased reliance on other sources of revenue, including tax revenue.
- ▶ The VAT law was issued in 2020; the 5% indirect tax on applicable goods and services shall be implemented from April 2021 onward.
- ▶ The excise tax law has also been amended to include a larger list of products on which excise tax shall be levied.
- ▶ The government appears to be actively trying to revitalize and revamp the country's tax regime to achieve optimum collection of tax revenue; this can be observed through the recent increase in tax compliance requirements such as CRS, CbCR, etc.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021 <input checked="" type="checkbox"/> N/A
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021 <input checked="" type="checkbox"/> N/A

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021 <input checked="" type="checkbox"/> N/A
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – 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 the same as 2020, 15%.

Taxes on digital business activity

- ▶ There is no separate digital business activity tax in Oman; however, a withholding tax is applied on the following 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 until May 2022*)
- ▶ Dividends (*applicability of WHT suspended until May 2022*)
- ▶ The above is not an amendment to the WHT regime in Oman. WHT on the above payments has been applicable in past years and is expected to continue in 2021.

Taxes related to climate change or sustainability

- ▶ No taxes of such nature are applied in Oman.

Oman

VAT/GST/sales taxes

- ▶ The VAT law was issued in 2020.
- ▶ VAT at 5% on applicable goods and services is expected to be effective from April 2021 onward.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Taxes on wages and employment

- ▶ Personal income tax is currently not applicable in Oman.
- ▶ However, personal income tax is expected to be implemented in 2022.
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.7 Political landscape

- ▶ On 14 September 2020, His Majesty Sultan Haitham Bin Tarik issued Royal Decree No. 118/2020 (RD 118/2020), which amended various provisions of the Income Tax Law; the most notable changes are:
 - ▶ For tax years starting on or after 1 January 2020, the process of filing provisional and final income tax returns has been replaced by a return to be filed within four months from the end of the accounting period.
 - ▶ A new concept of tax residency has been introduced.
 - ▶ The Tax Authority has been granted additional powers to request information from licensed banks to comply with provisions of international agreements.
- ▶ Oman ratified, on 14 September 2020, the AEOI through Royal Decree No. 118/2020 to support the implementation of the Common Reporting Standard developed by the OECD.
 - ▶ On 17 September 2020, the Chairman of the Tax Authority issued TA Decision 78/2020 outlining related administrative rules; reporting financial institutions (such as banks, funds, brokers, custodians and insurance companies offering cash value or annuity products) should assess their compliance requirements, if any, under the AEOI regime.
- ▶ On 27 September 2020, Oman introduced, through Tax Authority Decision No. 79/2020 (TA Decision 79/2020), CbCR requirements; the new requirements affect all businesses that have a legal entity or branch in Oman and are members of a MNE group with annual turnover above OMR300 million (approximately US\$780 million or EUR670 million).
 - ▶ The CbCR rules are effective for fiscal years beginning on or after 1 January 2020.
 - ▶ Affected entities will need to submit a CbCR notification before the last day of the fiscal year and submit the first CbC report 12 months after the last day of the fiscal year end.
- ▶ The Oman Investment Fund and the State General Reserve Fund recently merged into a new entity named the Oman Investment Authority.

2.8 Names of current tax policy and tax administration leaders

- ▶ His Excellency Sultan bin Salim bin Said Al Habsi, Minister of Finance
- ▶ His Excellency Saud Bin Naser Bin Rashed Al Shukaili, Chairman of the Tax Authority
- ▶ Various departments within the Tax Authority have director generals who report to the Chairman, including: Large Taxpayers Unit, First and Second Departments, Withholding Tax Department and Collections Department

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Establishment of Tax Authority within the Ministry of Finance
- ▶ Introduction of CRS and CbCR regulations
- ▶ Issuance of VAT law (implementation from April 2021)
- ▶ Administrative and compliance changes to the Income Tax Law

2.10 Pending tax proposals or consultations

- ▶ Proposals/consultations: Media has reported that a personal income tax shall come into force in 2022.
- ▶ The tax is expected to be levied on high-income individuals in the country.
- ▶ However, there are no further details available regarding this tax that can be currently relied upon.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ We expect a significant increase in the extent and depth of investigations of tax returns.
- ▶ Also, as a part of their investigations, the Tax Authority is increasingly requesting extensive past documentation from taxpayers.
- ▶ Disallowances to costs are proposed by the Tax Authority, 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 Tax Authority for reasonableness and arm's length considerations.

3.2 Key enforcement developments seen in 2020

- ▶ As mentioned in an earlier section, the "Tax Authority" which was established within the Ministry of Finance, will have its own legal identity, enjoy financial and administrative autonomy and report to the Council of Ministers; a chairman of the Tax Authority has also been appointed.
- ▶ The above will have the positive impact of greater efficiencies, autonomy in terms of executing its functions, etc., in the tax landscape in Oman in the coming years.

3.3 Likely enforcement developments in 2021

- ▶ The recent implementation of CRS and CbCR requirements are likely to increase the visibility of taxpayers' operations to enable the Tax Authority to conduct a detailed scrutiny at the time of tax audits.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	The Tax Authority provides limited time to respond to queries and challenges deductibility of costs, particularly if the charges are from related parties.
2	Transfer pricing	In the absence of a detailed formal transfer pricing legislation, wide powers are vested with the Tax Authority to determine reasonableness of pricing of transactions for arm's length considerations. Disallowances proposed by the Tax Authority could be mitigated through documentation such as transfer pricing reports, at the discretion of the tax inspector auditing the taxpayer
3	Tax losses	We have noted cases where the Tax Authority carries out additional reviews if a taxpayer has reported tax losses in any tax year. The above approach is aggressive, and while cases have been noted, the approach is not a norm for the Tax Authority.
4	Tax paid as a percentage of revenue	An analytical procedure is carried out by the Tax Authority by comparing tax paid as a percentage of overall revenue of a taxpayer for that year. This percentage is compared to tax paid by other taxpayers in the same or similar sector to determine whether an extensive degree of scrutiny is required for the taxpayer.
5	Operations of foreign subsidiaries in Oman	Foreign subsidiaries operating in Oman are subjected to an increased level of scrutiny. Related-party costs, such as recharges, corporate allocations, support services, etc., generally attract additional levels of scrutiny in the assessments for such companies. The rate of disallowance could be mitigated through documentation, such as transfer pricing reports.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Panama

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	25%	25%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	7%	7%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Panama has deposited its instrument of ratification for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI).
- ▶ The MLI will enter into force on 1 March 2021.
- ▶ The Government will continue to comply with international standards regarding transparency and the exchange of information.
- ▶ The Government will continue to implement and monitor minimum standards of the BEPS Action Plan.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Panama

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- There are no changes expected.

Taxes on digital business activity

- A draft bill was submitted before the Panamanian National Assembly in order to regulate digital platform taxation.
- The draft bill has not been approved and published in the Official Gazette as a Law

Taxes related to climate change or sustainability

- N/A

VAT/GST/sales taxes

- There are no changes expected.

Taxes on wages and employment

- There are no changes expected.

Panama

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The Panamanian Government has issued bonds to mitigate economic crisis due to COVID-19.

2.8 Names of current tax policy and tax administration leaders

Tax administration leaders:

- ▶ Laurentino Cortizo, President of the Republic of Panama
- ▶ Héctor Alexander, Ministry of Economy and Finances

Tax policy leaders:

- ▶ Publio De Gracia, Director of the General Directorate of Revenue

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Panama exchanged information automatically with the US in compliance with FATCA.
- ▶ Panama exchanged information automatically with 64 jurisdictions in accordance to the CRS MCAA.
- ▶ Panama has deposited its instrument of ratification for the MLI.

2.10 Pending tax proposals or consultations

- ▶ **Proposals:**
 - ▶ A draft bill was submitted before the Panamanian National Assembly in order to regulate digital platforms taxation; however, the draft bill has not been approved and published in the Official Gazette as a law
- ▶ **Consultations:**
 - ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Panamanian tax authorities have issued several measures and deferred the payment of specific taxes in order to help taxpayers mitigate the effects of the economic crisis due to COVID-19.
- ▶ The tax authorities have issued tax amnesty programs for such purposes.

3.2 Key enforcement developments seen in 2020

- ▶ No key enforcement developments occurred in Panama in 2020.

3.3 Likely enforcement developments in 2021

- ▶ We do not expect any enforcement development in 2021.

Panama

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Sales tax (VAT – ITBMS (Panama Sales Tax))	The tax authorities will continue to monitor the correct remittance of ITBMS (VAT) by taxpayers and withholding agents.
2	Compliance with obligations related to the exchange of information	The tax authorities will continue focusing on compliance with CRS and FATCA obligations by reporting financial institutions.
3	Tax refunds	Amid the COVID-19 outbreak, the tax authorities indicated that the institution would be focusing on resolving tax refund applications in order to provide taxpayers, if applicable, with cash flow.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Peru

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	29.5%	29.5%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%	30%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	18%	18%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Beginning in 2020, the Peruvian Government planned to boost the economy by increasing public investment, and between January and February, public investment grew by 11.2%; however, due to COVID-19, public investment was limited beginning in March as health expenses became the priority.
- As a result of the COVID-19 economic crisis, fiscal policy measures included higher public spending to support households and companies through direct subsidies and tax relief, including state guarantees for bank loans, mainly to small and micro-enterprises.
- Specific tax relief was introduced in order to contribute to the cash flow of businesses.
- A gradual economic recovery continues; economic activity expanded since August due to the reopening of commercial activities, and business confidence turned positive in October.
- The finance minister announced that mining and construction operations would not be limited in the event of a second national lock-down.
- Despite the negative effects of COVID-19 on public finances worldwide, Peru's debt ratings remain the same and its foreign currency exchange rates are stable.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
10. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ No changes are expected.

Taxes on digital business activity

- ▶ Peruvian tax authority has proposed the implementation of a VAT withholding levied on digital services provided by nonresident companies.
- ▶ The VAT would be levied at the standard VAT rate of 18%, no bill has been discussed in the Peruvian Congress yet.

Taxes related to climate change or sustainability

- ▶ No changes are expected.

VAT/GST or sales taxes

- ▶ No changes are expected.

Taxes on wages and employment

- ▶ No changes are expected

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.7 Political landscape

- ▶ Elections will take place in 2021.

2.8 Names of current tax policy and tax administration leaders

Tax administration leaders:

- ▶ Luis Enrique Vera Castillo, National Superintendent Chief of Customs and Tax Administration
- ▶ Marilu Haydee LLerena Aybar, National Superintendent of Customs
- ▶ Luis Antonio Acosta Vilchez, National Superintendent of Internal Taxes

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Installment tax payments deferred plans
- ▶ Measures to facilitate and reduce the payment of administrative tax debts
- ▶ Changes to corporate income tax pre-payments to aid Companies

- ▶ Five year carryforward of losses instead of four for companies (according to System A), counted from tax year 2021
- ▶ Special depreciation regime under which taxpayers may claim 20% depreciation for buildings and construction and assets acquired by taxpayers in tax years 2020 and 2021, provided the assets meet certain requirements
- ▶ Preferential tax regime to promote agribusiness was repealed (i.e., agrarian regime)
- ▶ Exchange of taxpayers' financial and tax information with more than 130 countries beginning in 2021 by Peruvian tax authorities
 - ▶ Exchanged in accordance with Common Reporting Standard and Multilateral Convention on Mutual Administrative Assistance in Tax Matters

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Tax on digital business activity
- ▶ Introduction of wealth tax
- ▶ Postpone new thin capitalization rules (30% EBITDA)

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Simplify the tax regime of small companies
- ▶ Administrative measures to support tax compliance of small businesses
- ▶ Simplify procedures with technology and digital measures
- ▶ Tax audits on large taxpayers
- ▶ Proactively build trust-based relationships with taxpayers, encouraging cooperative compliance, while still insisting on substance-based approaches
- ▶ Will apply highly robust scrutiny to all taxpayers, using all available tools and laws, but will generally be perceived as fair when dealing with taxpayers

3.2 Key enforcement developments seen in 2020

- ▶ See 2.9

3.3 Likely enforcement developments in 2021

- ▶ The tax authority's audits will continue to focus on transfer pricing transactions, mergers and acquisitions, and tax planning structures.
- ▶ The tax authority will continue to perform audit programs regarding large taxpayers.
- ▶ Country-by-country transfer pricing reports will be required for taxpayers who had non-Peruvian resident parent companies.
- ▶ No tax dispute resolution measures (BEPS Action 14) are in placed yet.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Disallowance of deductions	Deductibility of transaction costs
2	Transfer pricing	Peruvian tax authority will continue to audit low – and high-value services, headquarter and management services transactions, intercompany financing transactions, and procurement structures. Also, limitation on deductibility of costs based on domestic rules will take place with no significant bilateral transfer pricing adjustments.
3	Withholding taxes	Peruvian tax authority will audit the application of withholding taxes according to Peruvian base/rates tax rules on retribution of services, royalties, interests, capital gains and other payments to non-domiciled companies.
4	Tax refunds	In the current COVID-19 context, companies are requesting refunds of undue or excess tax payments. Considering that the tax regulations allow the Peruvian tax authority to initiate audits before the reimbursement takes place, the Peruvian tax authority will be encouraged to challenge the determination of IT/VAT tax to limit refunds.
5	Interest deductions	Companies will be subject to deep scrutiny regarding interest deductions considering thin capitalization rules.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30%/25% ¹	25%	-16.6%
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35%	35%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	12%	12%	–

¹ Imminent to be reduced to 25% starting 1 July 2020 due to a pending bill that is about to be signed into law by the Philippine President

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Rationalization of fiscal incentives through granting of incentives that are timebound, performance-based and transparent
- ▶ To sustain a fair and equitable tax system by lowering the rate, widening the tax base and reducing tax distortions and leakages
- ▶ To promote a progressive fiscal system that will allow inclusive growth and generation of jobs in all regions of the country particularly the less developed countryside
- ▶ To accelerate the digital tax transformation to promote an efficient tax assessment and collection system
- ▶ Reform taxation of the financial sector by simplifying its complicated tax structure; thus, reducing the high administrative and compliance cost
- ▶ Promote the fiscal autonomy of local governments to provide basic services to their constituency by enhancing their capacity to generate local revenues

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The corporate income tax is proposed to be reduced to 20% for SMEs and 25% for all others starting 1 July 2021.

Taxes on digital business activity

- ▶ There is a proposal to impose a 12% VAT on nonresident providers of digital services.

Taxes related to climate change or sustainability

- ▶ There is a tax incentive for enterprises who will generate power from renewable sources.

VAT/GST/sales taxes

- ▶ There are no plans to increase the VAT or further remove exemptions from VAT.

Taxes on wages and employment

- ▶ As of now, there is no indication of any change in the top marginal rate of 35%.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other (Please specify) We are seeing more intensified tax audits.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ A May 2022 national election is scheduled for the positions of the President, twelve senators and congressmen.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- ▶ Carlos G. Dominguez III, Secretary of Department of Finance
- ▶ Karl Chua, Secretary of National Economic and Development Authority

Tax administration leader

- ▶ Caesar R. Dulay, Commissioner of Bureau of Internal Revenue

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Streamlining of tax incentives, putting a sunset on the tax incentives (making them time-bound), reduction of corporate income tax, extension of NOL carryover to from three to five years
- ▶ Various COVID-19 measures to help businesses with their cash flow, cost and credit, including cash assistance, interest-free extension of loan payments, deferment of rental without penalty, etc.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Imposition of 12% VAT on digital services being provided by nonresident foreign suppliers
- ▶ Nationwide updating of real estate values
- ▶ Simplification of taxation of financial products and transactions

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Tax audits usually rely on comparisons of tax returns as opposed to figures in audited financial statements and cross-referencing of reportorial returns of other taxpayers
- ▶ Random tax compliance-checking drive by the tax authorities that can result in issuance of Mission Orders (surveillance of taxpayers) that often leads to forced closure of the establishment for alleged failures on tax compliance requirements
- ▶ An ongoing administrative tax amnesty that covers only the year 2018

3.2 Key enforcement developments seen in 2020

- ▶ The Bureau of Internal Revenue recently issued the requirement for submission of reportorial returns requiring detailed disclosure of related-party transactions. The reportorial return is required to be attached to the annual ITR of 2020.
- ▶ Tax audits in industries that gained during the COVID-19 pandemic, like e-commerce companies, have been prioritized.
- ▶ There is a renewed drive in closures of establishments for tax compliance violations.

3.3 Likely enforcement developments in 2021

- ▶ Emphasis on audit of companies with related-party transactions, requiring updating of transfer pricing documentations
- ▶ Intensified VAT audit program focusing only on checking of compliance with the VAT regulations, such as invoicing requirements

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Related-party transactions	To make sure that the transactions are conducted at arm's length and able to substantiate it with contemporaneous and adequate TP documentation
2	Compliance with withholding tax on local income payments	To make sure that withholding tax is deducted so inland revenue can check if the income recipient reported the payment as its income (noncompliance with the withholding tax obligations results in disallowance of the expense)
3	Industry-based audit	Includes e-commerce companies, hospitals, etc. (gainers from the COVID-19 pandemic)
4	Income payments to nonresident foreign suppliers of services	To scrutinize transactions with nonresident foreign suppliers, particularly those providing services to Philippine companies; inland revenue is becoming strict and often disallows the said payments as expenses for alleged failure to withhold the appropriate final withholding tax
5	Mandatory tax audit of closing companies	To audit the last two or three years of operations of companies that have closed or will close as a result of the pandemic

Philippines

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Poland

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 15 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	19% (9% for small taxpayers)	19% (9% for small taxpayers)	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	17%/32%	17%/32%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	23%	23%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Closing loopholes in income taxes (CIT and PIT)
- ▶ Introduction of new charges, e.g., implementation of sweetened beverage tax (SBT)
- ▶ Digitalization of information sent to tax authorities, e.g., replacement of traditional VAT return (VAT-7 form) with JPK_V7M file

2.2 Tax changes in 2021

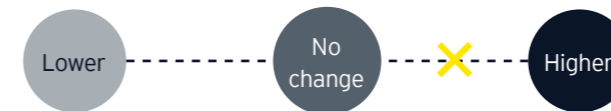
Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
7. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input checked="" type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Effective double CIT or PIT for partners of limited partnerships and some general partnerships: partnerships to pay CIT, and their partners to pay additional income tax on the profits distributed to them
- ▶ Limited liability partnerships to be free to choose their taxpayer status effective from either 1 January 2021 or 1 May 2021
- ▶ Implementation of Anti-Tax Avoidance Directive – ATAD 2 preventing exploitation of hybrid mismatches (e.g., elimination of double deduction or deduction without inclusion)
- ▶ More stringent tax depreciation rules closer to the corresponding accounting standards
- ▶ Selected CIT taxpayers required to draw up and publish their tax policies and changes affecting their transfer pricing
- ▶ Restricted deductibility of tax losses under certain circumstances
- ▶ A division of property owned by a liquidated legal person will be taxable
- ▶ Revised rules for calculating the threshold of interest and debt financing costs to be recognized as tax deductible costs

- ▶ Entities benefiting from a tax exemption not free to change their rate of depreciation
- ▶ The requirement to report tax on the transfer of shares in the so-called real estate companies to be shifted from the seller to a real estate company
- ▶ Extended list of transactions subject to verification for compliance with the arm's length principle
- ▶ Increase in the threshold for "small taxpayer" benefiting from the lower 9% CIT rate from €1.2m to €2m
- ▶ Deferred introduction of the withholding tax payment and refund system until 30 June 2021
- ▶ Tax relief for robotization: additional deduction of 50% of eligible investment costs from the tax base; applies to brand new industrial robots and fixed assets directly and functionally integrated with the robot

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST/sales taxes

- ▶ New charge on certain sweetened beverages applies to two types of drinks:
 - ▶ Beverages containing substances used for sweetening properties and/or caffeine/taurine (with certain exceptions, like dietary supplements and food for special medical purposes) – SBT will depend on sugar content in 100 ml of product
 - ▶ Alcoholic drinks of up to 300 ml – SBT will depend on a total capacity of alcohol
- ▶ Implementation of SLIM VAT package that offers VAT compliance simplifications (changes, e.g., facilitate the treatment of correction invoices, simplify the reporting of export of goods, raise the thresholds for gifts of small value, and improve the so-called split payment mechanism)

Taxes on wages and employment

- ▶ The so-called PIT abolition relief for natural persons who are partners of foreign partnerships to be cancelled

2.5 In 2021, what do you believe your jurisdiction’s primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The Government continues its policy of eliminating gaps and mismatches in tax rules that result in an increase in tax collection. In addition, new taxes are implemented, e.g., charge on certain beverages. Major income tax reform is scheduled to take effect in 2021.
- ▶ Presidential election took place in Poland in 2020.
- ▶ No presidential or parliamentary elections are planned or expected for three years.

2.8 Names of current tax policy and tax administration leaders

- ▶ Tadeusz Kościński, Minister of Finance, Development Funds and Regional Policy
- ▶ Magdalena Rzeczkowska, Secretary of State, Head of the National Revenue Administration
- ▶ Anna Chałupa, Undersecretary of State, Deputy Head of the National Revenue Administration
- ▶ Sebastian Skuza, Secretary of State, General Inspector of Financial Information
- ▶ Jan Sarnowski, Undersecretary of State, Plenipotentiary for international cooperation in the field of VAT
- ▶ Piotr Patkowski, Undersecretary of State, Chief Spokesman for Public Finance Discipline
- ▶ Renata Oszast, General Director, Ministry of Finance

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Updated rules on Polish VAT rate matrix, which moved from application of the outdated local statistical rules (2008) in favor of the Combined Nomenclature (CN), Polish Classification of Construction Industry (PKOB) and existing Polish Classification of Goods and Services (2015)
- ▶ New levy on VOD platforms – 1.5% of the revenues obtained from subscription payments or advertising revenues; levy is applicable to entities providing VOD services
- ▶ Implementation of “bad-debt relief” in income taxes rules (PIT and CIT) previously only applicable to VAT
- ▶ Introduction of “white list of VAT taxpayers” – payments exceeding PLN15k must be settled to an account included in the list, otherwise penalties apply
- ▶ Introduction of individual bank accounts for taxes in Poland – tax liabilities related to PIT, CIT, VAT are transferred to generated, unique tax micro accounts

2.10 Pending tax proposals or consultations

Proposals:

- ▶ N/A

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The approach depends on the particular tax authority practice and/or the background of the case.
- ▶ In a few cases, we have experienced an open approach, focusing on substance of the case, while sometimes we can see that tax authorities are stronger with taxpayers, including threatening or using criminal sanctions.

3.2 Key enforcement developments seen in 2020

- ▶ Focus on WHT: challenging the basis for application WHT exemptions or lower rates (especially the status of the beneficial owner status of the payment recipient)

- ▶ Significant increase in the number and intensity of GAAR proceedings
- ▶ Continuation of the focus on transfer pricing audits

3.3 Likely enforcement developments in 2021

- ▶ Continuation of the key trends in tax audits/proceedings
- ▶ Tax audits focused on state aid related to minimizing the negative impact of the COVID-19 pandemic

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Withholding taxes/treaty benefits	Danish cases more and more often referred to by the authorities, retrospective "beneficial owner" application, new update on WHT regime from July 2021 expected
2	Indirect taxes	As an outcome of changes in the law; new reporting requirements
3	Transfer pricing	
4	Disallowance of deductions	
3	PE issues	

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





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Portugal

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 1 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	21% (additional levies, such as municipal and state surcharges may apply)	21% (additional levies, such as municipal and state surcharges may apply)	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	48%	48%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	23%	23%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Overall, stability in terms of tax rates for major taxes (CIT, IIT and VAT)
- ▶ Postponement of reporting deadlines due to COVID-19
- ▶ Postponement of some tax payment obligations (residual) due to COVID-19
- ▶ Residual reduction of withholding tax on salaries due to COVID-19
- ▶ Residual VAT rate reductions for specific items (COVID-19-related medical supplies, electricity)
- ▶ Increased tax rates for real estate in Portugal ultimately held by entities resident in blacklisted offshore jurisdictions (Portugal Property Transfer Tax (Imposto Municipal sobre a Transmissão Onerosa de Imóveis); Portugal Municipal Property Tax (Imposto Municipal sobre Imóveis))
- ▶ Changes in the Golden Visa residence scheme
- ▶ New reporting obligations related with DAC 6 (MDR) implementation

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Lower tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input checked="" type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
10. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
11. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



Portugal

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Some initiatives with low impact in terms of reduction of tax responsibility for small companies, postponement of tax obligations and payments, all related to the COVID-19 crisis

Taxes on digital business activity

- ▶ No relevant initiatives foreseen

Taxes related to climate change or sustainability

- ▶ No relevant initiatives foreseen

VAT/GST or sales taxes

- ▶ No relevant initiatives foreseen

Taxes on wages and employment

- ▶ No relevant initiatives foreseen

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.7 Political landscape

- ▶ Minority left government (Socialist Party) with informal support from other left parties (Communist Party, Left Block, Green Party, and PAN) in decisive matters, such as the approval of the State Budget for 2021
- ▶ Strong Presidential support to existing government solution

2.8 Names of current tax policy and tax administration leaders

- ▶ João Leão, Ministry of Finance
- ▶ António Mendonça Mendes, Secretary of State for Tax Affairs
- ▶ Helena Borges, Director General for Taxes

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ N/A

2.10 Pending tax proposals or consultations

Proposals:

- ▶ N/A

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

Based on the Portugal tax administration's 2019 report on the activities developed in terms of tax evasion and fraud, the general approach to enforcement has been:

- ▶ Following the leading practices of modern tax administrations, the Portugal tax administration will continue to invest in the strengthening, transparency and trust in its relationship with taxpayers, focusing on simplification and support for compliance, as drivers of induction to voluntary compliance.
- ▶ On the other hand, it will continue with an increasingly timely and assertive control of noncompliance situations and on those who insist on developing their activity outside the system or using fraudulent practices, thereby seeking to ensure greater fairness and fiscal justice by promoting the fair distribution of income of taxpayers or economic operators.

3.2 Key enforcement developments seen in 2020

- ▶ Generally aligned with 3.2.

3.3 Likely enforcement developments in 2021

- ▶ Generally aligned with 3.2.

Portugal

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Focus on: High-value services transactions Headquarter and management services transactions Limited-risk entity structures
2	Limitation of deductibility of costs based on domestic rules, not on transfer pricing adjustments	Failure to meet required criteria that eligible tax-deductible costs must be related to taxable income
3	Tax losses	Tax losses deducted in excess, including those above the thresholds foreseen in the applicable law, preclusion of tax losses or indirect impact of other adjustments that reduce the amount of tax losses available
4	Indirect taxes	Deduction of input VAT in real estate projects or expenses deemed not related with a business activity
5	Withholding tax	Double tax treaty or EU Directive benefits entitlement

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Qatar

[Return to Contents](#)

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Tax policy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	10%	10%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A	N/A	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	N/A	5% standard VAT rate may be introduced	Pending

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ BEPS Pillar 2
- ▶ 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 from dependence on oil and gas industry driven revenue

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021

Tax types	Likelihood of changes in 2021	Direction of change
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ We do not expect any change in rate or scope of corporate income tax.
- ▶ More focus is expected on tax revenue collection under the new General Tax Authority as part of the National Vision 2030.

Taxes on digital business activity

- ▶ Qatar has not introduced specific taxes on digital business activities.
- ▶ It is yet to be seen whether the General Tax Authority will apply withholding tax on payments made to nonresidents on digital income.

Taxes related to climate change or sustainability

- ▶ We currently do not expect Qatar to introduce taxes related to climate change or sustainability.

VAT/GST/sales taxes

- ▶ Qatar is a signatory to the GCC VAT Framework, which was agreed in 2016 and signed by the GCC States in 2017.
- ▶ However, Qatar is one of the two remaining GCC States that has not implemented a VAT.

- ▶ There are discussions, however not official, that Qatar may introduce a VAT in 2021.

Taxes on wages and employment

- ▶ We do not expect Qatar to introduce taxes on wages and employment.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Stable

2.8 Names of current tax policy and tax administration leaders

- ▶ Ahmed Issa Al Ibrahim Al Mohannadi, General Tax Authority (GTA) Chairman
- ▶ Saleh Al Mulla, GTA Tax Policy Director
- ▶ Ali Al Khalifa, GTA Direct Tax Director
- ▶ Salah Guyeidi, Qatar Financial Centre Tax Director

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The State Tax Law was amended in December 2018 and the new Executive Regulations to the new State Income Tax Law were issued in December 2019; the major change covers transfer pricing documentation requirements and expansion of withholding tax base coverage.

- ▶ The Qatar Financial Centre (QFC) introduced certain tax incentives to qualifying QFC registered and authorized investment managers

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Qatar VAT tax law and regulations
- ▶ Potential tax incentives to support aircraft leasing/financing business in the QFC

Consultations:

- ▶ QFC - provision of a tax concession to QFC firms listed on the Qatar stock exchange; also included is the imposition of economic substance requirements for tax exempt vehicles to support the tax exemption election

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The QFC Tax Department (which is independent of the State General Tax Authority) 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 State General Tax Authority.

3.2 Key enforcement developments seen in 2020

- ▶ Launch of a new online tax administration portal
- ▶ Expansion of teams within the GTA to expedite review of tax submissions and clear the current bottleneck
- ▶ Focus on related-party transactions/transfer pricing documentation
- ▶ Heightened focus on WHT assessments

3.3 Likely enforcement developments in 2021

- ▶ Full automation of the tax administration process with the GTA

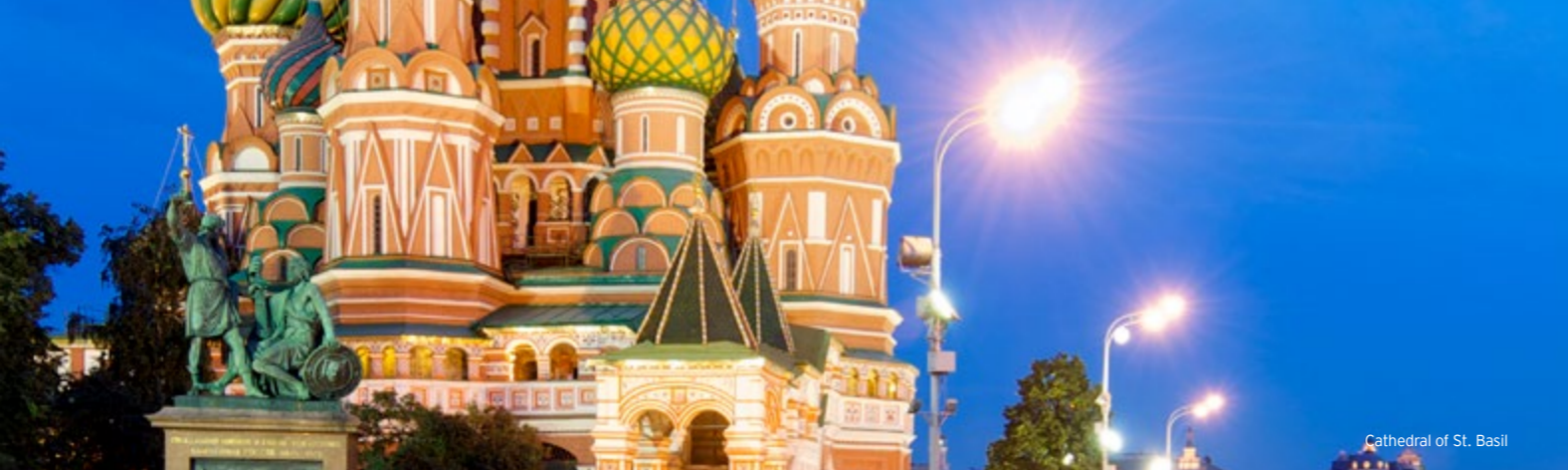
3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	Focus on: <ul style="list-style-type: none"> ▶ Full automation of the tax administration process with the GTA high-value services transactions ▶ Headquarter and management services transactions ▶ Intercompany financing transactions ▶ Limited-risk entity structures
2	Disallowance of deductions	Focus on: <ul style="list-style-type: none"> ▶ Interest deduction ▶ Management fees/sponsorship fees
3	WHT assessments	All submissions receive a desk audit
4	WHT refunds	Treaty benefits
5	Tax exemptions	Review of elections made to obtain tax exemptions

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Cathedral of St. Basil

Russia

[Return to Contents](#)

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 7 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Standard rate: 20% (3% Federal Budget and 17% Local Budget for 2017-2024) ¹ Low rates: 0%, 10%, 13%, 15%, 15,5%	Standard rate: 20% (3% Federal Budget and 17% Local Budget for 2017-2024) ² Low rates: 0%, 3%, 5%, 10%, 13%, 15%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Standard rate: 13% Low rate: 9% Increased rates: 35%, 30%, 15% ³	Standard rates: 13% and 15% ⁴ Low rate: 9% Increased rates: 35%, 30%, 15% ⁵	15% ⁶
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	Standard rate: 20% Low rates: 0%, 10% ⁷	Standard rate: 20% Low rates: 0%, 10% ⁸	–

¹ Article 284 of the Tax Code of the Russian Federation

² Article 284 of the Tax Code of the Russian Federation

³ Article 224 of the Tax Code of the Russian Federation

⁴ With respect to taxable income in excess of RUB 5 million for a tax period; Article 224 of the Tax Code of the Russian Federation (subject to amendments that came into effect since 2021)

⁵ Article 224 of the Tax Code of the Russian Federation

⁶ With respect to taxable income in excess of RUB 5 million for a tax period; Article 224 of the Tax Code of the Russian Federation (subject to amendments that came into effect since 2021)

⁷ Article 164 of the Tax Code of the Russian Federation

⁸ Article 164 of the Tax Code of the Russian Federation

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Further digitalization of tax administration, including by means of development of tax monitoring regime
- ▶ Measures aimed at de-offshorization of national economy
- ▶ COVID-19 anti-crisis measures
- ▶ Development of taxation of Special Administrative Regions (Russian offshores)
- ▶ Reduction of social contributions rates
- ▶ Introduction of new tax regime for IT companies
- ▶ Introduction of progressive scale for personal income tax
- ▶ Introduction of personal income tax with respect to income received by physical persons from bank deposits
- ▶ Improving the efficiency of granting tax benefits for mineral extraction

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
10. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes (Withholding taxes)

- Due to the COVID-19 crisis, the Russian Government changed the double tax treaties with certain countries (Cyprus, Luxembourg, Malta, etc.), increasing the withholding tax to 15% for dividends and interest, amendments to double tax treaties aimed at limitation of reduced WHT rates application are expected to come into effect.
- On 4 December 2020, Russia's Finance Ministry announced that it was in the process of drafting a bill denouncing the double taxation treaty with the Netherlands as multiple rounds of talks on amending the treaty had failed to bring the desired outcome, with the parties unable to reach a consensus over tax benefits in the context of the proposed increase in withholding tax rates for interest and dividends to 15%.

Taxes on digital business activity

- A new tax regime for IT companies has been introduced; from 1 January 2021, IT companies and companies that develop electronic products will be able to pay profits tax at the reduced rate of 3%, and the rate of social contributions will be reduced to 7.6%.

- Scope for the application of the VAT exemption for sales of software and database rights will be significantly diminished from 2021.

Taxes related to climate change or sustainability

- No change expected

VAT/GST/sales taxes

- No change expected

Taxes on wages and employment

- Beginning in 2021, 15% tax rate (previously 13%) shall be applied with respect to the income in excess of RUB 5 million for a tax period.
- In 2021, IT companies and small – and medium-sized enterprises shall pay social contributions using reduced rates.

Russia

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Amendments to double tax treaties aimed at limitation of reduced WHT rates application

2.7 Political landscape

- ▶ In 2020, significant changes took place in the Russian Government, notably, Mishustin (former Commissioner of the Federal tax Service) was appointed as Russian Prime Minister and other personnel replacements occurred.
- ▶ The Russian Government is actively reforming key national development institutions.

2.8 Names of current tax policy and tax administration leaders

- ▶ Anton Siluanov, Head of the Ministry of Finance
- ▶ Daniil Egorov, Commissioner of the Federal Tax Service

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Introduction of new tax regime for IT companies
- ▶ Introduction of progressive scale of personal income tax
- ▶ Amendments to double tax treaties aimed at limitation of reduced WHT rates application
- ▶ Introduction of CFC fixed tax as well other CFC-related amendments

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

General approach to tax enforcement is characterized by:

- ▶ Further digitalization and improving services for taxpayers
- ▶ Reduction of tax audit amount while simultaneously raising tax collection effectiveness
- ▶ Induce taxpayers into voluntary tax liability adjustments

3.2 Key enforcement developments seen in 2020

- ▶ Tax enforcement in 2020 was significantly influenced by the COVID-19 crisis, in particular (1) all on-site tax audits were suspended from March to July, (2) debt collection procedures were suspended until July, and (3) a bankruptcy moratorium was introduced until the end of 2020.
- ▶ An experiment on the taxation of self-employed people was extended to all regions, under which self-employed persons are liable to pay 4%/6% of their overall income instead of all other taxes and social security fees.

2.10 Pending tax proposals or consultations

▶ Proposals:

- ▶ The Ministry of Finance has proposed to return the tax on movable property assets.
- ▶ In 2019, movable property assets were excluded from the list of assets that are subject to property tax in accordance with Russian tax legislation.
- ▶ The amendment spurred tax audits related to requalification of movable property to real property for tax purposes.
- ▶ The proposal is aimed at reduction of the amount of tax disputes regarding proper qualification of property assets.
- ▶ The Ministry of Finance has proposed to consider the transition to new rules for determining the location of the sale of work (services) for VAT purposes (in the buyer's country approach).

▶ Consultations:

- ▶ All amendments by the Government bodies (ministries, agencies and alike) to tax legislation are routinely submitted for public consultations and discussion (through internet site www.regulation.gov.ru).

3.3 Likely enforcement developments in 2021

- ▶ Russian GAAR shall be more actively applied due to forthcoming issuance of clarification by the Federal Tax Service.
- ▶ Risk-based approach shall be more actively applied within pre-audit stage.
- ▶ Expansion of tax monitoring regime that is aimed at improving tax administration procedures, and that is being actively promoted by Russian tax authorities due to its broad abilities to interact with taxpayers online in real-time mode.
- ▶ Cross-border transactions performed by the taxpayers shall be more actively audited by the tax authorities given MLI commencement.

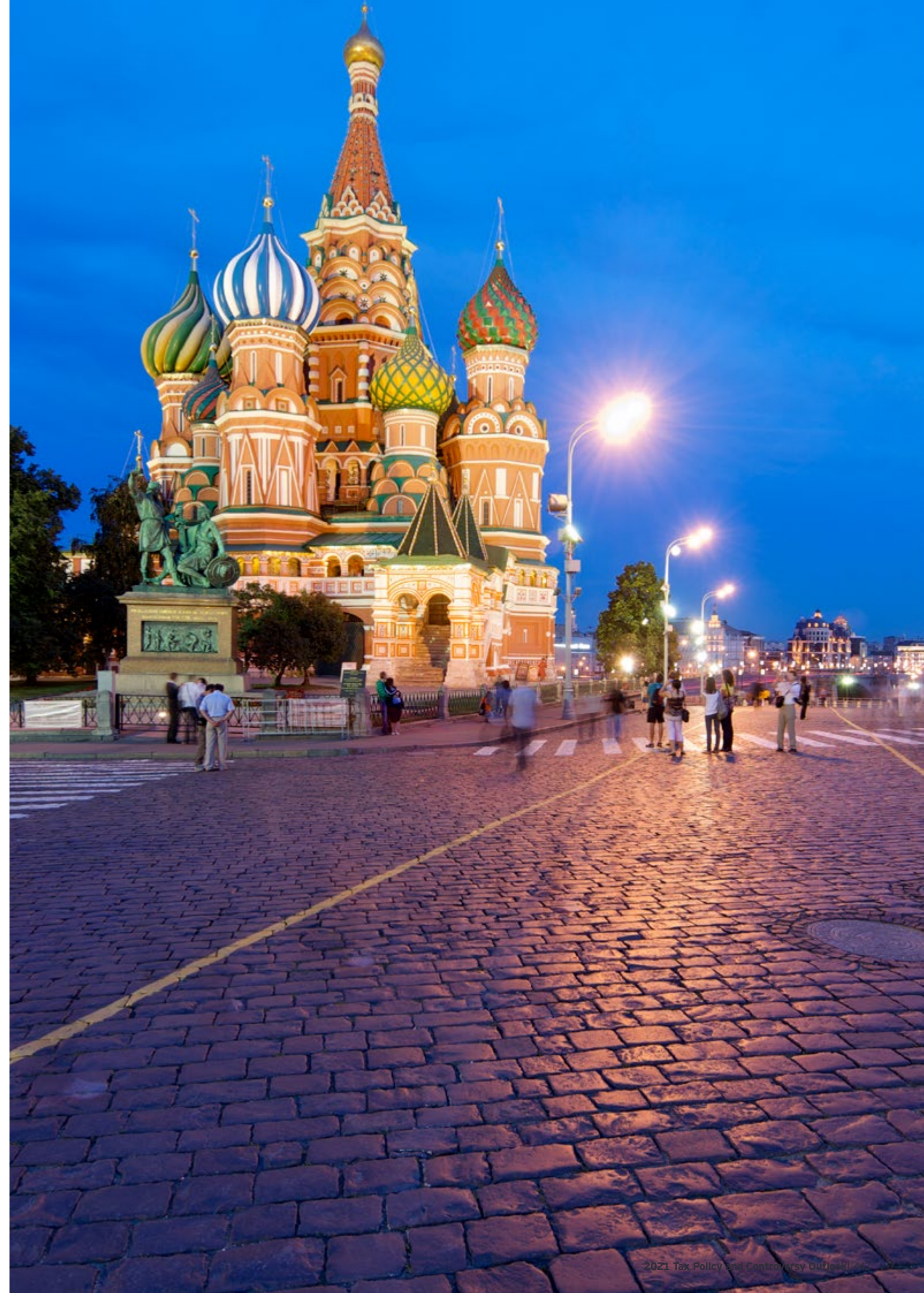
Russia

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Unjustified tax benefit	Tax authorities will scrutinize the good faith of a taxpayer's actions and seek to evidence the absence of the reality of transactions or intentional actions aimed at tax evasion.
2	Interaction with "mala fide" counterparties	It is expected that in 2021 there will be broad law enforcement practice related to application of Russian GAAR rules (54.1 TC RF) with respect to transactions performed by the taxpayers with "mala fide" counterparties, also stipulated by forthcoming clarifications prepared by Federal Tax Service regarding application of art. 54.1 TC RF.
3	Intragroup MNC transactions	It is expected that in 2021 there will be development of a law enforcement practice devoted to intragroup services. Tax authorities will scrutinize the business purpose of transactions and the existence of necessary documents with respect to operations.
4	Application of benefits prescribed under DTTs	It is expected that in 2021 there will be development of a law enforcement practice devoted to application by the taxpayers of benefits prescribed under DTTs. Given that the MLI in Russia came into effect on 1 January 2021, tax authorities will apply PPT and LOB tests while auditing taxpayer's transactions.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Saudi Arabia

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 1 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Up to 85% oil and hydrocarbon businesses Other businesses 20%	Up to 85% oil and hydrocarbon businesses Other businesses 20%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A	N/A	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	VAT 5% July 2020 increased to 15%	15%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Increase government income from tax to bridge deficit financing arising from low oil prices is expected.
- ▶ Foreign direct investment is one of the government's priorities to keep the economy moving positively; therefore, an overall tax rate increase is unlikely.
- ▶ Tax administration is currently focusing on expediting review and finalization of unassessed tax returns; their review process is focused on tax leakage.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate N/A	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Based on the current business climate, significant changes to the current corporate tax rates are not likely.
- ▶ The current focus is to perform focused reviews of unfinalized years to stop tax leakage by raising additional assessments where possible.

Taxes on digital business activity

- ▶ Saudi tax administration has not issued any draft law for public comments on a tax on digital business activities.
- ▶ However, since a DST is currently being discussed on a global basis, Saudi Arabia may have no choice but to impose a DST as one of the key global players.
- ▶ Saudi Tax Administration is invoking PE or virtual PE, where possible, based on the duration of the contract; disregarding the place of performance or the criteria set by the law for physical PE.

Taxes related to climate change or sustainability

- ▶ Not yet

VAT/GST/sales taxes

- ▶ 5% VAT was increased to 15% from July 2020; the increase of 10% was justified as due to the prevailing economic situation.
- ▶ No change in the VAT rate is expected in short or medium terms.
- ▶ VAT on real estate transactions has been replaced by the real estate transaction Tax at 5%.

Taxes on wages and employment

- ▶ N/A

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ No change

2.8 Names of current tax policy and tax administration leaders

- ▶ Mr. Suhail M. Abanmi, Governor of General Authority of Zakat and Tax

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ VAT rate increase from 5% to 15%

2.10 Pending tax proposals or consultations

Proposals:

- ▶ None

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Focused expedited review of filed tax returns to stop tax leakage as much as possible

3.3 Likely enforcement developments in 2021

- ▶ The current trend of focused reviews and additional assessments is likely to continue.

3.2 Key enforcement developments seen in 2020

- ▶ Same as 3.2

3.4 Top tax audit issues in 2021

	Issue name	Description
1	PE issues	Disregarding physical presence and invoking virtual PE due to contract duration and other factors
2	Treaty benefits	Arising from variance in the interpretation of the DTT provisions
3	Transfer pricing	Headquarter and management services transactions
4	Tax refunds	A request for refund usually leads to in-depth review of the tax filing basis

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Singapore

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021 ¹	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	17%	17%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	22%	22%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	7%	7% ²	–

¹ Any changes in the CIT rate and PIT rate for 2020 will be known during the Singapore Budget 2021, which is expected to be delivered in early 2021.

² GST rate increase to 9% is slated to occur between 2022 and 2025.

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Continue to support the transformation and restructuring of the economy by developing a conducive and vibrant environment for businesses to restructure, innovate and internationalize; Investing in economic resilience and sustainability as a source of competitive advantage
- ▶ To anchor Singapore as Global-Asia hub of technology, innovation and enterprise, to welcome investments, talents and ideas to Singapore, bring new opportunities and frontiers for firms and people, and forge new areas of collaboration
- ▶ To provide support to companies that innovate and expand through globalization, so that they can restructure to upgrade productivity and achieve quality growth
- ▶ To help firms build deep capabilities in their people and form deep partnerships between the Government and industry
- ▶ Continue to build a caring and inclusive society; providing Singaporeans access to opportunities through each stage of life, upgrade jobs and skills across all segments of society, keeping quality health care affordable, and fostering a community of care and contribution
- ▶ Continue to build Singapore as a global city and home for all, keeping it smart, sustainable and globally connected
- ▶ To sustain a fair and progressive fiscal system

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Singapore

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- As of now, there is no indication of any change in the corporate tax rate of 17% as the rate is generally competitive.

Taxes on digital business activity

- Direct tax
 - 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 tax
 - GST on imported services consumed in Singapore was implemented on 1 January 2020.

Taxes related to climate change or sustainability

- The Singapore Government has implemented a carbon tax on the emission of greenhouse gases since 2019.
- Singapore has continued to enhance incentives to encourage the adoption of cleaner and more environmentally friendly vehicles and also to revise the road tax structure and methodology for cars to better reflect the current trends in vehicle efficiency from January 2021.

Singapore

VAT/GST/sales taxes

- ▶ Proposed increase in GST rate
 - ▶ To support the expected increase in health care, security and other social spending, the GST rate will be raised from 7% to 9% sometime in the period between 2022 and 2025.
 - ▶ The exact timing will depend on the state of the economy, how much the expenditures grow and how buoyant the existing taxes are.
 - ▶ A \$6b GST Assurance Package was announced in the 2020 Budget to alleviate the proposed GST hike from 7% to 9%.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point

- ▶ Proposed increase in GST base
 - ▶ For imports of low-value goods (where the goods are imported by air or post and the value is below S\$400), it is still under review by the Government.

Taxes on wages and employment

- ▶ As of now, there is no indication of any change in the top marginal rate of 22% as the personal tax rates are generally perceived as being both progressive and competitive.
- ▶ Other (please specify) Deputy Prime Minister, Mr. Heng Swee Keat in his Ministerial Statement on 5 October 2020 indicated that close to S\$100 billion has been dedicated to support people and businesses through the COVID-19 period
- ▶ The Government has used past reserves and reallocated monies from other areas with reduced spending, such as development projects that have been delayed.
- ▶ To support the transformation of the economy, to build a fair and inclusive society, a sustainable and livable city, and a safe and secure Singapore, all these will be funded through higher taxes and more effective spending.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ 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.

2.8 Names of current tax policy and tax administration leaders

- ▶ Tax policy leaders:
 - ▶ Lee Hsien Loong, Prime Minister
 - ▶ Heng Swee Keat, Deputy Prime Minister and Minister for Finance
 - ▶ Tan Ching Yee, Permanent Secretary (Finance), Permanent Secretary (Special Duties) in the Prime Minister's Office and Chairman of the Board of Inland Revenue Authority of Singapore
- ▶ Tax administration leader:
 - ▶ Ng Wai Choong, Commissioner of Inland Revenue

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ A proposed 50% surcharge for tax avoidance arrangements was introduced to deter such arrangements.
- ▶ This will come into effect from year of assessment 2023 (affecting financial period ending in 2022) where a 50% surcharge will be imposed of additional tax payable when the Inland Revenue Authority of Singapore (IRAS) successfully applies the anti-avoidance legislation.
- ▶ Similar measures are proposed for GST and stamp duty.
- ▶ An amendment was proposed in 2020 for a new exception to the secrecy provisions to facilitate the disclosure of information to foreign tax authorities, with taxpayer's consent, for the purposes of Singapore's participation in multilateral tax compliance programs.
- ▶ Non-taxation of gains on disposal of ordinary shares – to provide upfront certainty to companies pursuing corporate restructuring, the exemption of gains or profits from disposal of ordinary shares (subject to conditions) will be extended to 31 December 2027.

Singapore

- ▶ To ensure consistency in the tax treatment for property-related business, the scheme will not apply to disposals of unlisted shares in an investee company that is in the business of trading, holding or developing immovable properties in Singapore and abroad.
- ▶ Various COVID-19 measures were introduced to help businesses with their cash flow, cost and credit; these include the Jobs Support Scheme, property tax rebate and rental relief where exemption from tax is granted subject to certain conditions.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ IRAS generally adopts a risk-based approach of identifying compliance risk and prioritizing and tailoring specific compliance programs.
- ▶ IRAS will take enforcement actions against noncompliant businesses and will not hesitate to penalize taxpayers for noncompliance as well as for incorrect tax filings.
- ▶ 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 better 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.
- ▶ An initiative to guide large companies in establishing good tax governance and effective internal control frameworks for corporate income tax was launched in 2020 (on a pilot basis) and expected to run in 2021 for large corporations on a voluntary basis.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ 2020 Budget and non-budget provisions have not yet been gazetted as of 30 November 2020.

Consultations:

Public consultations conducted by the Ministry of Finance/IRAS and closed as of 30 November 2020:

- ▶ Draft Income Tax (Amendment) Bill 2020
- ▶ Draft GST (Amendment) Bill 2020

3.2 Key enforcement developments seen in 2020

- ▶ The IRAS continued to strengthen their compliance capabilities by applying advanced analytics techniques in their compliance work, including audit selection and fraud detection.
- ▶ Periodically, the IRAS will publish areas of focus for purposes of their compliance and audit reviews.
- ▶ Singapore and the US signed a reciprocal Foreign Account Tax Compliance Act (FATCA) Model 1 Intergovernmental Agreement (IGA) that entered into force on 1 January 2021 superseding the nonreciprocal IGA signed on 9 December 2014.
- ▶ Singapore is in the third batch of Stage 2 peer review reports relating to the outcome of the peer monitoring of the implementation under Action 14 of the minimum standard on Dispute Resolution; Singapore solved some or almost all of the deficiencies identified in the Stage 1 review.

3.3 Likely enforcement developments in 2021

- ▶ Heightened controversy on related-party transactions, mandatory contemporaneous transfer pricing documentations and noncompliance with the arm's length principle, especially with the impact of COVID-19
- ▶ Continued focus by IRAS in the audit and investigation efforts on the missing trader fraud also known as carousel fraud

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Related-party transactions	To make sure that the transactions are conducted at arm's length and are substantiated with contemporaneous and adequate TP documentation
2	Withholding tax provisions	To make sure that withholding tax is deducted in accordance with the tax provisions; penalties are imposed for noncompliance
3	Incentivized taxpayers	To make sure that measures are put in place to identify and allocate income and expenses between concessionary tax rates and normal tax rate correctly
4	Sector based audit	These include hotels, leasing, renovation-related and funeral service industries
5	Non-taxability of income/gains from sale of properties	To make sure that the tax returns are filing correctly as Singapore does not impose tax on capital gain Hence, gains from sale of properties are taxable only if such gains are revenue in nature.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify): Voluntary adoption of a tax corporate governance framework in 2021 onwards	<input type="checkbox"/>	<input checked="" type="checkbox"/>



Slovakia

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 18 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	15%*/21%* As of 1 January 2020, preferential tax rate should apply to legal entities reporting income (revenues) not exceeding €100,000 in the relevant tax period	15%*/21%* As of 1 January 2021, preferential tax rate should apply to legal entities referred as “micro taxpayers” reporting income (revenues) not exceeding €49,790 in the relevant tax period	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	15%*/19%/25% on portion of gross income exceeding €3,096.95 per month* As of 1 January 2020, preferential tax rate should apply to self-employed persons reporting income (revenues) not exceeding €100,000 in the relevant tax period	15%*/19%/25% on portion of gross income exceeding € 4,511.43 per month* As of 1 January 2021, preferential tax rate should apply to legal entities referred as “micro taxpayers” reporting income (revenues) not exceeding €49,790 in the relevant tax period	–

VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	20%/10%* Applicable for some foodstuffs, pharmaceutical products, medical equipment for disabled persons, books (excluding e-books), accommodation services and, as of 1 January 2020, also for selected newspapers, magazines, periodicals and “healthy food” (e.g., dairy products, honey, apples)	20%/10%* Applicable for selected product (e.g., some foodstuffs, pharmaceutical products, medical equipment for disabled persons) 0% VAT rate has been recently approved for face masks in protection classes FFP2 and FFP3 (this rate will apply until 30 April 2021 once the respective amendment is signed by the president)	–
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Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Fiscal consolidation – main driver
- Increase of state income
- Fight against tax fraud and tax evasion
- Tax system consolidation
- Dealing with the consequences of COVID-19 pandemic

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

Slovakia

Tax types	Likelihood of changes in 2021	Direction of change
1. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
3. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
5. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
6. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
7. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
8. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
10. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
11. VAT, GST or sales tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
16. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall VAT/GST or sales tax responsibility



Overall individual income tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

Amendment to the Slovak Income Tax Act (ITA) introduced, inter alia, the following changes:

- ▶ The amendment specifies more precisely the definition of the registered office and place of actual management as one of the criteria for determining the tax residence of a legal entity in Slovakia.
- ▶ A Council Directive (EU) in respect of the hybrid mismatches with third countries introducing the rules for a reverse hybrid entity was implemented. The rules in question prevent the existence of hybrid mismatches by considering the transparent entity as a taxpayer if the entity is considered as a taxpayer by its founder.
- ▶ Application of the rules for controlled foreign companies is extended also to individuals. The CFC rules should be applied to the profits of foreign legal entities seated in the so-called non-cooperating countries or whose income has not been taxed at least by the minimum effective tax rate and the relevant individual has a control or owns shares exceeding 10%.
- ▶ Taxation on the payments provided under the active labor policy for projects supporting the retention of jobs and employees in connection with the declaration of a state of emergency, emergency situation or special situation as a result of COVID-19 was exempted. In respect of such exempted transactions it should be noted that expenses incurred on

income not included in the tax base have to be considered tax nondeductible. The exemption will be applicable for tax returns that are to be filed after 31 December 2020, i.e., it will also apply to contributions received during 2020.

- ▶ The tax administration is obligated to notify the taxpayer of the amount and the due date of tax prepayments based on the filed tax return not later than five days before the due date of the tax prepayments, unless a decision on the payment of tax prepayments otherwise is issued.
- ▶ The obligation to settle tax prepayments paid by the deadline for filing a tax return was canceled.
- ▶ The option for an employee to request the annual settlement from any employer who is a taxpayer and who paid a taxable salary to the employee during the tax period was introduced.

Taxes on digital business activity

- ▶ Following the trend in taxation of digital economy at EU level, Slovakia adopted with effect from 1 January 2018, a unilateral measure allowing taxation of digital services concerning intermediation of accommodation and transfer services irrespective of the existence of physical presence of the service provider in Slovakia – so-called the concept of a digital permanent establishment.
- ▶ Nevertheless, because The Ministry of Finance 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.

Taxes related to climate change or sustainability

- ▶ We are not aware of any new taxes related to climate change or sustainability.

VAT/GST or sales taxes

- ▶ An approved Amendment to the Act on Value Added Tax introduces a number of significant changes.
- ▶ The six main changes concern the following:
 - ▶ Introduction of new rules for the taxation of cross-border supplies of goods and services provided to nontaxable persons, which include:
 - ▶ Cancellation of the VAT exemption on imports of consignments of value less than EUR 22
 - ▶ Expansion of the application of the one-stop shop
 - ▶ Introduction of the import one-stop shop (IOSS) tax for the import of goods with a value below EUR 150, as well as simplification arrangements in cases where IOSS cannot be used
 - ▶ Introduction of a correction of the tax base in the event of nonpayment for the supply of goods or services (if the specified conditions are met) and the related obligation to correct the deducted tax
 - ▶ Enhanced capability of proving the export of goods outside the EU
- ▶ Changes came into force on 1 January 2021, with the exception of the deadline for special amendments that enter into force on 1 July 2021.

Taxes on wages and employment

- ▶ According to the above-mentioned amendment to the ITA, individuals are considered Slovak tax residents if they are physically present in the Slovak Republic (SR) for a minimum of 183 whole or partial days in a calendar year, with the exception of commuters who enter SR on a daily basis for work. The amendment excludes this exception, meaning that daily commuters who annually spend more than 183 days in SR should be considered Slovak tax residents, which may lead to taxation of their worldwide income in Slovakia.
- ▶ The amendment extends the source of income of taxpayers with limited tax liability (Slovak tax nonresidents) to include income from sales of virtual currency if payments are directed from taxpayers with unlimited tax liability in Slovakia.

- ▶ Furthermore, under its current wording, the amendment seeks to remove the following beneficial tax treatments (partial or full tax exemptions) in the area of personal income taxation:
 - ▶ The holiday and child sport vouchers
 - ▶ The summer and Christmas cash payments provided to employees (more commonly known as 13th and 14th salaries)
 - ▶ The spa allowances
- ▶ Conversely, the amendment extends the benefit of a doubled tax bonus, which is currently available for dependent children younger than six.
- ▶ Most importantly, the amendment extends application of a reduced 15% self-employment tax rate to so-called micro taxpayers, defined as natural persons (freelancers) or legal persons (corporate entities) with income not exceeding €49,790 in a given tax period.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The last parliament elections were held in 2020 where the OĽaNO (Ordinary People and Independent Personalities party) won and formed a government.
- ▶ The next parliament elections will be held in 2024.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders:

- ▶ Eduard Heger, Minister of Finance
- ▶ Marcel Klimek, State Secretary, Ministry of Finance

Tax administration leaders:

- ▶ Jiří Žežulka, President of Financial Directorate
- ▶ Toško Beran, Vice President of Financial Directorate

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The measures described in section 2.4 were proposed and/or legislated for in 2020.

2.10 Pending tax proposals or consultations

- ▶ We are not aware of any other pending tax proposals or consultations.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ In light of the Directive on Administrative Cooperation in Taxation (DAC6), effective from 25 June 2018, introducing the MDR in Slovakia, the final MDR legislation (the Act) was approved in Slovakia in 2019. The main purpose of the Directive is to strengthen tax transparency and combat aggressive tax planning.
- ▶ The Act, which is effective from 1 July 2020, requires taxpayers or their intermediaries to disclose information on reportable cross-border arrangements to the relevant tax authorities.
- ▶ The local transposition should principally correspond to the DAC 6 Directive, and at this point, we do not have any indications that the Slovak tax authorities would deviate from the EU-conforming interpretation of the hallmarks.
- ▶ As defined by the Directive, reporting arrangements involve either two EU member states or a member state and a third country and contain one or more characteristics from a prescribed list (the hallmarks).

- ▶ Failure to comply with these legal requirements will be sanctioned by a penalty of up to €30,000, which can be imposed repeatedly.
- ▶ Following a recently adopted amendment to the DAC 6 Directive, the Ministry of Finance of the Slovak Republic deferred the original reporting deadlines by up to six months:
 - ▶ Reportable arrangements active during 25 June 2018 and 30 June 2020 must be reported by 28 February 2021.
 - ▶ Reportable arrangements active during 1 July 2020 to 31 December 2020 must be reported by 31 January 2021.
 - ▶ From 1 January 2021, the 30-day deadline applies for reporting reportable arrangements.

3.2 Key enforcement developments seen in 2020

- ▶ See above

3.3 Likely enforcement developments in 2021

- ▶ We are not aware of any tax enforcement developments in 2021.

3.4 Top tax audit in 2021

	Issue name	Description
1	Transfer pricing	The focus of the tax authorities in 2021 will continue to be on transfer pricing arrangements and tax deductibility of management fees charged by foreign entities from preferential tax regime jurisdictions.
2	Mandatory disclosure regime	See above (point 3.2)
3	CFC issues	<p>With effect from 1 January 2019, CFC rules were introduced, which consist of assigning the income of a low-taxed controlled subsidiary company to its parent company.</p> <p>A CFC for ITA purposes is a legal person, entity or permanent establishment that satisfies both of the following conditions:</p> <ul style="list-style-type: none"> ▶ A Slovak company or an entity has more than a 50% share of the assets, voting rights or profits of the controlled company (does not apply to a permanent establishment). ▶ Tax paid in the Slovak Republic on the income of this controlled company is lower than the difference between the corporate income tax that this controlled foreign company would have paid in the Slovak Republic after recalculating its tax base under Slovak law, and the tax paid by the company abroad. <p>If both the conditions above are met, the company (entity) is considered a controlled foreign company and the taxpayer is obliged to carry out specific tax base arrangements. In the case of a PE, only the second condition needs to be fulfilled.</p> <p>From 2022, new CFC rules will apply also to individuals (see point 2.4. above).</p>

Slovakia

4	MLI	<p>On 30 July 2018, the Slovak Republic ratified the OECD MLI. This should make changes to the double tax treaties concluded by the Slovak Republic. Following the ratification, on 20 September 2018, the Slovak Republic deposited its instrument of ratification with the OECD. MLI entered into force on the first day following a three-month period after the deposition, i.e., 1 January 2019. After entering into force, the MLI convention entered into effect with respect to withholding taxes on 1 January 2019, and with respect to all other taxes on or after 1 July 2019.</p> <p>We recommend monitoring OECD Matching Database in order to review changes in the respective DTTs.</p>
5	Tax deductibility of management fees	<p>Our practical experience from several recent tax audits shows that the tax authorities focus not only on the transfer pricing aspect of the transactions, but also on proving the actual provision of intra-group services by a related party. We have seen cases where the tax authorities rejected the tax deductibility of the full costs for the provided services, on the grounds that the taxpayer did not sufficiently prove the real benefit of the services received.</p>

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify): Due to the COVID-19 pandemic, tax authorities have been expediting tax refunds to taxpayers, and several tax relief measures have been introduced in response to this situation.	<input type="checkbox"/>	<input type="checkbox"/>





Slovenia

[Return to Contents](#)

EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	19%	19%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	For net annual tax base of more than €72,000.00, the personal income tax amounts to €22,480.00 + 50% for income over €72,000.00	For net annual tax base of more than €72,000.00, the personal income tax amounts to €22,480.00 + 50% for income over €72,000.00	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	VAT standard rate of 22 % and VAT reduced rate of 9.5% and 5%	VAT standard rate of 22% and VAT reduced rate of 9.5 % and 5%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The Ministry of Finance has created several proposals regarding taxation changes for year 2021; however, no increased rates are foreseen for any of the existing main taxes (e.g., CIT, VAT, PIT).
- ▶ The possible introduction of new taxes, such as a property tax, has also been put on hold; it is planned that some taxes will be reduced, the first being the tax on motor vehicles, as well as lower excise duties.
- ▶ As a response to the COVID-19 crisis, the Slovenian government is regularly accepting new temporary relief packages aimed at mitigating the consequences; therefore, new reliefs in 2021 are possible

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives - including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The National Assembly is considering minor changes to the Tonnage Tax Act, which introduces an alternative form of determining the tax base for the payment of corporate income tax, in the form of a flat rate for taxpayers operating in international maritime transport.
- ▶ The purpose of the change is the harmonization of domestic legislation, which determines the state aid scheme under the Tonnage Tax Act, with the applicable EU rules on state aid in maritime transport.
- ▶ The changes entered into force from 1 January 2021.

Taxes on digital business activity

- ▶ None

Taxes related to climate change or sustainability

- ▶ Proposed legislative change to the Excise Duty Act relating to reduction of the excise duty for natural gas, for the propulsion of vehicles to €0.00 within a transitional period until 31 December 2023

VAT/GST/sales taxes

- ▶ EU Council Directives 2017/2455 and 2019/1995 introduce changes to VAT legislation in the field of online distance sales of goods and services to final consumers within the European Union.
- ▶ The implementation of changes in the local legislation is planned for 1 July 2021, while draft amendments to the Slovenian Value-Added Tax Act are still being prepared.
- ▶ If the threshold of €10,000 is exceeded, companies will also have, in addition to the possibility of VAT registration in the consumer's country, the possibility to register to the "mini-one-stop-shop" scheme in their own country of residence.

Slovenia

- ▶ Certain changes took effect 1 January 2021 on the taxation of motor vehicles; the amendment to the Motor Vehicle Tax Act eliminates the additional motor vehicle tax, so-called luxury tax, which has so far been taxed on passenger cars with an engine capacity of more than 2,500 cc and on motorcycles, tricycles and quadricycles with more than 1,000 cc engine capacity.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Taxes on wages and employment

- ▶ No changes
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.7 Political landscape

- ▶ Current Slovenian government belongs is led by Janez Janša, the leader of Slovenian Democratic Party (SDS).
- ▶ The minimum salary was raised in 2020 and again on 1 January 2021.
- ▶ Long-term care legislation is coming in 2021, and health care insurance reform is pending.
- ▶ In 2021, Slovenia will take Presidency of the Council of the European Union.

2.8 Names of current tax policy and tax administration leaders

- ▶ Andrej Šircelj, Minister of Finance
- ▶ Irena Nunčič, temporary Director – General of Financial Administration of The Republic of Slovenia

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The biggest temporary policy changes were accepted with acts on determining interim measures for mitigation and remedying the consequences of the COVID-19 crisis with one through seven (t.i. "protikورونا paket 1-7")

2.10 Pending tax proposals or consultations

- ▶ Proposals: N/A
- ▶ Consultations: N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ **VAT:** control focused primarily on detecting systemic VAT evasion, detecting abuse of the VAT exemption in intra-EU supplies of goods, etc.
- ▶ **Corporate income tax and business income tax:** special emphasis placed on the control of fraud in connection with hidden profit distributions
- ▶ **Transfer pricing:** the control directed to taxpayers who are perceived to be at high risk of transfer pricing irregularities and was prioritized on taxpayers with a larger number of related-party transactions and with taxpayers who potentially show very low or negative tax base
- ▶ **Taxes and contributions on personal income:** focused on timely filing of withholding taxes and calculations of social security contributions for employment income for employed workers (with particular emphasis on posted workers abroad and employed operators), stock options, purchase of own shares

3.2 Key enforcement developments seen in 2020

- ▶ Audit activities focused also on excise duties, environmental taxes, the common agricultural policy and the organization of gambling.
- ▶ A special part of the audits covered the control of electronic commerce and activities, i.e., "FinTech enterprises" and overseeing activities related to digital assets (cryptocurrencies).

3.3 Likely enforcement developments in 2021

- ▶ Financial audits will likely continue to target similar areas in 2021, with control activities aimed at detecting and reducing tax and customs evasion and improving voluntary compliance with tax obligations.
- ▶ The fight against the grey economy also remains one of the priorities for the administration.

Slovenia

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Tax losses	Tax losses for companies involved in intercompany transactions are expected to be scrutinized.
2	Business restructuring	Transfer of functions/assets abroad should result in proper remuneration.
3	Low profitability in TP	Limited risk entities earning less than comparable entities will be the subject of transfer pricing adjustment.
4	CBC reports and DAC6 reports	Depending on the data that will be exchanged and certain risk detection parameters, these reports can lead to scrutiny.
5	VAT chain transactions	Chain transactions under VAT are expected to be scrutinized because of several abuses discovered in the past.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Safari in Serengeti of Tanzania

South Africa

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Tax policy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	28%	28%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	45%	45%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	15%	15%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Current tax policy must be seen in the context of broader fiscal policy aimed at reducing budget deficit and stabilizing public debt through boosting economic growth, increasing revenue collection, and reducing expenditure.
- ▶ In the short-to-medium term, increased revenue collection will come primarily from improved tax collection (i.e., stronger enforcement and enhanced compliance), rather than significant structural changes.
- ▶ Cross-border activities (i.e., inbound and outbound multinationals) and high-net-worth individuals top the list of enforcement targets.
- ▶ Further significant revisions to the tax system – structurally and broadening the tax base – are a clear aspect of current tax policy but have been pushed into the medium-to-long term in light of the pandemic.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

South Africa

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The current headline CIT rate in South Africa (SA) of 28% is considered to be “average” in the African regional context, but is recognized as being “high” compared to the OECD average. SA’s National Treasury does, therefore, acknowledge some competitive pressure to reduce the CIT rate.
- ▶ Fiscal policy concerns – notably the short-term recovery of revenue collections – mean that a downward adjustment to the CIT rate is unlikely in the short term. Equally, however, an increase in the CIT rate is also unlikely in light of the competitiveness concern (i.e., concern that it will have an inverse impact on the fiscal objective of boosting economic growth).
- ▶ The primary reliance on improved tax collection and administration is identified as the key short-term revenue initiative, with international taxes – with BEPS, in general, and transfer pricing, specifically – being the expressly mentioned in the Finance Ministry’s Budget Review.

Taxes on digital business activity

- ▶ There are no specific new proposals or indications in this respect. However, SA’s traditional position has been to stick relatively narrowly to the OECD’s BEPS recommendations, so the outcome of the 2021 deliberations on Action 1 (Pillars 1 and 2) will be critical.

Taxes related to climate change or sustainability

- ▶ A carbon tax came into effect in 2019, and no new initiatives are on the horizon for now.

VAT/GST or sales taxes

- ▶ SA’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 political controversy over the regressive nature of VAT, and the fact that 2018 already saw a 1% rate-hike – makes any rate-adjustments unlikely in the short-to-medium term.

South Africa

Taxes on wages and employment

- ▶ Structural and rate increases are unlikely in light of economic and employment concerns together with the fact that there has been a notable increase (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.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.7 Political landscape

- ▶ SA is a functioning parliamentary democracy with a clear separation between legislature, executive and independent judiciary.
- ▶ There is a dominant ruling party, but effective opposition also exists.
- ▶ Divisions within the ruling party have slowed delivery on the president's promises to effectively fight corruption, and structural economic and racial inequalities.

2.8 Names of current tax policy and tax administration leaders

- ▶ Tito Mboweni, Minister of Finance
- ▶ Ismail Momoniat, Deputy Director-General: Tax and Financial Sector Policy, National Treasury
- ▶ Yanga Mputa, Chief Director: Tax Policy, National Treasury
- ▶ Edward Kieswetter, Commissioner of SA Revenue Service

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ None (apart from temporary COVID-19-related relief measures)

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Extended rules on interest-limitation, which could potentially target aggregate interest expense in general (as opposed to the current rules that target only cross-border interest between connected persons)
- ▶ Limitation of assessed losses, which would limit the current-year utilization of assessed loss balance to only 80% of current-year taxable income

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ SA'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. However, there are many instances of overly broad interpretations (e.g., the meaning of "relevant information") and allegations of SARS breaching procedure. There has been a significant uptick in disputes relating to administration, procedure and SARS powers, but the rule of law (as regards the tax administration regime) remains robust and intact.
- ▶ The SARS continues to rely heavily on the pay-now-argue-later rules (i.e., reluctantly entertain suspension-of-payment applications).
- ▶ 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 court system.

3.2 Key enforcement developments seen in 2020

- ▶ There were major new developments. There was a slight continuation of developments initiated in 2019, but these were significantly muted because of the pandemic.

3.3 Likely enforcement developments in 2021

- ▶ Expectations for 2021 are mainly the continuation of initiatives suggested in 2019 that were not substantially progressed in 2020. These include:
 - ▶ Internal restructuring of internal specialist units
 - ▶ Continuing the modernization of the compliance system, as well as expanding reliance on third-party data (e.g., banks, exchange of information)
 - ▶ Recruitment drive to bolster expertise in areas such as international tax and transfer pricing, financial services, high-net-worth individuals and trusts, and so forth

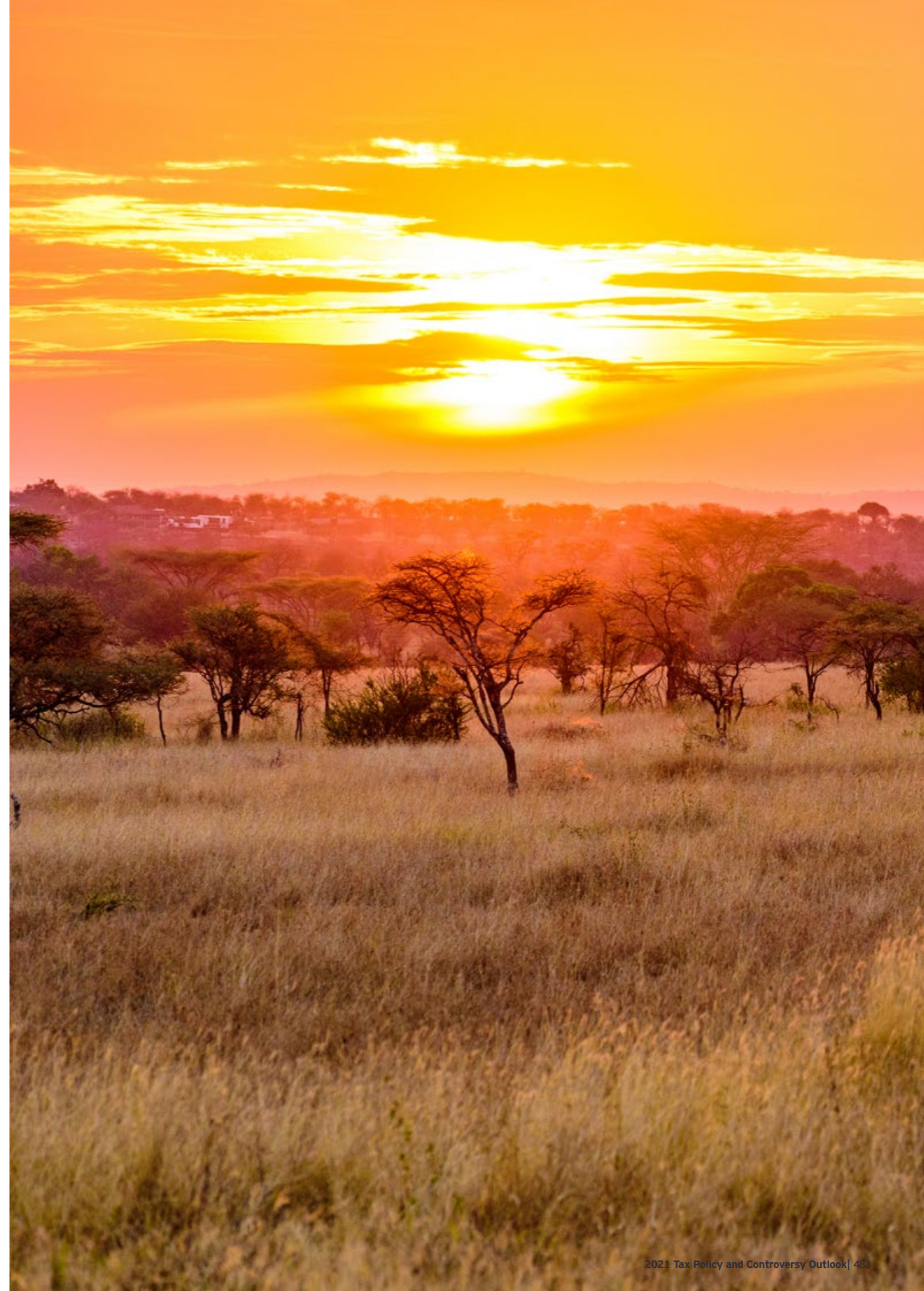
South Africa

3.4 Top tax audit issues in 2021

	Issuename	Description
1	Transfer pricing	Inbound (foreign-based) groups: limited-risk domestic entities, foreign procurement hubs Outbound (SA-based) groups: IP (including DEMPE) and high-value services, offshore marketing companies
2	CFC issues	Challenging foreign in-country substance of CFCs claiming the “foreign business establishment” exemption
3	Disallowance of deductions	For example, capital allowances (depreciation): challenging eligibility and write-off periods of specified assets.
4	VAT	Exports/mixed supply business
5	Employees’ tax	Tax compliance services for expats (a tangible benefit)

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Spain

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate	25%	25%	–
<i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	30% (for financial and oil and gas companies)	30% (for financial and oil and gas companies)	
	15% (newly created companies)	15% (newly created companies)	
Individual income tax – top rate	General base: 45%	General base: 47%	General base: 4%
<i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Saving base: 23%	Saving base: 26%	Saving base: 13%
VAT, GST or sales tax – standard rate	21% general VAT rate	21% general VAT rate	–
<i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	10% reduced VAT rate	10% reduced VAT rate	
	4% (super-reduced VAT rate)	4% (super-reduced VAT rate)	

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Exemption for dividends and capital gains from domestic and foreign subsidiaries would be limited to 95% of the income.
- ▶ The state tax rate applicable to income, other than savings, exceeding EUR 300,000 is increased by two percentage points, up to 24.50%.
- ▶ The state tax rate applicable to savings income (dividends, interest and certain capital gains) exceeding EUR 200,000 is increased to 13%.
- ▶ The highest tax rate of the net wealth tax increased from 2.5% to 3.5% for a taxable base up to EUR 10,695,996.06.
- ▶ The VAT rate for sweetened drinks increases to 21%.
- ▶ There is a decrease in the reduction applied to contributions made by the individuals to pension plans in personal income tax. The reduction applied will be the lower of the following amounts:
 - ▶ 30% of the sum of the net income from work and the economic activities received in the year
 - ▶ EUR 2,000 annually
- ▶ The reduction applied in personal income tax to the contributions made by the businesses to the pension plans increases to EUR 8,000.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Spain

Tax types	Likelihood of changes in 2021	Direction of change
1. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
10. Top marginal individual income tax rate	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
11. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
12. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
13. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Exemption for dividends and capital gains from domestic and foreign subsidiaries would be limited to 95% of the income. This 5% reduction is achieved by treating 5% of the income as nondeductible expenses.
- ▶ The Budget Bill also amends the minimum participation requirement such that the participation exemption will continue to apply only where the Spanish holding company owns more than 5% in the relevant subsidiaries, but it will no longer be available for subsidiaries with an investment cost of at least EUR 20 million as was the case until now.
- ▶ SOCIMIs will be taxed at the rate of 15% on undistributed profits.

Taxes on digital business activity

- ▶ Spain has approved a unilateral DST that will be applicable as of 16 January 2021.
- ▶ Only companies with worldwide revenues of €750 million per annum, with a total amount of taxable revenues obtained in Spain exceeding €3 million per annum, would be subject to this DST. The tax rate is set at 3% on the gross income derived from the referred services.

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST or sales taxes

- ▶ The value-added tax rate for sweetened drinks increases from 10% to 21%.

Taxes on wages and employment

- ▶ The state tax rate applicable to income, other than savings, exceeding €300,000 is increased by two percentage points, up to 24.50%.

- ▶ The state tax rate applicable to savings income (dividends, interest and certain capital gains) exceeding EUR 200,000 is increased to 13%.
- ▶ There is a decrease in the reduction applied to contributions made by the individuals to the pension plans. The reduction applied will be the lower of the following amounts:
 - ▶ 30% of the sum of the net income from work and the economic activities received in the year
 - ▶ EUR 2,000 annually
- ▶ The reduction applied to the contributions made by the businesses to the pension plans increases to €8,000.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ In Spain, 2020 was marked by the pandemic effects. The changes in consumer behavior resulting from the pandemic are mainly affecting the automotive and transport, manufacturing and consumer sectors. In contrast, media and entertainment, energy and construction, and real estate are the least affected. One of the sectors most affected by COVID-19 is tourism, which is one of the most important pillars of the Spanish economy.
- ▶ The unexpected arrival of the COVID-19 pandemic forced organizations to rethink their operating models. The closure of activities meant that steps were taken to change the supply chain. In addition, investment in automation and digital transformation was accelerated.
- ▶ In order to mitigate the impact of the COVID-19 pandemic, the EU's long-term budget totaled €1.8 billion, which will help rebuild a post-COVID-19 Europe that is greener, more digital and more resilient. Spain will invest €140 billion over six years in improving its health system and promoting the ecological and digital transition.

2.8 Names of current tax policy and tax administration leaders

- ▶ María Jesus Montero Cuadrado, Ministry of Finance
- ▶ Inés María Bardón Rafael, Secretary of State for Finance
- ▶ Jesús Gascón Catalán, Central Tax Administration Director
- ▶ María José Garde, Director General for Taxation

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Financial transaction tax
- ▶ Spanish DST enacted, effective 2021
- ▶ Anti-tax evasion bill
- ▶ Minimum interim payment on account of corporate income tax unconstitutional, per Spanish Constitutional Court
- ▶ VAT rate reductions to mitigate impact of COVID-19
- ▶ State-of-alarm tax implications
- ▶ Limits to dynamic interpretation of tax treaties

Spain

2.10 Pending tax proposals or consultations

Proposals:

- ▶ New indirect tax on nonreusable plastic packaging is being discussed by the Parliament in order to come into force in 2021. The taxable base of this “Spanish Plastic Tax” would be made up of the quantity, expressed in kilograms, of nonreusable plastic

packaging, and the tax rate would be EUR 0.45 per kilogram.

- ▶ Manufacturers of products subject to the tax and those who perform intra-community acquisitions or imports into Spain would be taxpayers.

Consultations:

- ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

Annually, the Spanish Tax Agency (STA) publishes a resolution determining the broad guidelines for the Tax and Customs Control Plan. The one for the year 2020 establishes the guidelines based on the following pillars:

- ▶ Information and assistance
- ▶ Prevention of noncompliance, promotion of voluntary compliance and fraud prevention
- ▶ Investigation and verification of tax and customs fraud
- ▶ Control of fraud in the collection phase
- ▶ Collaboration between the Tax Agency and the Tax Administrations of the Autonomous Communities

3.2 Key enforcement developments seen in 2020

- ▶ No developments of note

3.3 Likely enforcement developments in 2021

- ▶ Efforts to develop the “Code of good practices” between the taxpayer and the tax agency
- ▶ Reduce litigation
- ▶ New automated risk analysis system in the field of international taxation

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Transfer pricing	A new automated transfer pricing risk analysis system will be applied based on the full set of information available on related-party transactions.
2	Tax losses	The STA will focus a special verification plan in relation to those taxpayers who have repeatedly stated in their tax returns negative losses to be offset in the corporate income tax return.
3	Withholding taxes	Control of income obtained by nonresident artists and sportspersons performing on Spanish territory will be intensified.
4	Disallowance of deductions	Special verification plan in relation to those taxpayers who have repeatedly stated in their tax returns deductions will be applied in future the corporate income tax returns.
5	Cryptosystems	The STA will continue with auditing operations with cryptosystems and the tax risks involved.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify): Due to the COVID-19 pandemic, tax authorities have been expediting tax refunds to taxpayers, and several tax relief measures have been introduced in response to this situation.	<input type="checkbox"/>	<input type="checkbox"/>



Zermatt village with view of Matterhorn

Switzerland

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Overall tax rate on profit before tax taking into account federal, cantonal and communal taxes varies between 12% and 22% (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 22% (thereof approx. 7.8% federal tax)	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	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 <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	7.7%	7.7%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Switzerland as a whole and also the Swiss cantons are striving to remain competitive from a tax point of view.
- There is also “tax competition” among the Swiss cantons themselves.
- In 2020, Switzerland adopted a major corporate tax reform, which in many cantons included a reduction of CIT rate; in some cantons this reduction becomes effective in several steps over the next years or in general is delayed until 2021.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Switzerland

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ In Switzerland there was a huge tax reform in 2020; in 2021, no material change is expected.

Taxes on digital business activity

- ▶ N/A

Taxes related to climate change or sustainability

- ▶ N/A

VAT/GST/sales taxes

- ▶ N/A

Taxes on wages and employment

- ▶ No material changes expected

Switzerland

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate

- ▶ Individual
- ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The impact of Tax Reform and AHV Financing (TRAF) will unfold during the year.

2.8 Names of current tax policy and tax administration leaders

- ▶ Tax policy leader:
 - ▶ Ueli Maurer, Head of Federal Department of Finance
- ▶ Tax administration leaders:
 - ▶ Adrian Hug, Head of Swiss Federal Tax Administration
 - ▶ Daniela Stoffel, Head of Swiss State Secretariat for International Finance Matters

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ On 1 January 2020 the latest corporate tax reform package called TRAF, formerly known as Tax Proposal 17, entered into force.
 - ▶ TRAF includes the following measures:
 - ▶ Abolishment of special tax regimes, such as holding company, domicile company, mixed company, principal company and Swiss finance branch
 - ▶ Introduction of patent box (mandatory at cantonal level)
 - ▶ Introduction of R&D super deduction (optional at cantonal level)

- ▶ Introduction of transitional measures upon change of tax status
- ▶ Introduction of target relief of capital tax (optional at cantonal level)
- ▶ In addition to the tax measures, the law includes additional social security contributions (AHV Financing)
- ▶ Beside this federal tax reform, the reform has to be implemented on cantonal level; accordingly, all cantons conduct a similar reform project in parallel to the federal reform (in some cantons also subject to public referendum).
- ▶ In most cantons the cantonal implementation was accompanied with a reduction of the CIT rate to (partially) compensate for the abolishment of the tax statuses abroad.
- ▶ Various COVID-19 measures were introduced to help businesses with their cash flow, cost and credit; these include the Jobs Support Scheme, property tax rebate and rental relief where exemption from tax is granted subject to certain conditions.

2.10 Pending tax proposals or consultations

- ▶ The subsequent ordinary tax assessment will be extended.
- ▶ For example: all persons who are subject to withholding tax in Switzerland and who exceed a certain income level are subject to mandatory subsequent ordinary tax assessment.
- ▶ Financial fines shall in principle no longer be deductible in the future; however, foreign sanctions should be deductible in exceptional cases under certain conditions.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ No general approach for all tax authorities may be identified, as in Switzerland direct taxes are assessed by the 26 cantonal tax authorities based on their cantonal law (which is only partially harmonized).

- ▶ The Federal Tax authority and the cantons have reacted to the COVID-19 crisis by, for example, avoiding charging default interest or by granting extensions to file tax returns on a general basis.

3.3 Likely enforcement developments in 2021

- ▶ None

3.2 Key enforcement developments seen in 2020

- ▶ No general developments are expected.
- ▶ While some cantons and some divisions of the Federal Tax Administration seem to scrutinize tax filings, others still are dealing with taxpayers as clients and proactively building trust-based relationships.

Switzerland

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Varies/transfer pricing	Swiss Federal Tax Administration is carried out among the 26 Swiss cantons and also the Swiss federation itself. While transfer pricing continues to attract scrutiny, it is not possible to identify the focus areas of all 26 cantons in a publication of this nature.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Skyline of Taipei City

Taiwan

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 25 December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20%	20%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	40%	40%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	5%	5%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Responding to the developments of BEPS and CRS
- ▶ Establishing an income tax system that conforms to international trends
- ▶ Tax filing extensions and cuts in response to the COVID-19 pandemic

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
10. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Amending the tax regulations that conform to international trends, including transfer pricing regulations and DTA application regulations

Taxes on digital business activity

- Taiwan has been levying VAT and income tax on foreign digital service providers since 2017.
- We are not aware of major new developments for 2021.

Taxes related to climate change or sustainability

- Taiwan has not yet implemented a carbon tax policy or cap-and-trade system, but this issue has been under consideration.

VAT/GST or sales taxes

- No major new developments

Taxes on wages and employment

- No major new developments

Taiwan

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate

- ▶ Individual
- ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion	Not aware of
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.7 Political landscape

- ▶ President Tsai Ing-wen won a landslide victory for her reelection in Taiwan's 2020 presidential election.
- ▶ The Democratic Progressive Party still retains its majority in the Legislative Yuan.
- ▶ Tax policy as of now is likely to remain stable and consistent.

2.8 Names of current tax policy and tax administration leaders

- ▶ Su, Jain-Rong (蘇建榮), Minister of Ministry of Finance

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ New tax relief on the undistributed earning tax
- ▶ New tax incentives that give tax credits to businesses that invest in artificial-intelligence machinery or 5G-related equipment, technology or services and meet relevant requirements

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Ministry of Finance generally adopts a risk-based approach of identifying compliance risk and prioritizing and tailoring specific compliance programs. The Ministry will take enforcement actions against noncompliant businesses

3.2 Key enforcement developments seen in 2020

- ▶ The tax authority has been developing a big data system to improve the tax enforcement and information collection.

- ▶ Various COVID-19 measures to help businesses with their cash flow, cost, and credit
- ▶ Exchanging CRS information from September 2020

2.10 Pending tax proposals or consultations

- ▶ An amendment for the Income Basic Tax Act was proposed in 2020 to resume the AMT for individuals trading private company's shares. An individual who has a capital gain from trading shares of private companies is currently exempt from the PIT and the AMT. If the proposal is passed, individuals with capital gains from non-publicly traded share transactions should report the capital gains in their AMT return.
- ▶ A proposal in 2020 is to amend transfer pricing regulations for intangibles. The amendment includes the definition of intangibles, the transactions for intangibles and the degree of comparability, and the income method to assess the value of controlled transactions for the transfer and use of intangibles.

3.3 Likely enforcement developments in 2021

- ▶ Heightened controversy on related-party transactions, mandatory contemporaneous transfer pricing documentations and noncompliance with the arm's-length principle.

Taiwan

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Related-party transactions	To ensure that the transactions are conducted at arm's length and able to be substantiated with contemporaneous and adequate TP documentation
2	WHT compliance	To ensure that the withholding tax is levied in accordance with the tax provisions, penalties are imposed for noncompliance.
3	Tax compliance for foreign e-service provider	To ensure that a foreign e-service provider with Taiwan-sourced income has properly made a VAT registration in Taiwan, timely filing, the e-invoice issuing and the income tax liabilities
4	Management fees allocated from the foreign parent company or affiliates	The tax authorities frequently question the economic substance of the services rendered, the allocation method, and the availability of sufficient documents to support the tax deduction claim.
5	Amortization of goodwill	The tax authorities frequently challenge the valuation report supporting the calculation of goodwill and whether the transaction itself should give rise to goodwill.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify): Due to the COVID-19 pandemic, tax authorities have been expediting tax refunds to taxpayers, and several tax relief measures have been introduced in response to this situation.	<input type="checkbox"/>	<input checked="" type="checkbox"/>





Thailand

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 19 January 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20% ¹	20% ¹	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35% ²	35% ²	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	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 2021

2.1 Key drivers of tax policy change

- ▶ The Government continues to use tax incentives as a means to manage Thailand's economic development, including incentives to attract investment in advanced technologies, innovative activities, and research and development. These include a plan to accelerate the country's national electric vehicles (EV) road map to produce some 1.2 million EVs by 2036 and support the manufacture and use of EV through various tax schemes and investment incentives.
- ▶ With the introduction of the new Land and Building Tax Act, the Government hopes that the progressive tax system will encourage landowners to utilize their land and reduce the overall tax responsibility for property owners.
- ▶ To brace for the aging society, the Revenue Department is considering a revamp of the tax structure by raising the ratio of asset and consumption-based taxes as personal income tax revenue will likely fall in line with a decline in the working age population.
- ▶ To generate sustainable public revenue and to create fairness between domestic and foreign entrepreneurs that offer their services through online platforms, an e-business tax has been planned to be enforced in 2021. Once rolled out, the e-business tax will force overseas business operators offering online services to register for VAT liability with the Revenue Department.
- ▶ The extended impact of the COVID-19 pandemic may result in additional tax breaks or deferrals being granted to lessen the tax tax responsibility of businesses, especially SMEs.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Thailand

Tax types	Likelihood of changes in 2021	Direction of change
1. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
4. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
7. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
10. VAT, GST or sales tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
11. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
14. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



Thailand

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Regarding Thailand's Transfer Pricing Act, which has been in effect from accounting years starting on or after 1 January 2019:
- ▶ On 16 November 2020, the Ministerial Regulation No. 369 (B.E. 2563) offered further clarification regarding the adjustment of income and expenses by the Revenue Department when making assessments under Section 71 Bis paragraph one of the Thai Revenue Code. Key content is as follows:
 - ▶ "Related party" is defined with reference to definition in Section 71 Bis paragraph two.
 - ▶ The "commercial or financial terms" subject to TP assessment include any terms, agreements or contracts relating to the purchase and sale of goods or services, marketing, advertising or other commercial services, or provision of loans, financial assistance/cooperation, or other financial related transactions; regardless of whether these are executed under a formal letter or contract.
 - ▶ Section 71 Bis paragraph one grants tax officers the power to make assessment on transactions between related parties that have commercial or financial terms that differ from those to which would be agreed by third parties.
 - ▶ Adjustments of income or expenses by tax officers making transfer pricing assessments shall be made in accordance with the provided guidelines.
 - ▶ Assessment impacts not only corporate income tax but also withholding tax on overseas payments and profit remittances under Section 70 and 70 Bis of the Revenue Code.
- ▶ Published 16 November 2020, Ministerial Regulation No. 370 (B.E. 2563) prescribes the annual revenue exemption threshold from submission of the transfer pricing disclosure form and documentation requirements to be THB 200 million for accounting periods beginning on 1 January 2019.
- ▶ The Government has gazetted tax exemptions for transactions relating to debt restructuring between debtors and financial institutions or other creditors conducted from 1 January 2020 to 31 December 2021.
- ▶ The debt restructuring transactions that are exempted by the Ministry of Finance in accordance with the debt restructuring guidelines.

Taxes on digital business activity

- ▶ The Director-General of the Revenue Department gave a public interview stating that the draft VAT Bill on Foreign Digital Services is tentative to come into effect in Thailand in mid-2021. The substantial changes under the draft VAT bill on foreign e-business (digital services) include the following:
 - ▶ Foreign e-business operators that provide electronic services to non-VAT registrants in Thailand will be required to register for and pay Thai VAT and file VAT returns with the Revenue Department.
 - ▶ The VAT registration threshold for such foreign e-business operators is THB 1.8 million per annum, which is the threshold applicable to local operators.
 - ▶ VAT registration, tax payment and filing will be simplified and can be done electronically.
 - ▶ No input tax can be deducted in the VAT computation.
 - ▶ No tax invoice can be issued.

Taxes related to climate change or sustainability

- ▶ Royal Decree No.702 provides companies an additional 25% deduction for costs incurred by companies for purchasing certified biodegradable plastic products from 1 January 2019 to 31 December 2021 in order to promote a reduction of non-biodegradable plastic waste.

VAT/GST or sales taxes

- ▶ The reduced VAT rate of 7% has been extended for another year, until 30 September 2021.

Taxes on wages and employment

- ▶ N/A

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Despite the ongoing political tensions, the current Government still maintains political control over the country. As a result, existing and upcoming tax schemes are likely to remain unaffected by short-term political developments.
- ▶ To some extent, the economic effects of the COVID-19 pandemic have taken pressure off government agencies to meet current tax revenue targets.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- ▶ Mr. Arkhom Termpittayapaisith , Minister of Finance
- ▶ Ms. Kulaya Tantitemit, Acting for Director General of Fiscal Policy Office

Tax administration leaders

- ▶ Dr. Ekniti Nitithanprapas, Director General of Revenue Department

- ▶ Ms. Apinya Jongwattanatam , Director of Bureau of Large Business Tax Administration
- ▶ Ms. Duangjai Asawachintachit, Secretary General of the Board of Investment
- ▶ Mr. Krisada Chinavicharana, Director General of Customs Department
- ▶ Mr. Lavaron Sangsnit, Director General of Excise Department

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ The Thai Revenue Department highly encourages taxpayers to apply the tax electronic system in order to help the taxpayers and support the Thailand 4.0 policy.
- ▶ Tax measures in terms of a withholding tax rate reduction and extension of tax returns filing and payment deadline have been introduced to help alleviate burdens and maintain the cash flow of corporate and individual taxpayers due to the COVID-19 situation.

Thailand

2.10 Pending tax proposals or consultations

Proposals:

- ▶ The draft VAT Bill on foreign e-business (digital services)

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Increase in tax audit activities, especially on transfer pricing-related matters, including domestic related-party transactions, and developing the application for the Risk Based Audit System, used to identify risky taxpayers and analyze taxpayers' behavior
- ▶ Adopt secondary adjustment (i.e., deemed dividend) on profit uplift resulting from transfer pricing tax audits
- ▶ Focus on tax planning transactions, especially on group reorganizations and transfer pricing issues

3.2 Key enforcement developments seen in 2020

- ▶ Enforcement of the Land and Building Tax Act B.E. 2562 (2019) through the issuance of Ministerial Regulations
- ▶ Enforcement of Transfer Pricing Act
- ▶ Improvement of data analytics in order to help increase the efficiency of tax collection and tax investigation

3.3 Likely enforcement developments in 2021

- ▶ The main focus of tax authorities and tax enforcement approaches implemented in 2020 will be strictly applied to taxpayers in 2021.
- ▶ A number of developments in the area of tax enforcement in relation to e-commerce and transfer pricing are expected in 2021.
- ▶ An expected draft amendment to the Thai Revenue Code regarding international information exchange pursuant to requests made under agreements concluded with foreign governments or international organizations, or by the Thailand Trade and Economic Office (TTEO) would authorize the Director General of the Revenue Department to order collection and delivery of tax-related and other information requested by officials or required under agreements with other countries or international organizations, or between the TTEO and foreign agencies.
- ▶ A new bad debt write-off procedure will become effective in 2021, which will apply to SMEs due to COVID-19 effects.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Related-party transactions	Related – party transactions will be focus of the tax authorities in 2021 as the disclosure of intercompany entities, including type of transactions, shall be required under the Transfer Pricing Act.
2	Transfer pricing	The focuses of the tax authorities in 2021 will include negative margins, cost allocation, management fees and royalty payments.
3	Tax planning related to corporate reorganization with a view to shifting profit without appropriate grounds	The focus of the tax authorities in 2021 will be transactions (usually those carried out by large taxpayers) that result in profit shifting. The tax authorities intend to audit corporate restructurings, mergers and acquisitions and focus on those they feel are conducted without business rationale or other substance.
4	E-commerce	Due to the rapid growth in e-commerce, the tax authorities are rapidly developing and implementing tax laws and regulations governing e-commerce and online payment transactions. The tax authorities will strongly focus on internet/online transactions in 2021.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify): Due to the COVID-19 pandemic, tax authorities have been expediting tax refunds to taxpayers, and several tax relief measures have been introduced in response to this situation.	<input checked="" type="checkbox"/>	<input type="checkbox"/>



Turkey

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 12 July 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	22%	20%	-9%
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	35%	35%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	18%	18%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ Bringing more foreign investments and revising tax implications and complexity:
 - ▶ The COVID-19 pandemic unfavorably affected the Turkish economy, which has been struggling with high inflation and high exchange rates for two years.
 - ▶ The Government views the COVID-19 pandemic as an opportunity to bring more foreign investments into the country and increase trade capacity.
 - ▶ In this perspective, revision of tax policies is expected; however, no serious steps have been taken in this manner so far.
- ▶ Effective collection of taxes:
 - ▶ The collection rates of taxes have been low due to a struggling economy.
- ▶ Recently, legislation that regulates a restructuring opportunity for finalized tax debts was passed by the Parliament. The law is aimed at collecting the unpaid tax debts from the taxpayers by facilitating the payment terms.
- ▶ There are rumours about the introduction of an additional law for tax amnesty in 2021.
- ▶ Introduction of new tax laws:
 - ▶ The valuable house tax is effective in 2021.
 - ▶ The accommodation tax will enter into force in 2022.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Turkey

Tax types	Likelihood of changes in 2021	Direction of change
1. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
3. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
4. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
7. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
8. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
9. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
10. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
12. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
13. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
14. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST or sales tax responsibility



Turkey

2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ Currently, there are rumours of lowering the corporate tax rate for FY21 and beyond. However, nothing concrete has been done so far.

Taxes on digital business activity

- ▶ The digital services tax entered into force in 2020. This is a highly emphasized topic by the Ministry of Economy and Finance, and digital service providers will be under scrutiny by the tax administration.

Taxes related to climate change or sustainability

- ▶ These topics are currently not on the agenda for the Turkish legislators.

VAT/GST or sales taxes

- ▶ There might be project-based exemptions, however, these are not on the agenda for FY21 currently.

Taxes on wages and employment

- ▶ Due to the COVID-19 pandemic, there are multiple suggestions to reduce taxes on wages, one of them being to exempt minimum wage from tax in order to increase the falling employment rates.

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ In recent events, the Turkish economy has taken a significant hit and suffered losses against foreign currencies for nearly two years. Also, inflation rates for these years are higher than expectations.
- ▶ The Minister of Finance and Treasury, Berat Albayrak, resigned on 8 November 2020, and was replaced by the former Minister of Transportation, Maritime Affairs and Communications, Lütfi Elvan.
- ▶ It is expected that Mr. Elvan will utilize interest instruments against rising inflation and is deemed as pro-business. In the first month of his appointment, both the Turkish stock exchange and Turkish Lira recovered more than 10% of their losses for the year.
- ▶ Moreover, Mr. Elvan has frequently given speeches that tax implications will be revised to provide a more business-friendly environment for foreign investments. On the other hand, the tax inspections continue very extensively on almost all sectors.

2.8 Names of current tax policy and tax administration leaders

- ▶ Lütfi Elvan, Minister of Finance and Treasury
- ▶ Bülent Aksu, Nureddin Nebati, Osman Dinçbaş, Deputy Ministers of Finance and Treasury
- ▶ Murat Uysal, President of Central Bank
- ▶ Bekir Bayraktar, Commissioner of Tax Revenue Administration

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ A Draft Law on the MLI was submitted to the Turkish Parliament Plan and Budget Committee on 2 June 2020, thereby officially starting the ratification process of the MLI.
- ▶ The valuable house tax and the accommodation tax were expected to come into force in 2020, but implementation was extended to 2021 for the valuable house tax and to 2022 for the accommodation tax.
- ▶ The digital services tax law was introduced on 1 March 2020.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ N/A

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The tax administration tends to approach audits very aggressively, and the claims and requests in audit reports are sometimes very controversial and broad. In general, the tax administration is forcing taxpayers to pay more taxes by increasing the tax audits in all companies and sectors. It may be stated that the main and very common topics subject to these audits are beneficial ownership in terms of taxation of dividends, turnover premiums and evaluation of payments in return of intra-group services as royalties, and transfer pricing implications due to unclear regulations about transfer pricing methods in various instances.
- ▶ Also, the tax administration is reluctant to utilize tax incentives and tax concessions in favor of taxpayers. In some cases, litigation has to be initiated upon the rejection of applications in order to provide benefits to a taxpayer that was already entitled to them.

3.2 Key enforcement developments seen in 2020

- ▶ As mentioned above, legislation regulating the restructuring opportunity for final and payable tax debts came into force very recently.

3.3 Likely enforcement developments in 2021

- ▶ As mentioned above, the ratification process of the MLI began in 2020 and it is expected to be ratified in 2021.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Treaty benefits	The criticisms related to the beneficial ownership concept usually come up when it comes to dividend taxation. It is expected that such criticisms will increase and be harder to defend following the ratification of the MLI.
2	Tax refunds	There are various problems concerning tax refunds, especially in terms of VAT. Examples include turnover premiums and uncertainty regarding the tax refund period for taxpayers subject to special accounting periods.
3	Withholding taxes	The tax administration has tendency to claim that the intra-group services provided to Turkish group companies are royalties in nature, and thus, the service fee paid should be treated as a royalty payment and subjected to withholding tax. While most MNCs prefer to exchange services requiring specialization between group companies due to economies of scale and other benefits, many tax controversies are expected to arise in relation with this matter.
4	Transfer pricing	Transfer pricing practices are also a source of tax controversy as the methods are not very regulated.
5	PE issues	Some criticisms arise on PE matters, especially with companies offering digital services.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A	N/A	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	N/A	N/A	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	5%	5%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- Revenue diversification
- Falling oil prices

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
4. Other business incentives – including accelerated or bonus depreciation/ amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
6. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
7. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
10. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall VAT/GST or sales tax responsibility



Overall individual income tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- N/A, possible introduction in 2022 or later

Taxes on digital business activity

- No change in 2021, but possible changes in 2022 or later

Taxes related to climate change or sustainability

- N/A

VAT/GST or sales taxes

- Changes in 2021 unlikely, but higher standard rate and base changes possible in 2022

Taxes on wages and employment

- N/A

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- Higher or new taxes
 - Corporate
 - Individual
 - VAT/GST or sales
- More enforcement of existing revenue sources
- Shift in governmental priorities to refocus resources on COVID-19
- Little or no revenue raising discussion at this point
- Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ No comments

2.8 Names of current tax policy and tax administration leaders

- ▶ Khalid Ali Al Bustani, Director General of the Federal Tax Authority

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ CbCR and economic substance rules
- ▶ Expansion of the excise tax base on sugary products, e-cigarettes and digital stamps

2.10 Pending tax proposals or consultations

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Strict enforcement of harsh penalty regime
- ▶ Increased audit activity of VAT

3.2 Key enforcement developments seen in 2020

- ▶ N/A

3.3 Likely enforcement developments in 2021

- ▶ Greater audit activity to make up for lower revenue arising from the COVID-19 pandemic

3.4 Top tax audit issues in 2021

	Issue name	Description
1	VAT refund requests	Often subject to greater scrutiny and review

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Ukraine

[Return to Contents](#)

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Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Standard rate: 18% Lower rate: 0% rate (for small businesses) Special/additional rates: 3%/0% of income (for insurance business); 10% of income (for gaming machines); 18% of income (for betting and gambling businesses); 28% of income (for lottery operators)	Standard rate: 18% ¹ CFC's adjusted profit (where a controller is a CIT-payer): standard 18% rate ² Lower rate: 0% rate (for small businesses) ³ Special/additional rates: 3%/0% of income (for insurance business); 10% of income (for gaming machines); 18% of income (for betting and gambling businesses); ⁴ 30% of income (for lottery operators) ⁵	Standard rate: 0% change CFC's taxation introduced: new 18% tax Low rate: 0% change Special/additional rates: 7% increase for lottery operations

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 Paragraph 44 of subsection 4 of section XX of the Tax Code of Ukraine

⁴ Article 136 of the Tax Code of Ukraine

⁵ Paragraph 48 of subsection 4 of section XX of the Tax Code of Ukraine

	2020	2021	% change
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Standard rate: 18% (plus 1.5% military levy under PIT rules) Lower rates: 0% (for some inherited assets and gifts – close family members); 5% (for sale and exchange of some immovable property; for sale (exchange) of movable property; for other inherited assets) Special lower rates for passive income: 5% (for dividends received from resident CIT payers); 9% (for the dividends received from nonresidents, non-CIT payers and mutual investment institutions)	Standard rate: 18% ⁶ (plus 1.5% military levy under PIT rules) ⁷ Lower rates: 0% (for some inherited assets and gifts – close family members); ⁸ 5% (for sale and exchange of some immovable property; ⁹ for sale (exchange) of movable property; ¹⁰ for other inherited assets) ¹¹ Special lower rates for passive income: 5% (for dividends received from resident CIT payers); ¹² 9% (for the dividends received from nonresidents, non-CIT payers and mutual investment institutions) ¹³ CFC's adjusted profit (where a controller is an individual): 18% standard rate; ¹⁴ 5% (for dividends from Ukrainian legal entities-CIT-payers); ¹⁵ 9% (for CFC's profit distributed to a controller before filing CFC report (or within two years after reporting year) and included into annual PIT report; ¹⁶ for dividends received from mutual investment institutions and non-CIT payers) ¹⁷ In addition, 1.5% military levy applies to CFC's profit distributed to individual controller	0% change regarding general PIT rules CFC's taxation introduced: 18%, 9% and 5% rates PIT plus 1.5% military levy

⁶ Paragraph 167.1 of article 167 of the Tax Code of Ukraine

⁷ Paragraph 161 of sub-section 10 of section XX of the Tax code of Ukraine

⁸ Paragraphs 174.2 and 174.6 of article 174 of the Tax Code of Ukraine

⁹ Paragraphs 167.2, 172.2 and 172.3 of article 172 of the Tax Code of Ukraine

¹⁰ Paragraphs 173.1 and 173.2 of article 173 of the Tax Code of Ukraine

¹¹ Subparagraph 174.2.2 of paragraph 174.2 of article 174 of the Tax Code of Ukraine

¹² Subparagraph 167.5.2 of paragraph 167.5 of article 167 of the Tax Code of Ukraine

¹³ Subparagraph 167.5.4 of paragraph 167.5 of article 167 of the Tax Code of Ukraine

¹⁴ Subparagraph 170.13.1 of paragraph 170.13 of article 170 of the Tax Code of Ukraine (took force on 1 January 2021)

¹⁵ Subparagraph 170.13.3 of paragraph 170.13 of article 170 of the Tax Code of Ukraine (took force on 1 January 2021)

¹⁶ Subparagraphs 170.13.2.1 and 170.13.2.2 of paragraph 170.13 of article 170 of the Tax Code of Ukraine (take force on 1 January 2021)

¹⁷ Subparagraph 170.13.3 of paragraph 170.13 of article 170 of the Tax Code of Ukraine

Ukraine

	2020	2021	% change
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	Standard rate: 20% Lower rates: 7% (on qualifying pharmaceuticals and medical products), 0% (on export of goods and services of international transportation, tolling services)	Standard rate: 20% ¹⁸ Lower rates: 7% (on qualifying pharmaceuticals and medical products), ¹⁹ 0% (on export of goods and services of international transportation, tolling services) ²⁰	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ The Government will be working to find resources to finance a growing budget deficit.
- ▶ To achieve that, further implementation of BEPS initiatives into Ukrainian tax law are expected to occur in 2021, including CFC rules (Action 3), limitation on interest deduction (Action 4), CbC reporting and Master File (Action 13).
- ▶ Also, widening excise tax coverage and excise tax rates will be on the Government's agenda.
- ▶ Further, digitalization of the tax administration process will be carried out to enhance tax collections and improve tax audit efficiency.
- ▶ At the same time, the Government may introduce various incentives, e.g., state support of large investment projects, certain tax exemptions and/or reduced tax rates for agricultural producers, industrial sector of economy, entities carrying out activities in the field of engineering, producers of milk products, entities carrying out of deep wood processing, IT sector and others.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021

¹⁸ Subparagraph "a" of paragraph 193.1 of article 193 of the Tax Code of Ukraine

¹⁹ Subparagraph "b" of paragraph 193.1 of article 193 of the Tax Code of Ukraine

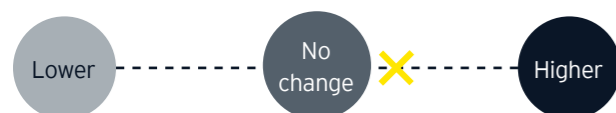
²⁰ Subparagraph "c" of paragraph 193.1 of article 193 and article 195 of the Tax Code of Ukraine

Tax types	Likelihood of changes in 2021	Direction of change
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
7. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input checked="" type="checkbox"/> Change already proposed or known for 2021 – introduction of CFC regime <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
10. Transfer pricing changes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Enhanced incentives in 2021 <input type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
3. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
4. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Larger in 2021
5. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
6. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ In 2021, the following corporate income tax rules will become effective:
 - ▶ CFC rules (there is initiative to postpone)
 - ▶ More restrictive thin capitalization rule regarding interest deductibility
 - ▶ Rules on constructive dividends
 - ▶ Powers of the tax authorities to register nonresidents that carry our business in Ukraine without registration of a permanent establishment
 - ▶ New transfer pricing filings (master file, CbC reporting, notification of participation in a multinational group)
- ▶ Five-year (or seven-year) limitation to tax losses carryforward is proposed by draft law No. 4101.
- ▶ There are incentives to grant certain CIT incentives, e.g., large investment projects, IT sector, deep wood processing, public-private partnerships and others.

Taxes on digital business activity

- ▶ Initiatives to introduce a Ukrainian VAT (20%) for nonresidents providing electronic services to Ukrainian individuals and legal entities
- ▶ Draft law No. 2461 to regulate taxation of the cryptocurrency trading activities (with an impact on CIT, VAT and PIT)

Taxes related to climate change or sustainability

- ▶ Initiative to increase environmental tax on CO2 emissions from UAH 10 per 1 ton to UAH 30 per ton and to increase environmental tax for other activities on environment pollution
- ▶ Initiative to increase royalty fee for special use of water, forestry, use of soils for the purposes other than extraction by 12%

- ▶ A draft law on “sleeping licenses” to anticipate extra royalty for use of oil and gas subsoil plots at the exploration stage starting from the fourth year after license issuance until start of hydrocarbons extraction and payment of royalties for extracted hydrocarbons

VAT/GST/sales taxes

- ▶ The draft law No. 4101 proposes some VAT changes, in particular:
 - ▶ Specification of the date of VAT liabilities on supply of services formalized with electronic documents
 - ▶ VAT exemption for destruction of agricultural crops, vegetation and animals due to force majeure
 - ▶ VAT incentives for business proposed, including VAT exemptions and reduced VAT rates for qualifying operations

Taxes on wages and employment

- ▶ The CFCs’ retained earnings are subject to personal income tax at 18%, 9% or 5% rates and 1.5% military levy.
- ▶ Several initiatives suggest progressive PIT scale depending on income amount: for up to 27%/54% PIT.
- ▶ There are legislative initiatives proposed for a special tax regime on IT industry that are expected to reduce the hidden employment risk:
 - ▶ Reduced PIT and uniform social tax (UST) on wages of individuals employed by IT companies, subject to qualifying conditions and caps; exemption from military levy
 - ▶ An alternative package of draft laws for IT sector, which provides comparable tax benefits for taxation of individuals, but introduces capital exit tax
 - ▶ Also discussed: continuation of involvement of private entrepreneurs, subject to 50% limit

2.5 In 2021, what do you believe your jurisdiction’s primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The new Government of Ukraine took office on 4 March 2020.
- ▶ The program of the new Government activities provides for steps intended to increase efficiency of tax policy, including:²¹
 - ▶ Introduction of tax incentives to restore economic activities of taxpayers in post-COVID-19 period
 - ▶ Review of the existing double tax treaties (DTTs) in order to prevent tax evasion and setting up effective information exchange
 - ▶ Enactment of legislation to implement Foreign Account Tax Compliance Act (FATCA) with respect to transmission of reporting by the State Tax Service of Ukraine (STSU) to US IRS
 - ▶ Improvement of control over transfer pricing within implementation of BEPS initiatives to increase transparency of international transactions

- ▶ Revisit of ecological tax to increase its efficiency and decrease environmental pollution

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders:

- ▶ Mr. Serhiy Marchenko, Minister of Finance
- ▶ Mr. Danylo Hetmantsev, Chair of Parliament's committee for fiscal policy

Tax administration leaders:

- ▶ Mr. Liubchenko O.M., Head of the State Tax Service of Ukraine
- ▶ Mr. Yentis Y.F., Head of the Customs Service of Ukraine

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Large-scale tax reform was enacted by the Law of Ukraine No. 466-IX, which came into force on 23 May 2020, save for certain provisions that came into force on 1 July 2020 and 1 January 2021.
- ▶ The Law of Ukraine No. 466-IX as further amended by the Law of Ukraine No. 786-IX introduced significant changes in 2020, including:
 - ▶ New tax rules broadened the statutory definition of a permanent establishment; introduced forced tax registration of nonresidents carrying business in Ukraine without registration of a permanent establishment
 - ▶ New rules for corporate income tax calculation by permanent establishments (postponement until 1 January 2021 is proposed)
 - ▶ Taxation of capital gains from foreign-to-foreign transfers of real-estate-rich Ukrainian companies (postponement until 1 January 2021 is proposed)
 - ▶ A business purpose test that applies to all operations in favor of nonresidents
 - ▶ Principal purpose test (PPT)
 - ▶ MLI entered into effect for Ukraine
 - ▶ "Look-through" approach to determine the beneficial owner of income payable from Ukraine (implies self-declaring of beneficial owner status)
 - ▶ New upward tax adjustments, including upward adjustment on 30% value of exported goods/services to qualifying non-residents
 - ▶ Prolongation of the rules on accelerated tax depreciation and extension of its scope
- ▶ To support taxpayers during the COVID-19 pandemic, the Parliament of Ukraine has adopted a package of the laws providing tax incentives, moratorium on tax audits (with exceptions), suspension of the statute of limitation period, exemption from tax fines and interest for tax violations committed during quarantine (with exceptions), etc.
- ▶ In addition, the process on amending DTTs concluded by Ukraine is ongoing:
 - ▶ The protocols to treaties with Austria, Denmark, the Netherlands, United Arab Emirates are pending.
 - ▶ The process of signing DTTs with Oman and Sri-Lanka is ongoing.
 - ▶ On 16 October 2020, the amending Protocol to Ukraine-Switzerland treaty entered into force and applies starting 1 January 2021.

- ▶ On 12 August 2020, the Ministry of Finance of Ukraine approved Order No. 496 providing for rules on submission of a report on reportable accounts within the framework of FATCA implementation.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ Fiscal reform in Ukraine is continuing with two draft laws under consideration in Parliament:
 - ▶ Draft law No. 4065, registered on 7 September 2020, clarifies and postpones certain rules introduced by the Laws of Ukraine No. 466-IX and No. 786-IX, including specification of the scope of business purpose test, a thin capitalization rule; amendments to transfer pricing rules; postponement of the new PE rules and rules on the taxation of capital gains from foreign-to-foreign transfers of qualifying Ukrainian companies; and postponement of CFC rules until 2022.
 - ▶ The draft law No. 4101, registered on 15 September 2020, proposes inter alia to introduce a five-year (or seven-year) limitation for tax losses carried forward and to increase royalties and environmental tax by 11.6-12%
- ▶ In addition, there are numerous specific legislative initiatives proposing tax incentives to business, including the state support of large investment projects and introduction of preferential tax regime for the IT sector.

Consultations:

- ▶ Currently, postponement of some rules introduced by the Laws of Ukraine No. 466-IX and No. 786-IX (in particular, PE rules and rules for taxation of capital gains from transfers of qualifying Ukrainian companies) is under discussion, both draft laws suggest postponement.
- ▶ Also, the Chairman of the Verkhovna Rada (Parliament) Committee for fiscal policy has initiated a discussion of changes to property taxation, whereby the property tax would be assessed on the market value of the property.
- ▶ In addition, there are ongoing discussions regarding introduction of a special tax regime for the IT industry.
- ▶ Generally, all the tax regulation proposals are submitted for public consultations and discussions via the website of the State Tax Service of Ukraine. (<https://tax.gov.ua/diyalnist-/regulyatorna-politika-/regulyatorna-politika/>).

²¹ Subsection 6.2 of the Program of the Cabinet of Ministers of Ukraine (June 2020)/<https://www.kmu.gov.ua/storage/app/uploads/public/5ee/39a/831/5ee39a8311f68625529299.pdf>

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ Ukrainian tax authorities may apply strict interpretations of the tax and financial accounting rules during tax audits.
- ▶ However, due to the COVID-19 pandemic, many collection measures of the tax authorities were suspended by the package of COVID-19 laws enacted during 2020; this includes a temporary exemption from tax fines and interest for tax violations committed during quarantine, moratorium on tax audits (both with exceptions), specific tax incentives and other items.
- ▶ Further digitalization of tax administration is in process, including extension of functionality of the E-cabinet of a taxpayer, filing of financial and tax reporting, as well as provision of individual tax rulings in electronic form.
- ▶ In qualifying cases, there is application of cash registers connected to the tax authorities' software with daily reports of all transactions.
- ▶ Risk-oriented approach to registration/suspension/refuse to register VAT invoices applies; it remains the contentious topic for the taxpayers, giving rise to lots of court disputes.

3.2 Key enforcement developments seen in 2020

- ▶ In 2020 significant tax reform was enacted by the Law of Ukraine No. 466-IX and amending Law No. 786-IX. Key changes related to tax administration and tax enforcement include the following:
 - ▶ Functionality of E-cabinet was extended and electronic information exchange with the tax authorities was improved.
 - ▶ The list of grounds for unscheduled tax audits was extended.
 - ▶ The tax authorities received more extensive powers during tax audits.
 - ▶ Penalties for certain tax law violations were increased.
 - ▶ The tax authorities received the power to perform forced registration of nonresident that carries out business activity in Ukraine without PE registration.
 - ▶ Quarterly VAT reporting for single taxpayers was eliminated.
- ▶ A COVID-19 package of laws brought significant tax incentives for business and temporarily suspended tax control measures of the tax authorities (with exceptions).

3.3 Likely enforcement developments in 2021

- ▶ The concept of a taxpayer's guilt and differentiated tax liability depending on a taxpayer's guilt started applying from 1 January 2021.
- ▶ As of 1 January 2021, the tax authorities have a right to carry out unscheduled tax audits of nonresidents who failed to register their PE in Ukraine.
 - ▶ As a result of such tax audit, the tax authorities could perform forced registration of such nonresident, impose fine of UAH 100,000 (app. USD 3,500) and impose tax freeze on nonresident's assets.
 - ▶ There are initiatives to postpone such tax audits until 1 July 2021.
- ▶ From 1 January 2021, a unified register of tax notifications-decisions should be introduced.
- ▶ By 1 October 2021, taxpayers carrying out controlled transactions will be obliged to file the notification on participation in multinational group of companies together with TP report for 2020.
- ▶ In 2021, single UST and PIT reporting is expected to be introduced.
- ▶ Currently, the Ministry of Finance of Ukraine, the State Tax Service of Ukraine and representatives from business are discussing issues stemming from suspension of registration of VAT invoices/adjusting calculations in the Unified Register of Tax Invoices.
- ▶ Draft law No. 4101 provides for a taxpayer's right to appeal decision of the tax authorities on whether a taxpayer is a risky one.

3.4 Top tax audit issues in 2021

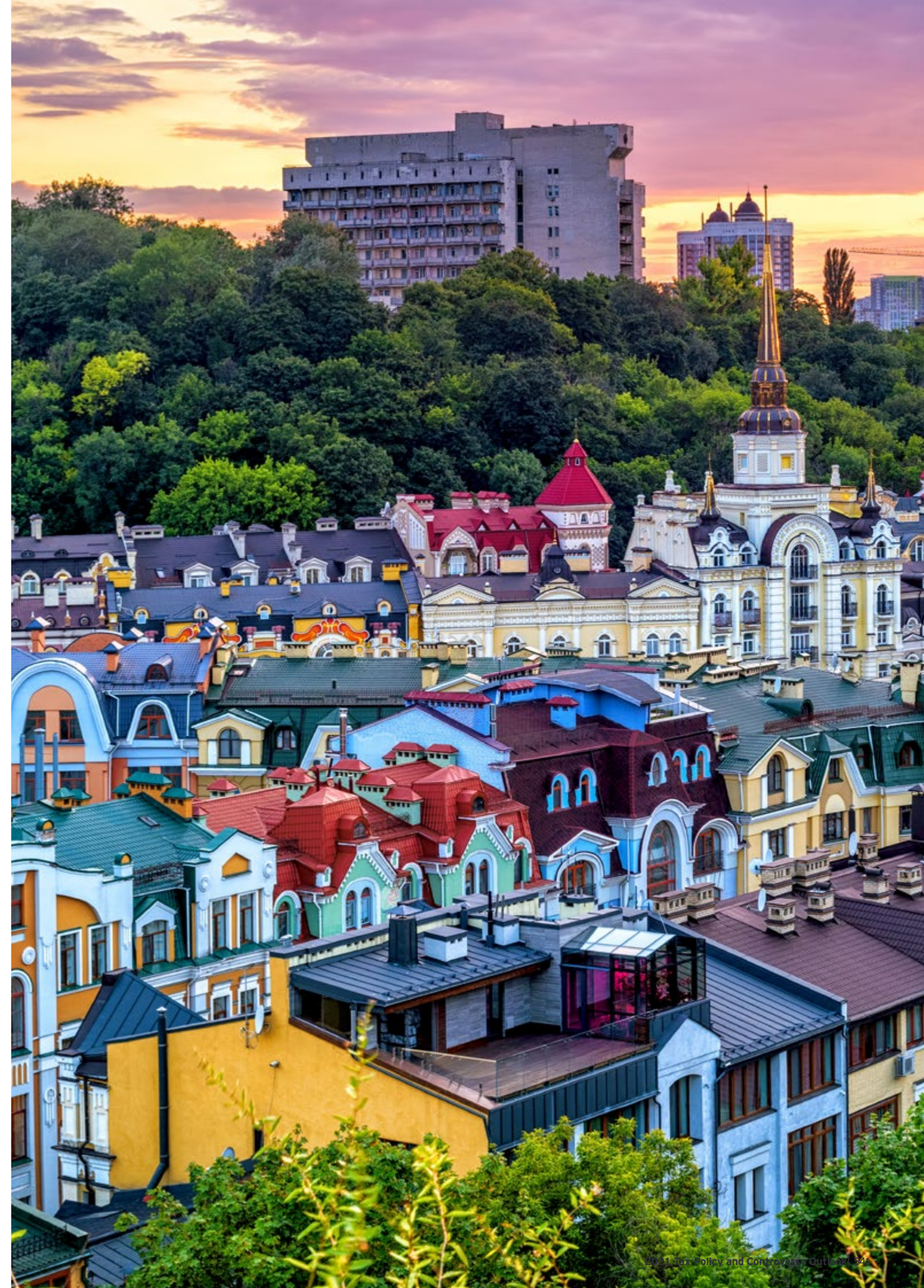
	Issue name	Description
1	Transactions' actual performance test (disallowance of deductions and VAT credit)	<p>The key focus of the tax authorities during the tax audits is analysis of the reality of the business transaction (so-called "transaction actual performance test"), which implies actual movement of assets as a result of the transaction.</p> <p>The most common grounds to challenge tax deduction of costs and VAT credit related to transactions are: (i) the counterparty does not have enough resources to carry out business activities, e.g., 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.</p>
2	Interpretation of financial accounting rules	<p>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 strict interpretations of the financial accounting rules.</p> <p>The most popular grounds for tax reassessments include discounting of long-term financial liabilities; foreign exchange 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.</p>
3	PE issues	<p>Unregistered PEs</p> <p>Tax audits of PEs are expected to increase in 2021 due to the fact that the Law of Ukraine No. 466-IX significantly amended PE rules by bringing them in line with BEPS standards (Action 7), including establishing the right to perform unscheduled tax audits of the nonresidents carrying out business activities in Ukraine without registration of their presence.</p> <p>If the tax authorities identify failure to register PE, they may impose the fine of UAH 100,000 (app. USD 3,500). Also, a tax freeze could be imposed on nonresident's property.</p> <p>Registered PEs</p> <p>The tax authorities may check correctness of a PE's taxable profit calculation. New rules for corporate income tax calculation by permanent establishments took effect in 2020. Ambiguities exist in the application of these new rules, which creates potential uncertainties regarding the interpretation thereof by the tax authorities and of challenges.</p>
4	Business purpose test (disallowance of deductions and VAT credit)	<p>As the Law of Ukraine No. 466-IX introduced a business purpose test for all operations with nonresidents, it is expected that in 2021 the tax authorities will scrutinize the transactions' economic substance even more. If they consider that the transaction lacks economic substance, they would challenge related deductible expenses and VAT credit.</p>
5	Transactions with related parties, including transfer pricing issues	<p>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.</p> <p>It may be expected that in 2021 TP compliance will continue to be among the main issues for tax audits.</p>

Ukraine

6	Withholding tax and treaty benefits	<p>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/unproper formalization of tax residency certificate, argue that nonresident income recipient does not qualify as beneficial owner of income, principal purpose test is not met, nonresident income recipient has PE in Ukraine to which such income is attributable, other treaty eligibility conditions are not met.</p> <p>We expect that this tendency would likely remain as one of the top tax audit issues in 2021, given that the Law of Ukraine No. 466-IX further specified beneficial owner test, introduced PPT, “look-through” approach and constructive dividends into domestic law.</p>
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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?

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited) Exemption from import VAT and/or import duties of qualifying goods (e.g., humanitarian aid); application of tax incentives driven by COVID-19 (import duty, import VAT, VAT on supplies of goods necessary to overcome COVID-19 pandemic)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





Rush hour at Liverpool Street Station/ London (UK)

United Kingdom

[Return to Contents](#)

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 30 November 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	19%	19%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	45%	45%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	20%	20%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ COVID-19 will continue to be the key driver for policy changes.
- ▶ In the current fast-changing climate, further fiscal announcements are expected to come in 2021 as the economic response to the pandemic evolves. The first key fiscal event will be the spring budget scheduled to take place on 3 March 2021.
- ▶ As of 1 January 2021, the UK's relations with the EU are according to the Trade and Cooperation Agreement (UK-EU TCA). While the deal removes some uncertainty, one of the take-aways from the deals is that Brexit is not done. A key task for both sides will be to implement the UK-EU TCA across the broad

range of issues covered. Furthermore, the UK-EU TCA is not envisioned to be a static position; instead, it sets the stages for future rounds of negotiations and discussions between the UK and EU on a host of issues: those issues where negotiators ran out of time to address them fully, and those issues where future cooperation would be desirable.

- ▶ Once the economy can be reopened at a sustained pace, the UK government may be able to move from job protection and cash flow tax measures to other stimulus to guide the path to economic recovery.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

United Kingdom

Tax types	Likelihood of changes in 2021	Direction of change
1. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
7. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
9. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
11. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input checked="" type="checkbox"/> Same enforcement in 2021 <input type="checkbox"/> Increased enforcement in 2021
12. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ **CIT rate** – As announced at Budget 2020, the Finance Act 2020 set the standard corporation tax rate (except for ring fence profits) at 19% for the financial years starting 1 April 2020 and 2021.
- ▶ **Capital allowances** – The annual investment allowance (AIA) was temporarily increased to £1 million from 1 January 2019 to 31 December 2020.
- ▶ The UK Government has announced a one-year extension of this measure (i.e., until 31 December 2021), which would otherwise have reverted the AIA to £200,000 from 1 January 2021.

Taxes on digital business activity

- ▶ **Digital service tax (DST)** – From 1 April 2020, the government introduced a new 2% tax on the revenues of search engines, social media services and online marketplaces that derive value from UK users.
- ▶ The DST is payable annually, nine months after year-end.
- ▶ Accordingly, the first payments (for a group with an April year-end with one month within the rules) were due in January 2021.

United Kingdom

Taxes related to climate change or sustainability

Plastic packaging tax

- ▶ On 12 November 2020, the Government released draft legislation of a new plastic packaging tax that will apply from 1 April 2022.
- ▶ If passed, the tax will take effect from 1 April 2022.
- ▶ It will be charged at a rate of £200 per metric ton of chargeable plastic packaging components of a single specification and will apply to plastic packaging manufactured in or imported into the UK.

VAT/GST/sales taxes

- ▶ There is a temporary 5% reduced VAT rate for the tourism and hospitality sectors until 31 March 2021.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Up to November 2020, no revenue raising measures have been formally discussed, proposed or enacted

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Taxes on wages and employment

- ▶ **Personal Income Tax Allowance (PA)** – The PA threshold is £12,500 and the basic rate (20%) applies to income between £12,501 and £50,000 (i.e., higher rate threshold).
 - ▶ For the financial year starting in April 2021, the PA and higher rate threshold will be increased by 0.5% in line with the September Consumer Prices Index (CPI) figure.
- ▶ **National Insurance's employer contribution** – 13.8% – For the financial year starting in April 2021, the government will also use the September CPI figure as the basis for setting all National Insurance limits and thresholds and the rates of Class 2 and 3 National Insurance contributions.
- ▶ **Employment allowance** is £4,000.

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Measure	Proposed	Enacted	Known to be under formal discussion
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ The Conservative-led Government was reelected in the December 2019 General Election, moving from minority to majority government.
- ▶ Despite winning a majority, the UK Government has not been able to introduce radical policy change as the public agenda has been dominated by Brexit negotiations and the COVID-19 pandemic.
- ▶ The UK formally left the EU on 31 January 2020, and the transition period ended on 31 December 2020. As of 1 January 2021, the UK's relations with the EU are according to the UK-EU TCA. A key task for both sides will be to implement the UK-EU TCA across the broad range of issues covered. Furthermore, the UK-EU TCA is not envisioned to be a static position; instead, it sets the stages for future rounds of negotiations and discussions between the UK and EU.
- ▶ Under normal circumstances, the next general election should not take place until 2024, and hence, the UK leadership is not expected to change in 2021. However, the handling of COVID-19 and the economy could still have some impact on the political landscape in the short term.

2.8 Names of current tax policy and tax administration leaders

Tax administration leaders:

- ▶ Jim Harra, Permanent Secretary and Chief Executive of HMRC
- ▶ Tom Scholar, Permanent Secretary HM Treasury

Tax policy leaders:

- ▶ The Rt. Hon Boris Johnson MP, Prime Minister
- ▶ The Rt. Hon Rishi Sunak MP, Chancellor of the Exchequer
- ▶ The Rt. Hon Steve Barclay MP, Chief Secretary to the Treasury
- ▶ The Rt. Hon Jesse Norman MP, Financial Secretary to the Treasury

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ COVID-19 was the key driver of tax policy changes in 2020.
- ▶ Instead of a single fiscal event, the UK Government has followed the budget with a series of mini-budget speeches over the year to respond to the pandemic.
- ▶ The latest packages of supporting measures included:
 - ▶ The extension of Coronavirus Job Retention Scheme (CJRS) until the end of April 2021 with the Government continuing to contribute 80% towards wages – employers will only be required to pay wages, National Insurance Contributions (NICs) and pensions for hours worked, as well as NICS and pensions for hours not worked.
 - ▶ The self-employed will have a third Self-Employment Income Support Scheme (SEISS) grant, covering November to January at 80% of average profits (up to a maximum of £2,500 per month).
 - ▶ The application of a 5% reduced VAT rate for the tourism and hospitality sectors is extended until 31 March 2021.

United Kingdom

2.10 Pending tax proposals or consultations

- ▶ **Proposals:**
 - ▶ Finance Bill 2021. Consultation closed on 7 January 2021; draft legislation includes:
 - ▶ The tax impact of the withdrawal of the London Inter-bank Offered Rate (LIBOR) and other benchmark rates
 - ▶ Amendments to the hybrid and other mismatches regime for corporation tax
 - ▶ Preventing abuse of R&D tax relief for small – and medium-sized enterprises
 - ▶ Introduction of a new plastic packaging tax
 - ▶ Changes to tackle Construction Industry Scheme abuse
- ▶ **Consultations:**
 - ▶ Small Brewers Relief (SBR). Technical consultation closes on 4 April 2021.
 - ▶ VAT and value shifting. Consultation closes on 30 March 2021.
 - ▶ Making Tax Digital for Corporation Tax. Consultation closes on March 2021.
 - ▶ VAT and the Sharing Economy. Call for Evidence closes on 3 March 2021.

- ▶ Sanctions to tackle tobacco duty evasion. Consultation closes on 23 February 2021
- ▶ Taxation of asset holding companies in alternative fund structures (second stage consultation). Consultation closes on 23 February 2021.
- ▶ Insurance Premium Tax: administration and unfair outcomes. Consultation closes on 5 February 2021.
- ▶ Follower Notices and penalties. Consultation closes on 27 January 2021.
- ▶ Upcoming consultation: Tackling promoters of tax avoidance. In 2021, the Government will consult on further measures to tackle promoters.
- ▶ Upcoming consultation: Raising standards for tax advice. The Government will consult (date to be confirmed) on requiring tax advisers to hold professional indemnity insurance and how to define tax advice.

- ▶ 1.4 million businesses signed up to Making Tax Digital (MTD) for VAT, the biggest VAT change in a generation; HMRC states that Making Tax Digital has resulted in additional tax revenues of £223.5 million.
- ▶ HMRC's annual report and accounts for 2019 to 2020 states that:
 - ▶ An additional £5 billion tax revenues were raised in 2019 to 2020 by tackling noncompliance.
 - ▶ 4,123 people were prosecuted.
 - ▶ 3,347 years of custodial sentences were secured.
- ▶ Following the receipt of 5.67m records on UK taxpayers' offshore financial accounts in 2018 as part of the "no safe havens" strategy published by HMRC in 2019, tax investigations and arrests by HMRC's Offshore Corporate and Wealthy (OCW) unit are reported to have risen 40% in a year.
- ▶ For individuals, HMRC started a campaign of "nudge letters;" the campaign has been so successful that HMRC has extended it to other areas, the latest being the individual's residence and domicile position.
- ▶ HMRC is currently carrying out around 100 diverted profits investigations into multinationals – the total amount of tax under consideration was £5.3 billion at the end of March 2020.
- ▶ Debt collection stopped during lockdown and HMRC has agreed to payment deferrals with a number of businesses (time to pay) and is seeking to cooperate with businesses that have new debts (arising since March 2020).
- ▶ HMRC estimates that the yield from its tax compliance activities is likely to be reduced in 2020–2021 due to COVID-19 lockdowns and interruptions.

3.3 Likely enforcement developments in 2021

- ▶ COVID-19 has created challenges to the operational collection of tax as well as a financial climate in which tax receipts are likely to be lower than previously estimated.
- ▶ COVID-19 may increase the risks of non-payment of taxes and, therefore, have an effect on the perceived "tax gap."
- ▶ HMRC has stated that the names of companies which are claiming Coronavirus Job Retention Scheme (CJRS) from 1 December 2020 will be published and we expect there to be more CJRS investigations and enforcement action against incorrect and fraudulent claims.
- ▶ We anticipate that, following the end of the transition period of the UK's exit from the EU, there will be a number of challenges for businesses in relation both to the operation of cross-border taxes as well as the interpretation of the rules; referrals to the Court of Justice of the European Union are likely to be less frequent.
- ▶ In the March 2020 Budget, the government announced that it intends to require large businesses to notify HMRC where they have adopted an uncertain tax treatment:
 - ▶ The proposal is designed to improve HMRC's ability to identify issues where businesses have adopted a different legal interpretation to HMRC's view.
 - ▶ HMRC considers that this will help to reduce tax losses caused by businesses adopting tax treatments that do not stand up to legal scrutiny.
- ▶ In November 2020, the government announced that the implementation of these new rules would be delayed until April 2022.

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ 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
 - ▶ Bolstering resources to tackle evasion and noncompliance in the tax system

- ▶ Using data more efficiently, to identify the root causes of noncompliance among different taxpayer groups and deliver digital services to make things easier for taxpayers and for HMRC
- ▶ Stopping noncompliance before it happens through real-time reporting, leading to fewer errors and less opportunity to evade tax obligations
- ▶ New powers to acquire information from online intermediaries and increased sanctions for offshore evasion to allow HMRC to address tax risks more effectively

3.2 Key enforcement developments seen in 2020

- ▶ The government continues to invest in additional resources and new technology for HMRC, while reducing overall costs.
- ▶ HMRC has stated an intention to utilize new technology to tackle the hidden economy, marketed tax avoidance schemes, enablers of tax fraud, noncompliance and to recover greater amounts of tax debt.

United Kingdom

3.4 Top tax audit issues in 2021

	Issue name	Description
1	HMRC's three key areas	HMRC generally applies a risk-based approach to the audit of business taxpayers, with its framework for risk-assessing large businesses based on a combination of inherent and behavioral risk factors. HMRC recently published guidance that states that evaluating a taxpayer's overall tax risk involves three key areas: "systems and delivery;" "internal governance;" and "approach to tax compliance." A key development is that, although the business landscape is assessed, this does not feed through to the risk rating, i.e., in theory, any business can be "low risk."
2	Tax avoidance	HMRC takes a crosscutting approach to investigating and challenging avoidance schemes, with an anti-avoidance strategy relying on enhanced disclosure requirements, enhanced penalties for users and enablers of avoidance schemes, and a strategic approach to litigation where the taxpayer has not conceded 100% of the liability HMRC regards as due.
3	Selection criteria for the Profit Diversion Compliance Facility	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.
4	Coronavirus Job Retention Scheme/Corporate Criminal Offence	More than 15,000 fraudulent claims for CJRS have been reported and legislation has been introduced to penalize those who have made erroneous claims. Where businesses are involved, this could lead to Corporate Criminal Offence (CCO) investigations in respect of these claims.
5	Digital services tax/offshore receipts in respect of intangible property	HMRC has created a dedicated team to risk assess taxpayers for the impact of the new DST (effective from 1 April 2020) and offshore receipts in respect of intangible property (ORIP) income tax charge (effective from 6 April 2019) and review submissions (notifications and tax returns) made.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input checked="" type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>





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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of 22 January 2021.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	26% ¹	26%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	37% 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	37% 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	–

¹ The top federal marginal rate is 21%, but 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 12%. In addition, 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. On average, the effective state income tax rate is 5%, which is assumed for purposes of this document.

² In addition to the federal rate, US state and municipal individual income tax rates apply, ranging from 0% to 13.3%. The Tax Cuts and Jobs Act (TCJA) imposed an annual \$10,000 limitation on the deductibility of most state and local taxes (\$5,000 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, a federal net investment income tax 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.

	2020	2021	% change
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	0% ³	0%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ In response to the COVID-19 pandemic, the federal government in 2020 enacted several economic relief and stimulus measures, a significant portion of which were offered through the tax code. Tax changes included payroll tax relief, rollbacks of provisions from the TCJA, individual tax relief and other business tax measures. President Joseph Biden is expected to push for more COVID-19 relief in 2021, and the economy will continue to be a factor in tax policy decisions.
- ▶ In the latter part of 2020, the U.S. Treasury Department released a stream of TCJA implementation guidance, including with respect to the global intangible low-taxed income (GILTI), foreign-derived intangible income (FDII) and base erosion and anti-abuse tax (BEAT) provisions. Depending on the priorities of the Biden Administration, the interpretations and policies laid out in the regulations released in the final months of 2020 may be revisited, adding to the uncertainty businesses face heading into 2021.
- ▶ During the campaign, Biden mapped out a tax plan that included a 28% corporate income tax rate, a global book income minimum tax, an increase in the GILTI rate, increases on high-income earners and several provisions addressing onshoring, but the likelihood of these significant changes being enacted may be limited due to the slim majority Democrats have in Congress. Biden has also said another key initiative of his presidency will be to revitalize America’s middle class. His “Build Back Better” plan prioritizes US manufacturing, infrastructure, clean energy and investments in social programs, which he proposed paying for with tax increases. Climate change,

health care, education and housing measures may also be on the agenda. However, since Democrats are shy of the 60 votes needed in the Senate to avoid a filibuster, they will likely be limited to pursuing proposals that might have bipartisan appeal, such as infrastructure, retirement savings proposals and addressing upcoming changes under the TCJA related to the interest deduction, R&D amortization or the expiration of the legislation’s provisions for individuals. Democrats will need to negotiate with Senate Republicans, use the budget reconciliation process (which has its own limits and challenges) or change the rules regarding the filibuster to pass legislation.

- ▶ At the state and local levels, governments will likely seek to address growing fiscal gaps from the pandemic’s economic fallout and increased resource demands. If additional federal fiscal relief does not materialize and strains on state finances intensify, states may seek tax increases. Some states will also need to consider whether to conform to federal income tax changes brought about by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, as well as any future federal income tax changes.

³ However, many state and local governments impose sales taxes, with combined rates varying from 0% to 10.25%. It is estimated that there are more than 9,000 separate sales tax rate jurisdictions in the United States.

United States

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Lower in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. Withholding taxes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
8. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
9. Thin capitalization	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Transfer pricing rules	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
11. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
12. Other business incentives – including accelerated or bonus depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
13. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
14. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
15. Top marginal individual income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
16. Individual income tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
17. Changes to tax enforcement approach	<input type="checkbox"/> Change already proposed or known for 2021 <input checked="" type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
18. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input type="checkbox"/> Yes – significant tax reform <input checked="" type="checkbox"/> No – present tax changes are routine	

United States

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall VAT/GST or sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- ▶ The relatively low-tax environment of the past few years in the United States is expected to continue, due in part to the challenges incoming President Biden will likely have in advancing tax increases outlined during his campaign through a Congress that Democrats control by a very narrow margin.

Taxes on digital business activity

- ▶ Historically, the United States has been a very active participant in the OECD's tax discussions, including its current project to address the tax challenges of the digitalization of the economy in a globally coordinated way. Changes that President Biden has proposed to the existing GILTI rules in the United States would more closely align those rules with the design the OECD is pursuing in its current project. One might expect a Biden Administration to continue to support that part of the project.
- ▶ As for the tax jurisdictional and profit allocation rules proposed by the OECD, both US political parties appear opposed to the proposed OECD changes, signaling that under President Biden, changes to tax jurisdictional and profit allocation rules would remain of concern to the US Government.
- ▶ In 2020, a handful of states considered DSTs, and it is anticipated that states will also consider DST proposals in 2021.

Taxes related to climate change or sustainability

- ▶ Climate policy is one of several areas in which the incoming Biden Administration is likely to diverge significantly from the Trump Administration. President Biden has said he would work to reengage globally on issues such as climate change and would return the United States to the Paris Climate Change Agreement.

Overall individual income tax responsibility



- ▶ Biden's "Build Back Better" plan includes clean energy proposals, such as cash rebates for purchasing electric vehicles as well as reform and/or extension of some energy efficiency tax incentives, to be paid for with tax increases.
- ▶ Biden is expected to use executive action to implement some of his climate and other key policy priorities.

VAT/GST or sales taxes

- ▶ Some states may enact temporary sales tax rate changes and/or may expand their sales tax bases to include services.

Taxes on wages and employment

- ▶ The Social Security wage base will increase from \$137,700 to \$142,800 in 2021.
- ▶ The maximum employee contribution to a Section 401(k) plan remains unchanged at \$19,500 per year.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales⁴
- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VAT/sales taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.7 Political landscape

- ▶ Democrats have 50-50 split control of the Senate, with Vice President Kamala Harris able to break tie votes. With Democrats controlling both the Senate and the House of Representatives, President Biden is more likely to be able to advance his proposals on economic stimulus, climate change, health care, education, and tax policy. However, with such narrow margins, legislation will have to win over both progressive and moderate Democrats or some Republicans to pass. In this environment, moderate senators are expected to play a large role in legislative deal-making.
- ▶ The close party ratios in Congress and the track record of the president's party historically losing seats in the midterm elections means the prospect of the 2022 elections will likely affect lawmakers' policy positions in the year ahead and serve as a constraint against voting for more controversial tax policies.
- ▶ Because of their narrow Senate majority, Democrats are likely to use the budget reconciliation process to advance significant policy items. This process, which can only be used for measures that affect revenue, spending or the debt limit, requires only a simple majority vote in each chamber to pass, unlike other legislation, which must overcome a 60-vote filibuster threshold.

A first reconciliation bill, if that approach is pursued, may focus on pandemic relief and health care. Congress is likely to have to raise the debt ceiling in the fall, which presents another opportunity to consider revenue and spending legislation. Other legislative efforts may focus on areas of potential bipartisan agreement, such as infrastructure, retirement savings, and addressing changes scheduled under the TCJA (such as the upcoming change in the interest deduction and R&D amortization).

- ▶ President Biden may also pursue parts of his campaign platform through executive action.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders

- ▶ Joseph Biden, President
- ▶ Janet Yellen, Treasury Secretary
- ▶ TBD, Treasury Assistant Secretary (Tax Policy)
- ▶ Rep. Richard Neal (D-MA), Chairman, House Ways and Means Committee

⁴While there has been little to no discussion of revenue raising at the federal level, US states are likely to look to raise revenue in response to COVID-19-related costs.

United States

- ▶ Rep. Kevin Brady (R-TX), Ranking Member, House Ways and Means Committee
- ▶ Sen. Ron Wyden (D-OR), Chairman, Senate Finance Committee
- ▶ Sen. Mike Crapo (R-ID), Ranking Member, Senate Finance Committee
- ▶ Thomas Barthold, Chief of Staff, Congressional Joint Committee on Taxation

Tax administration leaders

- ▶ Charles Rettig, Internal Revenue Service (IRS) Commissioner
- ▶ Douglas O'Donnell, IRS Large Business and International (LB&I) Division Commissioner

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ During 2020, the legislative activity related to tax policy was primarily propelled by the COVID-19 pandemic and government funding deadlines, with Congress passing \$900b in COVID-19 relief in the final days of the legislative session along with a \$1.4t government funding package.
- ▶ The year-end “Consolidated Appropriations Act, 2021” included a significant “tax extenders” package that addressed expiring tax provisions, making several provisions permanent and aligning others with the scheduled expiration of tax cuts under the TCJA. Among many energy – and non-energy-related tax provisions, the legislation extended the CFC look-through rule, the New Markets Tax Credit and the Work Opportunity Tax Credit through 2025.⁵ Of the \$3.9t included in US COVID-19 relief bills enacted in 2020, most business tax elements were aimed at improving liquidity and employee retention. Some of the key tax changes enacted under the CARES Act and other relief measures included:
 - ▶ Deferral of payment of employers’ 2020 6.2% Social Security tax payments (with half paid by the end of 2021 and the rest by the end of 2022)
 - ▶ An Employee Retention Tax Credit (50% credit on wages against employment taxes)
 - ▶ Relaxing of the TCJA’s business interest limitation for 2019 and 2020
 - ▶ Five-year carryback of NOLs from 2018, 2019, or 2020
 - ▶ Temporary removal of the taxable income limitation to allow a NOL to fully offset income
 - ▶ Changes to the depreciation treatment of of qualified improvement property (QIP), making QIP eligible for 100% bonus expensing

⁵ For a full list of extenders and tax provisions in the legislation, see [Tax Alert 2020-2913](#).

- ▶ Direct cash payments of \$1,200 to individuals, \$2,400 to couples (phased out at higher-income levels), plus \$500 for every qualifying child
- ▶ No penalties for retirement withdrawals of less than \$100,000
- ▶ The year-end Consolidated Appropriations Act modified and extended some of these CARES Act measures. Key tax provisions in the legislation include:
 - ▶ Allow tax deductions for forgiven loans provided under the CARES Act’s Paycheck Protection Program
 - ▶ Extend the employee retention tax credit until 1 July 2021 and broaden the scope of the credit
 - ▶ Allow a 100% meals deduction for 2021-2022
 - ▶ Extend the payroll tax deferral payback period through the end of 2021
 - ▶ Extend the CARES Act charitable deduction through 2021 and sets the amount at \$600 for married couples filing jointly
 - ▶ Allow taxpayers to carry over unused flexible spending account benefits from 2020 into 2021
- ▶ The legislation also includes the “No Surprise Act,” designed to protect patients from receiving “surprise” medical bills. The agreement bans surprise bills in emergency situations, from out-of-network providers in in-network facilities and from air ambulances, holding patients harmless in those situations and relying on arbitration to settle out-of-network bills. The Act also includes a variety of transparency and reporting requirements, including the provision of information like cost-sharing, explanation of benefits, and provider information.
- ▶ In 2020, much attention focused on interpreting, administering and implementing the TCJA. The IRS and Treasury Department continued to issue regulatory guidance on various TCJA provisions throughout the year, particularly in the international tax area, including final regulations on the base erosion anti-abuse tax, Section 250, Section 163(j) limits on business interest expense deductions, the foreign tax credit, the hybrid mismatch rules, income recognition under Section 451, executive compensation under Section 162(m) and more.

2.10 Pending tax proposals or consultations

Proposals:

- ▶ None at this time

Consultations:

- ▶ N/A

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The IRS has increased its focus on the use of data analytics to identify tax returns for examination.
- ▶ The IRS also continues to broaden its issue-based examination approach, in which selection of tax returns for audit is based on identified “campaign” issues. Throughout 2020, the IRS added a number of new LB&I compliance campaigns, many of which focus on international tax issues, including various provisions of the TCJA (see <https://www.irs.gov/businesses/corporations/lbi-active-campaigns>).
- ▶ The IRS has also increased its focus on penalties, with a noticeable uptick in the number of assessments for late – or non-filing of various information returns, including those related to ownership in foreign entities, assets and trusts. The IRS has also been more aggressive in asserting penalties for erroneous refund claims and certain understatements of tax.

3.2 Key enforcement developments seen in 2020

- ▶ The IRS’s increased focus on enforcement has challenged its workforce and internal systems and has led to delays in response times and a lack of timely information and guidance for taxpayers and practitioners. All of this was amplified by the COVID-19 pandemic.
- ▶ During the first peak of the COVID-19 pandemic, the IRS halted all new examinations from 1 April through 15 July. While exams have resumed, the vast majority are currently being conducted remotely, as most IRS employees continue to work from home. Taxpayers who seek review from the IRS Office of Appeals must agree to hold their conferences via conference call or over Webex.

- ▶ The IRS targeted high-income taxpayers for examination, issuing hundreds of new exam notices to these individuals in the fall. This effort is different from the global high-net-worth program operated out of LB&I, which continues its work in conjunction with other divisions in the IRS and has increased its focus on the charitable and pass-through entities associated with global high-net-worth individuals.

3.3 Likely enforcement developments in 2021

- ▶ After years of budget cuts and hiring freezes, the IRS received increased funding from Congress for the 2019/2020 fiscal year and began to hire new staff, though these efforts were somewhat derailed by the COVID-19 pandemic.
- ▶ Continued focus on examination of key aspects of the TCJA is expected, in particular the Section 965 transition tax and international provisions, such as GILTI, FDII and BEAT. Relatedly, several taxpayer challenges are anticipated to the regulations issued under these provisions, some of which have already reached the courts.
- ▶ The IRS has signaled that it will be increasing its enforcement efforts with respect to partnerships and other pass-through entities, in particular through the launch of a Large Partnership Compliance program operated by LB&I. The IRS has also been conducting significant training related to the new partnership audit rules in effect for tax years beginning in 2018 and is hiring new revenue agents and tax law specialists to focus on partnership examinations.

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Section 965 transition tax	The TCJA reenacted Section 965 to impose a transition tax on certain previously untaxed foreign earnings of US taxpayers' foreign corporate subsidiaries. Because of the importance of the amount of earnings and profits in determining the Section 965 transition tax, the IRS has indicated that it will be scrutinizing this area in connection with two LB&I campaigns. Notably, the Section 965 transition tax has a six-year statute of limitations, providing the IRS three additional years to audit this calculation.
2	Other TCJA provisions, such as FDII, BEAT and GILTI	Early experience with IRS examination of TCJA provisions indicates that the IRS will focus significantly on taxpayers' FDII, BEAT and GILTI calculations. The language used by the IRS to describe the purpose of TCJA-related examinations ("to closely monitor issues on a select pool of returns and share information learned throughout LB&I and the IRS") signals that the review of these issues will be coordinated throughout the IRS.
3	NOL carrybacks resulting from the CARES Act	The current US corporate tax rate is 21%, down significantly from the 35% corporate tax rate that was eliminated by the TCJA. As such, the IRS is expected to closely examine tax positions that attempt to move income (or deductions) from one period to another in order to access a more advantageous tax rate. The NOL carrybacks permitted under the CARES Act allow taxpayers to do just that by restoring the ability of corporate taxpayers to carry NOLs back to pre-TCJA years. Also of note is the fact that the TCJA campaign (described above) specifically states: "LB&I is also considering the impact of the CARES Act on these returns as well as any others examined."
4	Partnerships and other pass-through entities	As noted above, the IRS is expected to significantly increase its enforcement efforts with respect to partnerships and other pass-through entities. While an increase in targeted examinations of such entities under the new Bipartisan Budget Act audit rules is expected, other examinations are also anticipated – such as those of wealthy individuals – to give rise to investigation into related pass-through entities.
5	International information returns	The IRS is expected to continue its increased focus on missing, incomplete or late international information returns (e.g., Forms 5471, 5472, 3520, 3520-A). In certain instances, the IRS has assessed penalties with respect to such events, which have become increasingly difficult to obtain.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited) CARES Act compliance, including NOL carrybacks, Employee Retention Credit and Paycheck Protection Program	<input type="checkbox"/>	<input checked="" type="checkbox"/>
New disclosure/transparency requirements	<input type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s) Ongoing programs include Streamlined Filing Compliance Procedures, Delinquent FBAR Submission Procedures, and Delinquent International Information Return Submission Procedures	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Tax certainty in return for early tax payments	<input type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify): Many of the above are uncertain or unknown, particularly given the recent change in control of the White House and Senate	<input type="checkbox"/>	<input type="checkbox"/>



Ho Chi Minh city, Vietnam

Vietnam

[Return to Contents](#)

EY key contacts

Tax policy and controversy

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The 2021 Tax Policy and Controversy Outlook is a survey of EY tax policy and controversy leaders and represents only the views of those respondents.

This information is current as of December 2020.

Section 1: Tax rates (2020-2021)

1.1 Key tax rates

	2020	2021	% change
Corporate income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	20%	20%	–
Individual income tax – top rate <i>(Please list top national rate, and if local rates apply, an average of the top local rates)</i>	Resident: 35% Nonresident: 20%	Resident: 35% Nonresident: 20%	–
VAT, GST or sales tax – standard rate <i>(Please list standard national rate, and if local rates apply, an average of the standard local rates)</i>	10%	10%	–

Section 2: Tax policy in 2021

2.1 Key drivers of tax policy change

- ▶ A new law on tax administration took effect on 1 July 2020, enhancing collected tax deriving from e-commerce supply chains.
- ▶ A new labor code took effect in January 2021.
- ▶ Electronics invoices are being applied and used widely.
- ▶ Tax audits are increasingly focused on transfer pricing.

2.2 Tax changes in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Overall corporate income tax responsibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
2. Overall size of corporate tax base in 2021	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
3. Interest deductibility	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Hybrid mismatches	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input type="checkbox"/> Same tax in 2021 <input checked="" type="checkbox"/> Higher tax in 2021
5. Treatment of losses	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
6. Capital gains tax (impacting corporations)	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no CGT	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021
7. Withholding taxes	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input type="checkbox"/> Same in 2021 <input checked="" type="checkbox"/> Higher in 2021

Tax types	Likelihood of changes in 2021	Direction of change
1. Controlled foreign companies	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021 <input checked="" type="checkbox"/> N/A, as there is no CFC regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
2. Thin capitalization	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no thin capitalization regime	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
3. Transfer pricing changes	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower tax in 2021 <input checked="" type="checkbox"/> Same tax in 2021 <input type="checkbox"/> Higher tax in 2021
4. Research and development incentives	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
5. Other business incentives – including depreciation/amortization/capital asset allowances, etc.	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Enhanced incentives in 2021 <input checked="" type="checkbox"/> Same incentives in 2021 <input type="checkbox"/> Reduced incentives in 2021
6. VAT, GST or sales tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
7. VAT, GST or sales tax base	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021 <input type="checkbox"/> N/A, as there is no VAT, GST or sales tax	<input type="checkbox"/> Smaller in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021
8. Top marginal personal income tax rate	<input type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input checked="" type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Lower in 2021 <input checked="" type="checkbox"/> Same in 2021 <input type="checkbox"/> Higher in 2021
9. Individual income tax base	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input checked="" type="checkbox"/> Smaller in 2021 <input type="checkbox"/> Same in 2021 <input type="checkbox"/> Larger in 2021

Tax types	Likelihood of changes in 2021	Direction of change
10. Changes to tax enforcement approach	<input checked="" type="checkbox"/> Change already proposed or known for 2021 <input type="checkbox"/> Change possible or somewhat likely in 2021 <input type="checkbox"/> No changes expected in 2021	<input type="checkbox"/> Decreased enforcement in 2021 <input type="checkbox"/> Same enforcement in 2021 <input checked="" type="checkbox"/> Increased enforcement in 2021
11. Do you expect significant tax reform in your jurisdiction in 2021?	<input type="checkbox"/> Yes – comprehensive tax reform <input checked="" type="checkbox"/> Yes – significant tax reform <input type="checkbox"/> No – present tax changes are routine	

2.3 Tax policy outlook for 2021 – summary

Overall corporate income tax responsibility



Overall individual income tax responsibility



Overall VAT/GST/sales tax responsibility



2.4 Tax policy outlook for 2021 – detail

Corporate income taxes

- Amends the regulation on provisional quarterly corporate income tax; in particular, the total amount of provisional corporate income tax paid in the first three quarters of the year shall be at least 75% of the terminal tax from the tax period 2021.
- Otherwise, late payment interest shall be charged on the arrears over the period from the deadline for paying corporate income tax of the third quarter to the date of payment of the arrears.

Taxes on digital business activity

- A new law on tax administration 38/2019/QH14 became effective from 1 July 2020.
- The law introduced a new mechanism to collect tax from cross-border e-commerce traders and digital platform-based service providers.

- Specifically, foreign e-commerce traders and digital platform-based service providers without a permanent establishment in Vietnam are now required to register with the Vietnamese tax authority to enable declaration and payment of tax.

Taxes related to climate change or sustainability

- The Vietnamese National Assembly Standing Committee decided to continue the 30% cut in environment tax on jet fuel to support the aviation industry by issuing the resolution No. 1148/2020/UBTVQH14.

VAT/GST or sales taxes

- The Ministry of Finance is proposed to amend VAT rates of fertilizer from exempt VAT to 5% VAT.

Taxes on wages and employment

- No changes to taxes on wages and employment are expected in 2021.

2.5 In 2021, what do you believe your jurisdiction's primary response will be to the financial cost of responding to the COVID-19 crisis?

- ▶ More enforcement of existing revenue sources
- ▶ Shift in governmental priorities to refocus resources on COVID-19
- ▶ Little or no revenue raising discussion at this point
- ▶ Other

Implementation or discussion of:

- ▶ Higher or new taxes
 - ▶ Corporate
 - ▶ Individual
 - ▶ VAT/GST or sales

2.6 Has your jurisdiction formally discussed, proposed or enacted any of the following revenue raising measures in the wake of the COVID-19 crisis?

Measure	Proposed	Enacted	Known to be under formal discussion
Taxes on sectors that performed well during COVID-19 pandemic	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Digital services tax	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
VAT/sales taxes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Individual taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inheritance taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Wealth taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Financial transactions tax	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Solidarity surcharges or similar levies	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Carbon/other sustainability taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

2.7 Political landscape

- ▶ No changes to the political landscape are expected in 2021.

2.8 Names of current tax policy and tax administration leaders

Tax policy leaders:

- ▶ Nguyen Duc Hai, Head of Financial and Budget Committee of The National Assembly
- ▶ Vu Thi Mai, Deputy Minister of Ministry of Finance
- ▶ Cao Anh Tuan, General Director of General Department of Taxation
- ▶ Dang Ngoc Minh, Deputy Director of General Department of Taxation
- ▶ Nguyen Quoc Hung, Acting as Director of Tax Policy of Ministry of Finance
- ▶ Ngo Huu Loi, Director of Legal Department of Ministry of Finance

Tax administration leaders:

- ▶ Tran Xuan Ha, Deputy Minister of Ministry of Finance
- ▶ Vo Chi Hung, Deputy Director of General Department of Taxation
- ▶ Phi Van Tuan, Deputy Director of General Department of Taxation

2.9 What major tax policy changes occurred in your jurisdiction in 2020?

- ▶ Law No. 38/2019/QH14 on tax administration became effective on 1 July 2020.
- ▶ Decree No. 123/2020/ND-CP prescribed invoices and records.
- ▶ Decree No. 125/2020/ND-CP regulated administrative penalties for tax or invoice-related violations.
- ▶ Decree No. 126/2020/ND-CP provided details on tax administration.
- ▶ Resolution No. 954/2020/UBTVQH14 prescribed changes to personal income tax relief.
- ▶ Circular 65/2020/TT-BTC made amendments to the Circular 302/ 2016/TT-BTC on guidelines for license tax.

2.10 Pending tax proposals or consultations

- ▶ **Proposals:**
 - ▶ The Ministry of Finance has issued draft proposals to amend five tax laws (value-added tax, corporate income tax, special consumption tax, personal income tax and natural resource tax) to the Government.
- ▶ **Consultations:**
 - ▶ None

Section 3: Tax enforcement in 2021

3.1 Current general approach to tax enforcement

- ▶ The Vietnamese tax authorities currently have a heavy focus on transfer pricing, tax incentive and capital gains tax audits, especially after indirect transfer and transfer pricing transactions have concluded.
- ▶ The process for VAT refunds continues to be long for taxpayers and drives many tax disputes.
- ▶ The Ministry of Finance and the General Taxation Department have been reviewing several VAT refund dossiers that were completed by local tax authorities as well as concentrating tax audits on PIT and transfer pricing issues.
- ▶ Customs authorities are doing more audits of post-customs clearance, concentrating on the dutiable value of imported goods and Harmonized System code classifications.

3.2 Key enforcement developments seen in 2020

- ▶ Tax authorities are increasingly applying interpretations that are unfavorable to taxpayers in areas where regulations are ambiguous.

3.3 Likely enforcement developments in 2021

- ▶ Historically, taxpayers have often tried to settle disputes (via explanation, arguments to convince authorities or trying to compromise on issues) rather than pursuing litigation.
- ▶ More recently, taxpayers are more increasingly appealing to higher-level tax authorities and tax court cases.

Vietnam

3.4 Top tax audit issues in 2021

	Issue name	Description
1	Capital gains tax	The tax authority evaluates indirect capital transfer transactions in order to impose capital gain tax.
2	Transfer pricing	Transfer pricing documentation requirements have become far stricter, demanding three tiers of documentation (global master file, local file and country-by-country report) and a timeline to submit the documentation is also specified. Tax authorities are not accepting APA application dossiers, and more focus is being placed on intragroup services and royalty payments to related parties.
3	Technology transfer	The tax authority is paying closer attention to technology transfer agreements, especially between related parties, and the price of technology transfers between related companies shall be audited. Additionally, some technology transfers (including those related to investment projects, capital contributions by technology, franchising) between Vietnam and overseas entities must be registered with the competent authority.
4	VAT refund	The tax authorities are paying more attention to the conditions for VAT refunds, not only in relation to the regulations of VAT, but also in relation to other relevant provisions.
5	Service fee charged by related parties	The tax authorities are very aggressive on the deductibility of the service fee charged by related parties if: <ul style="list-style-type: none"> ▶ The service is provided solely for the benefit of or creating value for other related parties and for the benefits of related-party shareholders. ▶ There is duplication of service fees provided by many related parties and cannot determine added value for taxpayers. ▶ Services are benefits received for being the member of a group. ▶ Costs incurred by the related party plus the services provided by the third party through the intermediary that do not add any value to the service.

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

Enforcement area	Yes – probable	Yes – definite
New interpretations of existing tax laws	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Changes to transfer pricing enforcement	<input type="checkbox"/>	<input checked="" type="checkbox"/>
More audits of MNC groups	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Auditing of support/stimulus measures (please specify measure(s) most likely to be audited)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New disclosure/transparency requirements	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Voluntary disclosure program(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Tax certainty in return for early tax payments	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Acceleration of digital transformation of tax authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other (please specify):	<input type="checkbox"/>	<input type="checkbox"/>



Glossary of terms

[Return to Contents](#)

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

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

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

EP: European Parliament

ETMs: electronic tax mechanisms

ETT: electronic transaction tax

EU: European Union

FA: formulary apportionment

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

GAAR: General Anti-Abuse Rule

GCC: Cooperation Council for the Arab States of the Gulf

GCT: general corporation tax

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

HNTE: high and new technology enterprise

HNWI: high-net-worth individual

IC: integrated circuitry

ICAP: International Compliance Assurance Programme

IFRS: International Financial Reporting Standards

Incoterms: International Commercial Terms are a series of pre-defined commercial terms published by the International Chamber of Commerce relating to international commercial law

IMF: International Monetary Fund

IP: intellectual property

ITR: income tax return

LOB: limitation of benefits

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

MBTA: mandatory binding tax arbitration

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

MOSS: mini one-stop-shop

MNC: multinational company

MNE: multinational enterprise

NOL: net operating loss

O&G: oil and gas

OECD: Organisation for Economic Co-operation and Development

PE: permanent establishment

PFTZ: Pilot Free Trade Zone

PIT: personal income tax

PPT: principal purpose test

PTA: preferential trade agreement

R&D: research and development

RCEP: Regional Comprehensive Economic Partnership

RETT: real estate transaction tax

RPBT: retail price before taxes

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

VAT: value-added tax

VOD: video-on-demand

WHT: withholding tax

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